House of Commons
Transport Committee

Rail 2020

Seventh Report of Session 2012–13

Volume II

Oral and written evidence

Additional written evidence is contained in Volume III, available on the Committee website at www.parliament.uk/transcom

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The Transport Committee

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

Current membership

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Steve Baker *(Conservative, Wycombe)*
Sarah Champion *(Labour, Rotherham)*
Jim Dobbin *(Labour/Co-operative, Heywood and Middleton)*
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Lucy Powell (*Labour/Co-operative, Manchester Central*)
Iain Stewart *(Conservative, Milton Keynes South)*
Graham Stringer *(Labour, Blackley and Broughton)*

The following were also members of the committee during the Parliament.

Angie Bray *(Conservative, Ealing Central and Acton)*, Lilian Greenwood *(Labour, Nottingham South)*, Mr Tom Harris (Labour, Glasgow South), Julie Hilling (Labour, Bolton West), Kelvin Hopkins *(Labour, Luton North)*, Paul Maynard, (Conservative, Blackpool North and Cleveleys), Gavin Shuker *(Labour/Co-operative, Luton South)*, Angela Smith *(Labour, Penistone and Stocksbridge)*, Julian Sturdy *(Conservative, York Outer)*

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Publication

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The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume. Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee are Mark Egan (Clerk), Farrah Bhatti (Second Clerk), Tony Catinella (Senior Committee Assistant), Adrian Hitchins (Committee Assistant), Stewart McIlvenna (Committee Support Assistant) and Hannah Pearce (Media Officer).

Contacts

All correspondence should be addressed to the Clerk of the Transport Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 6263; the Committee’s email address is transcom@parliament.uk

Witnesses

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 — Ev 62

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 — Ev 68

Kaj Mook, Head of Customer Service Transition, Merseyrail, **Joel Brook**, Property Director, Select Service Partners, and **Simon Rutter**, Director, Solum Regeneration — Ev 75

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 — Ev 81

Tim O'Toole, Chief Executive, FirstGroup plc, and **Vernon Barker**, Managing Director, UK Rail Division, FirstGroup plc — Ev 87

Wednesday 31 October 2012

Rt Hon Patrick McLoughlin MP, Secretary of State, and **Philip Rutnam**, Permanent Secretary — Ev 95

Monday 12 November 2012

Anna Walker, Chair, and **Richard Price**, Chief Executive, Office of Rail Regulation — Ev 112

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 — Ev 119

List of printed written evidence

List of additional written evidence

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

Oral evidence

Taken before the Transport Committee

on Tuesday 19 June 2012

Members present:

Mrs Louise Ellman (Chair)

Steve Baker
Jim Dobbin
Julie Hilling
Mr John Leech
Paul Maynard
Iain Stewart
Graham Stringer

Examination of Witnesses

Witnesses: **Sir Roy McNulty**, Chairman, and **Graham Smith MBE**, Team Leader, Rail Value for Money Study, gave evidence.

Q1 Chair: Good morning and welcome to the Transport Select Committee. Would you please give your name and position to help with our records?
Sir Roy McNulty: I am Roy McNulty. I was Chairman of the Rail Value for Money Study, which was published in May of last year.
Graham Smith: My name is Graham Smith. I was a Team Leader on the study working for Sir Roy.

Q2 Chair: Sir Roy, in your study you say that efficiency savings should be achieved. You talk about 20% to 30% savings by 2018–19. Are you sure that can be done in a way that is about efficiency rather than reducing services or standards?
Sir Roy McNulty: I am confident that certainly 20% is achievable. I think 30% is a viable target for people to aim at. Perhaps it might help the Committee if I explained how we got to that conclusion. We looked at it in several stages. The first thing we did was to look at the actual costs of the railway and particularly at the unit costs—the costs per passenger kilometre. That showed us that over the past 15 years or so there had been barely any improvement, despite the fact that traffic volumes had increased very substantially and you would expect some reduction in unit costs.
We then did a study looking at what had happened in other industries that had been privatised and in other railways that had been franchised elsewhere. The conclusion we came to was that there was potential for 20% to 30% improvement.
We looked at what had happened in the freight sector here in the UK as opposed to the passenger railway sector. Again, it showed that freight had made significant productivity improvements, whereas the passenger railways had not.
We then looked at a number of international benchmarks—benchmarking that had been done by others, notably by ORR, but also other studies that had been done in the past. We commissioned consultants to do a number of comparisons with four other European countries. Again, that confirmed that there is a substantial efficiency gap between the UK and those other countries. It suggested that the gap was bigger than 30% and maybe as high as 40%, although it is always difficult to get "apples for apples" comparisons.
Then we looked at it the other way. We looked at all the recommendations that had come from the different working groups and studies that we had commissioned. We looked bottom up at the recommendations that we were making and what we thought the savings potential from that would be. If you take the recommendations from our study, plus the savings that are already planned for Network Rail currently and projected into the next control period, plus some improvements that we believe are possible in train utilisation, you can justify a 30% target.
Having looked at it from all those different angles and talked to an awful lot of people within the industry, we were reasonably comfortable that a 20% to 30% range is a sensible thing to put on the table.

Q3 Chair: You have some pretty stark figures in your report. You say that compared with the systems against which we are benchmarked—other European rail systems, essentially—the passenger is paying, on average, 30% more for the tickets and the taxpayer is paying around 30% more in subsidy. You also say that it appears that perhaps British Rail were more effective at controlling costs than the current structure. With all of those figures, do you think that you gave enough attention to looking to a different system as a whole rather than making changes in the system that we have, given the size of those differences?
Sir Roy McNulty: The passengers paying 30% more is consistent with other studies that other people, including Passenger Focus, have done in the past. On average, our passengers are paying more. As to why the cost is higher, we did not research British Rail's period of time in detail, but they had fairly well perfected the art of "make do and mend". Some of the arrears of investment that have had to be made good in recent years go back to that era of "make do and mend".
We did consider—and our report shows that we considered—alternative structures as a possibility. The reality is that the upheaval of changing the structure, pulling it all up by the roots and starting again, would very significantly delay the effort to achieve savings that we believe can be achieved if the effort is made now. In other words, the present value of the savings will be greatest by sticking with the present structure

and making it work more effectively, rather than throwing it all up in the air and starting again with something completely different.

Q4 Chair: Did you think that there would be any political will to change the structure as a whole? Was that the real reason you did not look in that direction?
Sir Roy McNulty: No, it was not a factor. I have no political axe to grind in this. I have no doctrinaire axe to grind. We looked at it purely from a practical point of view. What is the quickest way to achieve the savings that are possible and give some relief to both the passenger and the taxpayer, who, I believe are not getting a very good deal at the moment?

Q5 Chair: What is the cost of the fragmented nature of the rail service we have?
Sir Roy McNulty: I could not put a figure on it, but, without a doubt, the way it has worked (or not worked) together in the past has been one of the barriers to efficiency. One of the big themes of the report is the need for much better co-operation across and within the industry at different levels, both at the pan-industry level, which to an extent should be remedied by the Rail Delivery Group, but also at an operational level between Network Rail and the train operating companies, because operating in separate silos, as they have tended to do, has been one of the causes of inefficiency. I do not think we could put a number on what that cost is. I do not think anybody could put a number on that cost, but, without a doubt, better co-operation and better alignment of incentives and effort should yield savings.

Q6 Graham Stringer: You say that the costs you compared with were industry norms across Europe and North America. Why isn't the comparator British Rail prior to privatisation, which cost the taxpayer about £800 million? We are now paying about £3.7 billion or £3.8 billion, if you change it for inflation. That is an increase in costs of between seven and 10 times. You are getting more passengers paying more fares. Something does not add up in all of this.
Sir Roy McNulty: I agree that something does not add up, as I said in response to the earlier question. If you had a railway that has grown its traffic in the period we looked at by 57%, you would have expected the unit costs to come down.

Q7 Graham Stringer: I heard that answer. You are talking about a huge difference. You would have expected the railways, with that extra revenue flow, to be subsidy free, would you not? Why aren't they? When I asked the chairman of Network Rail, he did not seem to have good answers to that. Where have all those extra billions of cost gone? Where is that money going?
Sir Roy McNulty: It is going in a number of ways. If you group the causes as did our recommendations, it is in three parts. First of all, there is what I describe as the enabling environment. In the way it is set up, we have not made the objectives clear enough. We have not aligned the incentives, and the incentives have not worked. The structures have not worked together well enough. There has not been clear enough leadership within the industry. To that extent, the environment has not been conducive to the efficiency that I think should have been delivered.
In terms of the places where costs can be saved, obviously asset management is a major activity within the railway. There needs to be better asset management, better procurement and management of the supply chain, better management of projects and better management of human resources and the efficiency thereof. All of those management things are the places where the savings can and should be delivered.
The third element of it, and it is not to be ignored, is implementation. Alistair Darling, in the debate on the Command Paper a couple of months ago, said—and he is absolutely right—that it is much easier to announce efficiencies than make them happen. The railway has had umpteen recommendations before. The big trick this time is to make some of it happen.

Q8 Graham Stringer: I am still not sure where those extra billions are going. Let me make some suggestions. Is the top management structure overpaid compared to the British Rail time? Do you think it is appropriate that there is a bonus structure in what is only a partially private company? Well, it is really a public sector company, is it not? Is that where the extra money is going?
Sir Roy McNulty: It is by no means the only factor in all of this. It is not an area we studied, and I am guessing, but I would guess that senior management pay today is ahead of where it was in the days of British Rail. I would guess that work force pay today is ahead of where it was with British Rail, but I do not think that senior management pay is a major proportion of the £2.5 billion to £3.5 billion that we are looking at in terms of an efficiency gap.

Q9 Graham Stringer: Do you think the structure of Network Rail helps or would it be better to have a structure where there were outside influences? Network Rail is really the rail industry talking to itself, is it not? Everybody has an interest in a better railway, but nobody has an interest in pushing the costs down.
Sir Roy McNulty: I think the governance of Network Rail is unusual.

Q10 Graham Stringer: It is unique.
Sir Roy McNulty: This member structure is unique; yes, that is absolutely the word I was going to use. I know that Network Rail, during the period we were involved in this study, was looking at coming forward with proposals to improve governance. There are things to be looked at in that area.

Q11 Julie Hilling: I want to carry on with the fragmentation part. You stated that industry fragmentation at privatisation was a cause of high rail costs. Why will further fragmentation reduce costs?
Sir Roy McNulty: We need to be careful about what we mean by "fragmentation". Now that I re-read the report with the benefit of a year's hindsight, we might have been even more precise, although I think we did express it reasonably clearly. The issue is not so much

that there are too many parts to it—I come from a different industry, aviation, where there are many more players—but the really important issue is how the parts work together. In the railway, the way in which the different parts have worked together has not been very good. The thing was set up in ways with legal protections that have led to people viewing everything rather from a silo point of view—in other words, looking after their own piece—but there are very important interactions both at an industry and operational level that could work better. Quite a number of the recommendations that we have made have pointed in that direction.

Q12 Julie Hilling: Isn't one of the difficulties that there are very few unique pieces of railway where there is only one sort of traffic flowing over that? The majority will have a number of train operating companies, freight companies and so on running over that piece of track. How does the co-operation work between one train operating company and Network Rail—or putting that into one body—in terms of all of those other partners in there who would then need a say in what is happening?
Sir Roy McNulty: I can provide a separate note on this because I do not have all the data in my head. There are a substantial number of routes where there is a significant correlation between the dominant operator in that area and Network Rail. There are some large routes—the West Coast Main Line and East Coast Main Line would be typical of that—where you have many different operators and it is more difficult to get the co-operation there. Nonetheless, we can now see emerging some elements of co-operation even in those more complicated situations whereby the train operators and Network Rail are looking together at joint problems in a way that they did not do before. I am guessing, and this is why I need to give you a separate note, that about half of the railway would have quite a strong correlation between the dominant operator and Network Rail route.

Q13 Julie Hilling: I want to ask specifically about Merseytravel. The Merseytravel area was seen to be one of those unique pieces. My understanding is that the Merseytravel board have voted against being a pilot of vertical integration. Do you know why that was? What is their sense of saying this would not work, and can you inform us as to why others are saying it might?
Sir Roy McNulty: We did not look at the reasons for that decision, which I think happened after our study. My impression from a distance is that the reasons for taking that decision were not wholly operational reasons.

Q14 Mr Leech: Forgive me if I am putting words in your mouth, but I think you said that you did not look at the issue about executive pay, remuneration and bonuses. You were suggesting that that would only account for a small proportion of the additional costs within the railway.
Sir Roy McNulty: If I may say so, you are slightly putting words in my mouth.

Q15 Chair: Would you like to tell us what your view is?
Sir Roy McNulty: I think I said the second half of that. It is a relatively small proportion of the total cost bill. If you wish, I can provide you with a separate note of our estimates of that. We did look at it because we looked at it as part of the overall pattern of wage trends and wage increases within the industry as a whole. We looked at it at every level. It showed that the rate of pay increase at board level was not dissimilar to what it was through the work force as a whole. In my personal opinion, they were both getting significantly ahead of inflation.

Q16 Mr Leech: How similar was that pay in relation to other relatively similar railway networks in other parts of the world?
Sir Roy McNulty: I am not sure we have the answer, but I might ask Mr Smith who has some diagrams in front of him.
Graham Smith: We looked at how pay across the industry compared with the UK. We found, for example, that directors' earnings, through a study of the statutory accounts, are now 14.5% higher than the average earnings index for all industries. We also looked at the pay of the industry as a whole and found that from a base of 96—97 being 100—all industry average earnings had risen to an index of 116. The rail industry as a whole had risen to 134. We did not make a comparison of directors' pay with other railways. The reason for that is that securing the co-operation of other railways in benchmarking can sometimes be a challenge. We were successful in persuading the French, the Swedes and the Swiss to help, but there is a limit to what people are willing to give to consultants or a study like ours. They were not going to provide us with information on the pay of their directors.

Q17 Mr Leech: If Alistair Darling is right and it is a lot easier to announce efficiency savings than deliver them—I do not think anyone would disagree with that—and the problem is that the people who are running our railways just have not delivered those efficiencies, surely one of the issues is about the ability of those people at the top of the industry to deliver those efficiencies and whether or not they are the right people. There may be some comparison to be made with the right people in France or Germany.
Sir Roy McNulty: I have absolutely no doubt that the people who are running the GB railway are very well capable of delivering greater efficiencies. It is absolutely essential that we create that enabling environment for them that I have described. There are things that need to be clear and maybe clearer about Government policy and Government objectives. There are things that need to be changed in terms of the incentives, which clearly have not worked well. There are things that need to change in terms of leadership within the industry. In one of the exercises we did, what stood out was that from a survey of people, both within Network Rail and the train operators, they saw the biggest failing of the present set-up as a lack of leadership and a lack of clarity as to what the strategy is.

Q18 Chair: Would you say from that, Sir Roy, that the high level of pay for top executives has not produced the leadership that is required?
Sir Roy McNulty: There has been a situation—and our report makes it quite clear that our view was that far too many of the decisions have been taken by Government, and the industry has neither been allowed nor has been prepared to exercise the leadership that is needed. Government cannot take all the decisions. If Government take all the decisions, then they are taking an awful lot of the responsibility for the end outcome in terms of costs. The responsibility for costs should primarily be on the industry and the environment has to be presented to them that encourages, enables and incentivises them to deliver the results that are required.
Graham Smith: I would add a point there. The leaders in the industry have delivered significant growth, a safer railway and a more punctual railway within their areas of responsibility. What we focused on in the report was to get those leaders to work together to create a more efficient railway. That has essentially led to the recommendation around the creation of the Rail Delivery Group. There is no question mark over the quality of the leadership, which has achieved an awful lot. It is about getting those leaders to work together.

Q19 Mr Leech: If the industry had been left on its own to make decisions rather than the Government making decisions, what major differences would we have seen in the railways in the last 15 years, say?
Sir Roy McNulty: We would have seen more of a focus on costs. We would have seen the industry working better together. The problem we have had is that the industry has, to an extent, been constrained by the franchises, the contracts and the length of those franchises, with the result that they have not focused on costs in the way that was needed.

Q20 Mr Leech: That is quite a vague answer. I was thinking about some specifics. Would there be more passengers on the railways? Would there be fewer services? Would there be longer franchises? What actual concrete differences would there have been if there had been less intervention from Government and more decision making by the railway industry?
Sir Roy McNulty: You would have a service pattern that is better attuned to the demand that we have. We are running services by taking a previous timetable, adding some more to it and continuing to grow the service structure in that way. The result of that is that we probably have the best frequencies in Europe but also relatively low load factors and therefore relatively poor economics.
Chair: That must take us back to the question of leadership and good management.

Q21 Paul Maynard: I see a seductive narrative emerging here of how all we need to do is to go back to the glory days of BR and the "Fat Controller" default position. For the sake of clarity, in section 2.2 of your report there is a statement where you make the point that "the current industry operating deficit is no different to what it was in 1996–97." I assume that to be referring to the privatised railways. Is it an accurate interpretation that on a per passenger basis, scaled up to 2009–10 prices, the cost to Government of the railways is no different from what it was in 1996–97?
Chair: Is that right, Sir Roy?
Sir Roy McNulty: If you take the subsidy in 1996–97 and you adjust it for the change in the volume of passengers, which was up 57%, and you adjust it for price levels to bring it to today's prices, you end up with the subsidy that we had in 2008–09. That is what happens if your unit costs have not changed and the relationship of fares to unit costs has not changed.

Q22 Paul Maynard: That is an important clarification for which I am grateful. Equally in your report, on page 30, you have a table that you alluded to in your previous answer about load factors and train utilisation. We have a significantly lower load factor than the five comparator companies that you compared us with. Can you explain for me why we have such a low load factor?
Sir Roy McNulty: That is a subject that the Rail Delivery Group is looking at and has been looking at over recent months. It is a collection of several factors. First of all, as I said a moment ago, I believe that we have the highest frequencies of railways in Europe, and other previous surveys have tended to show that. Together with high frequencies, we have relatively low load factors. In other words, we are running more trains more frequently but carrying fewer people than elsewhere. As well as that, we have a sizeable regional network that tends to have lower train utilisation. If you add all that together, you get the results that that benchmarking tends to suggest.
We have said that this is not a simple subject to understand and the ultimate causes of it need to be researched further. That is why the Rail Delivery Group has been looking at this more. There is a need for a fundamental look at a number of the service patterns that we are operating. That applies to here in London and the south-east, where there is obviously a major need to transport people in at the morning peak and out in the evening peak. There needs to be more thought as to what to do the rest of the day because in the rest of the day we are running quite a lot of trains with relatively low load factors.
I came in yesterday from Stansted airport. There are lovely new trains built by Bombardier, I am glad to say, and I should declare a past interest. I would guess the train has the potential to carry maybe 300 or 400 people. If there were 30 or 40 on it, that would be the height of it. It is the economics of doing these things. It is a great service and I appreciated it, but, if we are looking at costs, we need to look at the efficiency with which we are using the system.

Q23 Paul Maynard: You have just anticipated my next question. Have you made any assessment of the additional costs of providing the peak hour infrastructure necessary to meet demand that is then not used during the off-peak period? Is there any way that can be measured at all?
Sir Roy McNulty: I think it could be measured. It is a major study. Frankly, within the time we had

available to deliver our report, we did not have time to get to the bottom of that. Our recommendation was that the way in which we build and use capacity and the way in which we utilise the trains needs a lot more study than it has been getting. At the moment it is not anyone's job in particular to look at this. It is not Network Rail's job; it is not the train operating companies' job. It is probably not even DfT's job. It is an important issue that sits in a bit of a vacuum at the moment.

Q24 Paul Maynard: Your comparator countries all tend to use double-decker trains on their commuter routes. It is a frequent appearance in rail journals and indeed newspaper letters columns that the answer to all our problems is to have double-decker trains, instantly and magically doubling the capacity. If that were the path we were to go down, clearly that would need massive infrastructure changes left, right and centre, but, as you point out, there is a vacuum in terms of decision making. If we were to go down that path, just for the sake of argument, who ought to be the individuals or the organisation to say, "Right, from now on all new infrastructure should be predicated upon double-decker trains; off you go"? Where should that decision-making power lie?
Sir Roy McNulty: I find it very difficult to imagine that we are going to rebuild the whole country to accommodate double-decker trains, but I saw a comment by David Higgins recently where he was explaining the need to think perhaps of fewer, longer trains as a means of using our capacity more effectively. I have a lot of sympathy with that view. There needs to be someone whose job it is to worry about the efficiency with which we are using this capacity. I think it is a thing that the Rail Delivery Group, when they have finished the study work that they are undertaking at the moment, need to discuss with DfT and agree where within the system the responsibility for this should lie. Anyone who runs a big and complicated production system like this needs to have somebody whose job it is to worry about the efficiency with which we are using it.

Q25 Paul Maynard: You are saying that it is not necessarily Government. It could be RDG.
Sir Roy McNulty: It could be RDG, DfT or ORR. Somebody needs to have this as a major preoccupation.

Q26 Iain Stewart: I would like to turn to your report's recommendations about using railway land and property most efficiently. When railways were privatised, at the time the expectation was that it would be a period of managed decline. In the intervening almost two decades we have seen a massive increase in both freight and passenger use. At the time several areas of mothballed property and land were expected to be sold off but have now been brought back into use. Your report suggests selling off surplus land and property. How do you define what is going to be surplus land and in what sort of time scale?
Sir Roy McNulty: That is a good question to which I do not have the answer. I do not see this, incidentally, as a major piece of the puzzle relative to the total costs and total revenues of the industry. The revenue from land sales or leasing is not going to be the be-all and end-all. All we were saying was that the environment within which Network Rail operates needs to be a bit more conducive than it is to making the most of those land assets, but in doing so they have to be cognisant of the long-term needs of the railway, both passenger and freight, and to take a long-term view rather than, "We don't need it today and therefore let's sell it."
Graham Smith: I will give another illustration. Particularly in the freight sector there is still land in the ownership of the freight operating companies relating to their historical activity involving heavy industry. There is railway land around pits and mines, whereas the rail freight industry is now much more focused on intermodal container carrying. One could perhaps envisage that brownfield sites that are in the ownership of the freight operators could be sold for development, but in return there need to be strategic freight interchanges that would enable further growth in container movements, for example, from the deep sea ports inland into the UK.

Q27 Iain Stewart: I will give you one example to try and illustrate the point I am making. You identified some land close by London Victoria that could be sold off. That potentially reduces the carriage depot facilities there. If they are looking to increase commuter services in and out of Victoria, that means the depot has to be further away, which results in more costly and timely movements of empty stock and increases the cost. Who should be adjudicating that decision about the use of land? It might not be needed now but in 10 or 15 years down the road it might be. Who should be adjudicating that?
Sir Roy McNulty: Network Rail is in the middle of that situation. As you rightly say, the important thing is that it is not viewed just for the short term but with an assessment of the long-term needs. One of the points we have made elsewhere in the report is that, while having five-year settlements has been a good thing in many ways and has given the railway a reasonable degree of certainty, there are a number of other purposes for which a much longer planning horizon is needed because this is a very long-term game. That applies to property as it applies to a number of other elements of the railway infrastructure.

Q28 Iain Stewart: I will follow that up by asking whether you think we have a sufficiently long-term planning horizon. To supplement that question, is it sufficiently holistic with other transport modes? You gave the example of your train from Stansted and the frequency, which is underutilised at the minute. If the idea is to expand capacity at Stansted, that frequent rail link may potentially be required. Do we look far enough ahead and in a sufficiently holistic way?
Sir Roy McNulty: I do not think we look far enough ahead. We said that in the report. While the HLOS process is certainly an improvement and an advance on what was there before, this is an industry in which, if you are not planning 20 to 30 years ahead, you will

miss a lot of the important issues. There is a need for a longer-term planning horizon. As to whether it is sufficiently holistic with other modes of transport, having lived through the period of Mr Prescott's integrated transport plan and all of those things, it is a good aspiration and in many ways some of the things we do are not very clever, but it is an awfully difficult thing to do and is somewhat outside the remit of our Rail Value for Money Study.

Q29 Steve Baker: I want to return to the question of an absence of a major preoccupation with efficiency. This system is often described as privatised, but would you agree that, although we have private profit-making business involved with railways, the industry is characterised by state ownership, extensive subsidy and very heavy regulation, which often tramples market mechanisms like the price system?
Chair: Is that how you see it, Sir Roy?
Sir Roy McNulty: There is a substantial state element. Obviously it has heavy regulation. It has lots of subsidy and therefore it has lots of Government involvement. The point that was made to us repeatedly by people we talked to was that, in fact, the amount of Government involvement, Government decision making and, some would say, Government interference is greater today than it was in the days when BR was the nationalised company running it. We have ended up in a different place from where we intended to go.

Q30 Steve Baker: Yes; it is perhaps a third way between capitalism and socialism.
Sir Roy McNulty: Who knows? I am not a politician. I would not understand these things.

Q31 Steve Baker: In the course of your studies has anybody ever asked you to compare this current set of structures with the set of structures that emerged in the great days of profit and loss and private capital being deployed by entrepreneurs to build and operate railways?
Sir Roy McNulty: No.

Q32 Steve Baker: Has anybody ever suggested that we actually privatise the railways?
Sir Roy McNulty: Some people have suggested that, yes.

Q33 Jim Dobbin: Mr Smith, you have raised the issue of freight and land use. I have a big interest in this basically because of the nature of my constituency. The M62 goes right through the middle of it. It is right in the centre of the country between the M6 and the M1 and two ports—Liverpool and Hull. How serious is the attempt to provide more freight terminals? I am surrounded by distribution plants with huge numbers of HGVs going through the communities. How seriously are the Government taking it?
Graham Smith: The study in chapter 13 of the detailed report reviewed the freight sector in GB rail and found it to be thriving. It found it to have received significant investment and a small amount of support from Government for environmental benefit to have achieved productivity, and to some extent it was an example that others could look to in terms of getting changes in the industry elsewhere. It also recognised that freight could help the wider industry by using network capacity effectively, by maximising the amount of goods behind a locomotive and therefore using paths efficiently, and not seeking to go on lines where there was no prospect of freight use in the long term, which might be able to reduce maintenance costs.
The study also reviewed the Government's proposals for a strategic freight network. Investment started for that under the previous Administration and has continued under this Administration. We found that there was more that could be done. The study noted that the Government's strategic rail freight interchange policy would create the administrative environment to encourage that, but, ultimately, it would require investment principally by the private sector, in your constituency and others, to encourage transfer of freight from road to rail. There have been a number of proposals for strategic freight interchanges that have been subject to public inquiry and review. Some have been approved; others have not. The study felt that freight was a benefit to the economy; it was a benefit to the railway. We supported all efforts to increase the amount of freight on rail.

Q34 Jim Dobbin: Do you have a geographical plan of where these terminals would be and how many have you proposed?
Graham Smith: We did not get into that kind of detail in the study. We thought it was useful to review freight, but as a study we were aware that there were a number of maps and plans produced by the rail freight operators, the rail freight group and the Freight Transport Association, identifying where strategic freight interchanges could be built that would enable significant transfer of freight from road to rail. We had no reason to doubt there was anything awry with those and would support that.

Q35 Chair: A lot of concerns have been expressed in relation to freight. If we are going to have the alliances that you suggest and decentralisation, who is going to be looking at the interests of rail freight?
Sir Roy McNulty: Within the study team Mr Smith was looking after the interests of rail freight. In fact, some people said he had been put into the team as a hostage to make sure that the interests of the rail freight industry were properly looked after. Graham, would you care to comment on that?
Graham Smith: Yes. In the freight section we identified a number of requirements to perpetuate a national approach to timetabling, capacity allocation and the capability of the network to ensure that freight which does not fit neatly with anybody's geographical boundary, going from north to south and east to west, could continue to expand so that we could have higher and wider containers and higher capacity wagons.
The devil is in the detail. It will be absolutely essential to the alliancing as it develops—and I believe the Committee is taking evidence from the alliance partners in the south-west shortly—that the freight operators in particular are consulted and involved with

the alliance senior management. For example, in the south-west, which from a freight perspective is principally about container traffic to and from Southampton, the interests of the passenger operation and the infrastructure provider should take account of the significant growth that is possible from Southampton and the surrounding ports.

The freight operators are represented on the Rail Delivery Group, and I know that Network Rail pays a lot of attention to the needs of the rail freight industry. At the moment rail freight access charges are being reviewed by the Office of Rail Regulation. I am sure you will be looking at that in due course. We as a study made our recommendations, and the response we had from the industry was that the needs of rail freight were fully recognised and would be taken into account in the alliancing process in the future.

Q36 Chair: In the tables of costs and subsidies to rail, the table showing subsidies to regional rail shows a very high level of subsidy compared with other routes, which has led to a lot of fears that this is really a prescription to close down or reduce regional railways. How have you done the costings for that? Have the costs of capital investment by Network Rail been allocated on a regional basis—or has that not been done?—which would really reduce the subsidy to London on the tables that you have?

Sir Roy McNulty: The exercise that we did was a purely factual exercise as best one can do in allocating costs. Obviously, the Network Rail costs—both the operating and capital costs—have to be allocated in as fair a way as possible.

Q37 Chair: Who decides what a fair way is?

Sir Roy McNulty: The consultants that we hired made the best estimates that they could. A lot of Network Rail costs are not a matter of great debate. Given the geographical spread and layout of the Network Rail routes, you can reasonably identify which costs lie where. There are some common costs and an allocation was made of those. No matter how you did the allocation of common costs, you would not end up with a much different result.

To come back to your original question, if I may, we set out that information as a piece of information. It is not intended and was not used by us to advocate any reduction of the network. Our terms of reference were crystal clear that this was not to be a Beeching-type exercise. It was to grow capacity as necessary. We have stuck to that and have not looked at reducing any part of the network. It is a fact of life that a major part of the subsidy goes into those regional routes and there may be issues as to how to operate them more efficiently, but that is quite different from saying that we put those figures up there as a pointer to say, “Close a lot of it down.”

Q38 Chair: It has been suggested that your report could lead to the loss of about 20,000 jobs and the closure of perhaps 650 ticket offices. Do you see it like that?

Sir Roy McNulty: The 20,000 jobs figure, in my opinion, is a significant exaggeration of what we said. You will see in our calculations of the possible savings coming from our recommendations that the figure was £260 million. If you use a figure of £40,000 cost per person, then there are potentially 6,000 jobs saved. One must also bear in mind that this is an industry that is growing. It is growing at 5% per annum at the moment. It can absorb a significant amount of efficiency savings, but 20,000 is way beyond the calculations that we did based on the recommendations that we have made.

Q39 Chair: What about the concerns expressed about the alliances, and that that could produce a series of what have been dubbed mini Railtracks, where safety considerations might be seen as secondary?

Sir Roy McNulty: I do not think that is a likely outcome. The safety regime within which the train operators and Network Rail operate is very well defined and policed by ORR. It is quite clear that the idea of these alliances will not change safety responsibilities and accountabilities. I would have every confidence that this regime is strong enough to handle a change like this without safety risks.

Q40 Julie Hilling: I want to drill down a little bit more into the staffing costs. One concerns staff on board, and there are obviously station staff. One thing that really worried me was when I read about driver-only operation improving performance in the report. I have certainly had discussions about this before and been told that, certainly with trains the length of a Pendolino, driver-only operating would take longer for self-dispatch. What do you mean by improved performance? Where does the passenger view come into those decisions? As a woman, I do not like being alone on a train. Certainly if there were no staff on board, apart from the person shut in a cab, I would be exceedingly concerned. I am just wondering how you have come to those two conclusions. Would you say that that is the default as well—to have driver-only operation?

Sir Roy McNulty: I would ask Graham to comment on driver only operation.

Graham Smith: When we looked at the way in which trains are crewed and the number of staff there should be on a train, we took into account that a significant proportion of the London commuter network is already operated by one person. Most of the trains into Liverpool Street, all the trains on Thameslink and a significant number of the trains south of the river are just operated by the driver.

In terms of the efficiency of dispatch, if there is an interaction involving the driver, the guard and the member of the station staff, that adds time in terms of the interaction between the people involved. As soon as there are three human beings involved in a process rather than two or one, the potential for misunderstanding and for risk increases. We just noted that as a fact. We noted that performance around train dispatch, where there was just the driver responsible, was better than in places where there was more than one person.

I should emphasise that what we said in the study was that there should just be one person on the train responsible for its operation. We chose our words very carefully. We made the point that, if there was argument for commercial reasons for fare collection or for providing additional services, that would be a commercial decision by the train operating company. This was just about one person being responsible for the train, as happens, for example, in the entirety of the rail freight sector in Britain, where operation is the sole responsibility of the driver, as is the London underground.

Q41 Julie Hilling: I would say freight is slightly different. I want to pick up quickly on station staff. Would closing ticket offices and removing station staff be discriminatory against older and disabled people who do not have access to the internet and, certainly for disabled people, who need passenger assistance? One cannot imagine the driver getting off the train and going to assist the passenger. Would it not be discriminatory to get rid of those staff?

Graham Smith: We did not make a recommendation on station staff. We said that individual operators should look at their risk assessments and judge whether they had the right number of staff on the station. Our recommendation related solely to ticket offices where, in the main, the member of staff selling tickets will remain behind the plate glass window, with people queuing to be served. We recognised that there is a significant trend and an increase in the use of the internet for buying rail tickets, as there is in much of retail, or the use of automatic machines. But we were very clear in the study that there need to be mitigating measures and a recognition of the needs of the disabled and disadvantaged before any changes were to be made.

Q42 Paul Maynard: I am not a member of a rail union so I have no interest in this question. In your report you have clearly looked at the issue of manning of stations, utilisation of estates, assets and so on. We have also seen reports in the trade press over recent weeks of how, in Japan, efficiencies have been driven by a commercialisation of what occurs on station estates, more use of retail and that sort of thing. Do you believe that the Command Paper, the industry groups and indeed stakeholders such as the unions are being sufficiently open-minded to other ways of employing people in the railways that broaden a revenue stream for the railway, at the same time as protecting jobs, but not necessarily in the way that they have always been?

Sir Roy McNulty: There is significant scope for more commercialisation and making more of the station assets. I am not sure I would want it to go as far as the airport industry has gone, but the rail industry is under-exploiting its commercial assets as they stand and could do more. That would create more employment.

Q43 Chair: Sir Roy, at the beginning of this session you said that you had looked at adjusting the current system rather than looking at something completely different because you thought the upheaval of a complete change would mean that savings would not materialise. Did you do any studies or any specific assessment in relation to that or was it just a judgment that you made?

Sir Roy McNulty: We did a little calculation that said that, if the savings that we have projected by adapting the current structure—which is what we have recommended—are thus and so, what would happen if you delayed starting that savings process by maybe three to five years, and how much more savings would you need to end up with the same present value? I do not have those figures with me but I could provide them to the Committee if it is of interest. The answer was that you would need a very substantially greater amount of savings to be achieved eventually if you have significant delay at the beginning. It is a normal, present-value kind of calculation.

Chair: Thank you very much for coming and answering our questions.

Examination of Witnesses

Witnesses: **Tim O'Toole CBE**, Chairman, and **Sir David Higgins**, Vice-Chairman, Rail Delivery Group, gave evidence.

Q44 Chair: Good morning and welcome to the Transport Select Committee. Mr O'Toole, you are here in your new capacity. You have been here before in a previous life. Would you both give us your name and position for our records?

Sir David Higgins: I am David Higgins, Chief Executive of Network Rail.

Tim O'Toole: I am Tim O'Toole appearing as Chairman of the Rail Delivery Group.

Chair: I would like to declare that I am a member of Unite. I think perhaps there are other members who would like to declare.

Jim Dobbin: Unite.

Graham Stringer: Unite.

Julie Hilling: Unite and TSSA.

Q45 Chair: Do you accept that UK rail is 30% less efficient than it could be and 40% less efficient than some other European rail industries?

Sir David Higgins: If you start with the benchmark from 2009 and you take an end date of 2019—that is two control periods and a 10-year period—we agreed with the McNulty Report that there is a 30% saving to be made in the rail industry over that period. That is the figure you hear. There is a real saving in annual costs of around £3.5 billion at the upper range of those savings, but we agree with the 30% figure. I disagree with the 40% figure in terms of Europe and so does Network Rail. The reason, as I think I have mentioned before at this Committee, is that there are no obvious comparators in Europe. The level of disclosure in Europe is very different. The way that rail renewal is accounted for in particular is very different from the way we do it. Therefore we think it is incorrect to compare that.

Q46 Chair: If you are saying that the comparisons with European rail systems are misleading, is there a comparison that could be made or is it just a matter of saying—

Sir David Higgins: There are comparisons but you really have to break it down. The railways in Europe are very different. Essentially, we have three railways here in the UK. We have a regional railway, which operates typically like Northern Rail or in Scotland or Wales. We have the long-distance railway and we have the London and commuter railways. Those are three very different railways. They run at three very different levels of public subsidy and cost to fare payers and taxpayers. What do we compare them with? It is very difficult to compare our long-distance with European high-speed. It is very difficult to compare East Coast, West Coast or Western with TGV in France or ICE in Germany. You could probably compare the London commuter with France, with the RER service.

You have to get under the covers. High-level statements are just that. You have to drill down and look at the actual comparison between the type of railway and the level of public subsidy. What is clear is that there are very substantial taxpayer subsidies in European railways which we are not aware of, or they are not fully disclosed.

Q47 Chair: Are the efficiency gains put forward in the Rail Value for Money Study realistic, though? Can they be achieved?

Sir David Higgins: Yes.

Tim O'Toole: Many are; some are not. We at the Rail Delivery Group are not apologists for those conclusions. We have just attempted to take the report apart and see what we could get behind and endorse as a possibility. An example of one where we do not think the savings are achievable and we think the numbers put against them are without foundation is the area of train utilisation that was referred to.

First of all, the comparisons are largely warped by the fact that it includes our regional railways and does not include the regional railways of the countries it is comparing to. Secondly, it is largely driven by specification. You would not have to be James J. Hill to improve train utilisation in this country. We would just cut out a lot of trains, but that is not an option. There is a very specific requirement on a service to be run and therefore you will get the result you have. We do not think that a reduction in service that would be required simply to manipulate that number is anything that would be politically acceptable in this country.

Q48 Chair: Do you think that British Rail was more efficient than the current system?

Tim O'Toole: I do not think there is any evidence of that. If you drew a regression line on passengers on British Rail, it would look like *this*. If you drew a regression line on growth in privatisation, it would look like *that*. The supposition in some of the inquiry that there is something broken here is questionable. I can say this because I am not being defensive; I have come to this just recently. We are sitting on a massive success story. There has been this huge prolonged increase in patronage and a huge modal shift in this country. Growth on the railways is far beyond any growth in jobs in this country, at a time when safety and productivity has improved. Yes, there are enormous savings, but there is more we need to do because of the challenges we are facing. I think there has been something of a minor miracle over the last 10 years in the railways. As I say, I can say this because I can't take credit for it.

Q49 Iain Stewart: I would like to have your views on comments Sir Roy made in the last session on the efficiency of using train paths between the crowded peak and the less crowded off-peak. One of the suggestions is that the ticketing structure be adjusted so that you do not have the cliff edge between peak and off-peak to encourage people not to travel on the 07:51 into Euston. What assessment have you made of the size of the commuter market that would be responsive to that offer, if I can put it that way, against those who have to catch the 07:51 because that is the train they need to get to work and, if they had a super-peak fare, it would just be a price hike?

Sir David Higgins: As set out in the Rail Command Paper, the Government have sent out a full consultation on fares. It would be pre-empting that consultation to say what the right answer is. They will be looking at shoulder and peak, and the trade-offs that come from that. We expect that report in the next months.

Q50 Iain Stewart: If I could ask you to anticipate, what would you expect the answer to be to that?

Sir David Higgins: It is not really my position to anticipate the answer. Tim is probably closer to it, but again I would rely on the Command Paper and the level of consultation that is going on to work out just how much can be gained by trying to shift some patronage to the shoulder. We now know that the shoulder extends a fair way as it is. It is pretty crowded. There is not an obvious cliff.

Q51 Iain Stewart: Do you have a view from an operator perspective?

Tim O'Toole: Yes. There is not a lot of upside for me to get in front of the Government's fares review. There are real limits to what will be accomplished by demand management with fares for the reasons you point out. That does not change the fact that there are still overhangs of regulation in the fare structure that do incentivise behaviours. If you just had market-based pricing, you would have a chance of filling the trains more efficiently. But your point is a good one. Some people have to travel at a certain time of the day. You cannot just think that the whole world can magically change their work hours.

Q52 Iain Stewart: I was just trying to get at what the likely size of that is.

Tim O'Toole: As I said, I would defer to the Government's review.

Q53 Graham Stringer: Going back to what you said about the future success of the railways, there is no question about that in terms of passenger numbers on a much reduced network. We are now getting record numbers of passengers. That is extraordinary, but it is not really a good deal for the taxpayer, is it, when the costs have gone up so much over that period? With fares going up and more passengers, you would expect there to be less public subsidy. Do you have a good explanation for that?

Tim O'Toole: The major reason for the public subsidy and operator costs is infrastructure costs. It is the enhancements. This is again the missing part of the story from the soundbite from the McNulty Study in saying that unit costs have not gone anywhere. The unit costs were coming down and then you had Hatfield. There was a collective nervous breakdown and so everybody had to spend a lot of money on the infrastructure to bring it back, which is what has happened, and now, under David, unit costs are coming down again. But these two points in time are being compared as if to say there has not been any change, as if the industry has gone like *this*. That obscures the history of what has happened. There was a massive expenditure on infrastructure in this country and that has driven all of these numbers and all of these comparisons.

Sir David Higgins: Typically, you would replace around 2% of the rail on the network every year. For years and years the industry replaced 1%, which meant they were storing up a major problem. In the recovery we replaced over 3% on an annual basis. On the taxpayer subsidy, historically, it has been around 50:50, so the taxpayer pays 50% of the subsidy of running a railway and fare payers pay 50%. The previous Government moved to 75:25 and so is this one. The taxpayer pays 25% and the fare payers pay 75%. That is an explicit policy decision by both Governments to move the burden of paying for cost directly to the fare payers.

If you look around the country regionally, with long distance, it is already at 75:25. In London and the south-east it is already at 81%, so the taxpayer is only paying 19%. If you look at regional, the fare payers pay 39%. The taxpayer there is subsidising it to the tune of 61%. There is a very real reason why the Government have set the policies in regional railways to heavily subsidise it, because it is doing more than just moving people to work every day. This is a Government policy decision to shift the burden from taxpayers to fare payers. Equally, it has to be balanced with the way that the Government set social policy as well. It is a Government decision.

Q54 Graham Stringer: There is a lot in those answers. I accept the last point. That is just a straightforward policy decision. The extent of public subsidy has gone up at the same time as fares have gone up while that balance is going. On Network Rail's balance sheet they are carrying about £27 billion at the moment. It is £3.5 billion subsidy, which is considerably more than previously. That cannot all be accounted for by capital investment. Just in the detail, Sir David, I looked at the figures not long ago. In terms of rail replacement, you are absolutely right that in the run-up to privatisation it dropped to about 30% of what it was before. It was slightly different year to year. In 1991 or 1992 it was at quite a high level. If you look over a long period of time, the stats are slightly different than you say they are, but essentially we are putting a fortune into the railways when more fares are going up. There is something fundamentally wrong. I just simply do not see the figures that say that is capital investment.

Sir David Higgins: There is a long history of decades and decades of underinvestment, both in rail and bridges and structures. It will take generations to catch up on that. There are stations as well. There was a period around the 1970s of 15 years, after a brief period of investment, when no investment at all was made in any electrification. We have decades to catch up in railways.

There is an important figure to remember. If you look forward now, because we are in an industry that is going to have to cope with substantial growth, we would expect on our current numbers by 2019, so at the end of the next control period CP5, that the public subsidy to the whole railway—train operating companies and ourselves—drops from around £5 billion to £2 billion. If we can get to a situation where the Government choosing to buy rail services, some of which are social and some of which are micro-based, get to a total public subsidy of £2 billion a year in 2019, wow, I think that is a pretty good story in terms of what the Government and the public get from the railway and services.

Q55 Graham Stringer: I want to ask something on the other side of the income and costs in the railway: the franchises. I have sat in this Committee and listened to Ministers from different Governments saying that it will be more efficient having shorter franchises, more efficient having longer franchises, and we will get more investment from that. Whether they are seven-year or 15-year franchises, at the end, there is a disincentive for those train operating companies to invest because they do not know if they are going to be there for the next year or so. Do you think there is a fundamental flaw that is adding to the costs with a franchising system?

Sir David Higgins: Tim, given he is bidding for four, would be happy to answer this.

Tim O'Toole: The phenomenon of an end of a franchise not encouraging development of the business is undeniably true. It is one of the things you get away from, or at least reduce the frequency of encountering, as you get to longer franchises, which is an advantage. Not only do you not encounter that cliff so often but your ambition for development is so much greater over a longer period. That is one of the prices that you pay, obviously, as a result of the franchising system. I would not deny that.

Q56 Graham Stringer: What I am asking is impossible to evaluate. Do the costs in terms of the cliff edge effect counterbalance the benefits of the competition when the franchise is let? Where is the balance in that?

Tim O'Toole: The shortfall comes more from lack of development. Pushing growth on those lines, arguably, one would say, is less an incentive for certain operators who are about to bid again as opposed to some massive increase in cost. I do not think that is the issue so much. When we look at that, we are arguing against what the alternative is, and it is just a guess. The thing you do know for sure is that there has been this massive increase in ridership, which is the public, notwithstanding the headlines, recognising massive value for money. On our own railways our great growth has not been in people buying the high-level fares that are in the headlines. It is all in the discount fares. We have growth of the nature of 60% in many of these categories. The public are able to find value for money on the railways and that is what allows all this growth to take place.

Sir David Higgins: You can try and counter the cliff edge on stations. For example, the West Coast tender is out now with 17 stations, and with the Anglia franchise retendered we are looking at long-term 99-year leases, but then recognising value for the franchisee that bids and invests in it so that at the end of the franchise period it gets a monetary recognition of that tied into the asset base. There are ways of getting round that obvious cliff edge, but longer franchises must be the right answer because it allows greater investment. Franchisees can make decisions in terms of operating costs that have a payback over that period.

Q57 Chair: Is there any evidence that will happen or is it just assumption?

Sir David Higgins: I suppose the longest franchise we see is Chiltern at the moment. That was a 25-year franchise. That encouraged investment in that railway line. Around 17% of the whole network is up for rebid in the next four years; so it is a very important period.

Q58 Paul Maynard: I want to take you back to some of your earlier answers regarding this, by now, famous table 6.1 in Sir Roy McNulty's report about the different costs and the different types of railway. Sir Roy said it was a presentation of facts. You are indicating that in your view it shows we have potentially three different railways. What do you think is the policy conclusion that we, as legislators, ought to draw from that information? The facts have been presented, but what interpretation do you think we should put on them?

Sir David Higgins: I will answer first and then I am sure Tim will. We all now understand that there are different railways. We initially looked at Network Rail and the networkers, and there are huge network benefits. We have to run the railway as a network because it is so inextricably linked, but we know that the issues faced even by Essex, Sussex and Kent are different, because they were designed as different railways and historically they have different markets and operate differently. The whole point within our organisation of devolution and alliances with our customers is to address those customer needs locally and put decision making right at the customer interface. That is where we will find savings. It will be a question of how quickly we make decisions and how localised they are to those particular market and infrastructure issues.

Q59 Paul Maynard: Would you suggest, therefore, that possibly this Command Paper might be the last one ever to try to set a national rail policy, given Transport for London's plans, what is occurring in the northern PTEs and the arguments over the extent to which the Mayor takes control over more suburban services in London? Do you think the era of national rail policy is coming to an end?

Tim O'Toole: The accommodation of more local agenda and regional identification is accounted for in the Command Paper. You will always have to have a guiding mind, and a network derives its strength from the fact that it is a network; so there is always going to be co-ordination. The point was made previously that, where you have multi operators and operations that extend over regional networks, that is all going to have to be co-ordinated.

It is not so much about what your rail policy is as what your transport policy is. It is the total view. We have a society here. How are we going to move people around and create growth in our economy? The decisions you make on rail have to derive from the decisions you make about transport generally. I think you will always have to have some version of a national rail policy. In this case what is being pointed to is that it will involve the accommodation of more local planning than perhaps you have seen in the past.

Q60 Paul Maynard: I realise neither of you were terribly keen to pre-empt the fares and ticketing review, but can I have another go because hope springs eternal? Clearly there is a case that the peak is oversubscribed and the off-peak is undersubscribed. In an ideal world you would incentivise people with cheaper tickets to take off-peak services. However, would you agree with me that this current review is flawed because it states that the output must be revenue neutral? Therefore, any attempt to incentivise off-peak travel has to be compensated for by penalising peak travel, despite the fact that the Command Paper explicitly states that that should not be the outcome. How do you incentivise off-peak travel on a revenue-neutral basis? Is that possible?

Tim O'Toole: I am certainly not going to say a study is flawed of which I have not even seen the results. I am not going there—

Paul Maynard: The remit.

Tim O'Toole:—but I am inferring, since it is not my statement, that what the remit is saying is that this review is not a disguised attempt to raise revenues further and it should not be interpreted that way. This is a review that looks at whether there are structural changes that would result in a more efficient allocation of the people who do purchase the tickets. We do not want to extract more from the public, who are already paying so much. Whether or not prices have to go up later is a different question. That is all they are trying to communicate by that remit.

Sir David Higgins: Ultimately I think the issue is about capacity. We can argue about fares and shoulders, but, if you look at what the public want, it is more train capacity. As I think I have said here before, we are years behind in terms of the capacity of Crossrail and Thameslink, but, thank heavens, within 10 years they will both be on board with resignalling. Our challenge on these key commuter routes like the Brighton mainline is that there are no more landing paths. It is worse than Heathrow. We do not have a 99% capacity utilisation; we have 110%, and we grapple with that. As Sir Roy said, it is about longer trains and more efficient usage. You are moving huge volumes of people into central London in the morning and evening peak. It is probably only Paris that has to cope with this volume in Europe. Even their RER, with the double-decker trains, really struggle now to get people on and off those trains in the peak and keep punctuality. Capacity-building, timetabling and efficient utilisation of train paths is what it is all about.

Q61 Paul Maynard: I would agree with you entirely, but surely the problem is that the capacity is still required at the peak time. Both the McNulty Report and indeed the Command Paper indicate that adding peak time capacity is perhaps the least efficient form of investment because it goes unused or less used during off-peak periods. How do we resolve that dilemma or is it something we just have to swallow?
Sir David Higgins: It is a big challenge. As you know, in parts of Europe they just park all the trains up after the peak and then you have very limited services. As Sir Roy said, we have a level of frequency of services here that is better than much of Europe. With both Crossrail and Thameslink, there is a 30% increase in capacity by 2020, which is great. How we use it best is for smarter people than me, in the end. That is timetabling and franchising, but at least we will have it.

Q62 Chair: What sort of powers do you have as the Rail Delivery Group to achieve any of these things? Aren't the interests of shareholders in the individual companies going to be paramount? There is an assumption behind the setting up of your group that there is a cross-industry interest that will automatically be to the benefit of the public in terms of being both passengers and taxpayers, but is that a naive assumption? Aren't we talking about a competitive industry responsible to its shareholders?
Tim O'Toole: First, what are the powers of the Rail Delivery Group? As a group qua group it does not have any powers. It has no official standing. It is the leadership coming together to see if we co-operatively can address some of the challenge that was put to us by the Rail Delivery Group, and ultimately succeeding, perhaps, in earning the recognition as the leadership voice of the industry. In some respects we have enormous powers because we control these companies and David controls Network Rail. With all of us in the room, theoretically we have all the levers, with the exception of those controlled by Government. To accomplish many of these things we are going to have to make choices. It is a choice between two good things. It is not a good and a bad thing. An example of adding more capacity at the peak versus whether we are going to park the trains or deliver a frequent service in non-peak is a good example of it.
Our ambition on the Rail Delivery Group is that we can find common ground. Our experience over the first year is just that. We came to this as individuals, all with the scepticism that one would expect—that is, we are all self-interested companies, creatures of contract and it is not in our interest to act altruistically. Why would any of these companies come together and do this? We confronted all these things. This is what we argued about in private.
One of the things we found as we picked apart the McNulty Report is that we were not trapped in some game. There were enormous sums to be gained through co-operation that did not take money from either of us—but it was because, structurally, no one was set up to focus on it. The biggest area is not people; it is asset management. For example, there has been no incentive for the operating companies and Network Rail to work together to deliver projects in the most efficient way and to scale the projects down to what the commercial proposition is. Instead, we sit back and are happy to watch them spend all the money in the world building the most glorious things that you would never do if it were your family's money. By working together, we can find ways to scale projects closer to the capacity that we are trying to create. It is those kinds of solutions that we are focused on right now. It is the cross-industry co-operation that is otherwise missing in a structure that involves multiple companies rather than just British Rail. That is what we are trying to solve.

Q63 Chair: Up to now are you optimistic? Do you think it is going to work and that companies are going to act in this overall national interest rather than their own interests?
Tim O'Toole: I have been stunned that everyone has stayed in the room for a year. The sub-groups have continued to work. We have actually been able to unpick quite a bit and we are putting it to Government. We believe that we have to make a more permanent structure. We think it is important that it stays very lean as a leadership group and does not grow into a bureaucracy. The one thing I am sure of is that the need for a group such as this, and the search for it, has gone on for 50 or 60 years even before privatisation. As every successive Government deals with the frustration of what will always be a subsidised industry, at the end of the day, it has looked for some body to give it the kind of expert disinterested commentary it needs to understand the choices that taxpayers face, whether it is the British Transport Commission, the British Rail Board or SRA. There have been these constant attempts to find this body that can advise Government. This time it is an attempt to do it on a voluntary basis that is not costing the taxpayers money. We think that that effort, combined with David's forming of Network Rail into more devolved, locally based structures, means there is a real possibility that we can make even more progress this time.

Q64 Graham Stringer: When you say there is money being spent but no one wants to spend their own money on it, you are talking about gold-plating, are you?
Tim O'Toole: Right.

Q65 Graham Stringer: Can you give us some examples of that?
Sir David Higgins: We can give you a real example that our two organisations have worked on or are currently working on up in Scotland, which is a missing link of rail line alongside the Paisley Canal. If we did that traditionally to a traditional specification without heavy consultation with ScotRail, it would cost x amount of money. We are going to halve the amount of money that we spend on that electrification just because we have changed the specification. We have put neutral sections under the bridges because we have come up with a performance specification that we and the operator believe we can all live with, with some compromise, and then we will look at how we are going to deliver it and schedule four or eight payments, which in some ways encourage conflict. We set all those aside and we deliver it in a very efficient way. That is the first success, which will be done by the end of this year.

Q66 Graham Stringer: On that point, that is a really good example of the future. Are there any examples from the past where you have seen gold-plating and where you can take those costs out?
Sir David Higgins: There is a simple one in high level numbers. Of the £3.5 billion that Sir Roy talks about, we can see £2.5 billion coming from the individual organisations working on the railways. There is Network Rail plugging away on control periods 4 and 5 and the train operating companies through the franchising and rebidding. There is another billion there, but we cannot do it without working together. Equally, we cannot do it without the Government getting involved.
Let us just talk about stations. Today, to manage a station, there is a document that has some 1,000 pages in it. That is the contract. That is how his organisation, as a train operator, manages stations across the country. It has been there for years. If you give them much more flexibility and replace it with a performance-based contract, they will save money. That is a classic example of how you can save money. There are lots of issues. How do disabled people get access? What shall we do with station staff? Can we use other things? We have to look at all those political and policy issues, but there is a lot of money to be saved in an example like that.

Q67 Jim Dobbin: The issue of localism has been raised. What part would your two organisations play in that process?
Sir David Higgins: From our point of view we welcome it. To start with, we welcome it with TfL, with the Mayor. The Mayor desires to have greater involvement in the setting of timetables and franchise determination, particularly on the south-east and Anglia routes. That is fine with us. We are happy to work with TfL and the Department for Transport on that, right through to Manchester, the Northern Hub and all the work we are doing with the transport organisations up there to make sure that we have a very focused localised service. It is getting more and more focused on those regional customers.

Q68 Jim Dobbin: But the Local Government Association have stated that there is no one model that they would like to see. For example, different local authorities or different local organisations might want to set up something entirely different. Don't you think that would just lead to utter confusion?
Sir David Higgins: No, I don't think so. Let us take Scotland and Wales as the perfect example. Scotland, with their own freedom on budget and capital, make a decision that suits them and report to the Government within Scotland. There are signals that that will increase. Both our organisations, as it turns out, have to be very responsive to the Government in Scotland as to what they need. Clearly, if they want to take more control of the asset base, that is entirely a decision between the two Governments. That is very appropriate in Scotland but it is entirely different in Manchester and London.
Tim O'Toole: We are perfectly comfortable with it. Our only caution is the one I think you are hinting at. You have to have clarity as to the decision maker. That is the big thing. You cannot have two bosses.

Q69 Jim Dobbin: It is not just that; it is the plethora of organisations or local controls that might well be set up that creates a sea of confusion.
Sir David Higgins: It could result in an explosion of overheads if you are not careful. Also, unlike many other railways systems, this is a network. It is inextricably linked. There is a key group of stations, which, if they are not managed very well, impact on the performance across the entire network very dramatically.

Q70 Julie Hilling: I want to ask questions in two areas. I was quite surprised when I saw the make-up of the group. My colleague has just reminded me that there are three sets of stakeholders that are missing from there. One is passengers, the second is staff, and the third are the ITAs collectively. Why was the decision made to focus on only three of the stakeholders rather than perhaps six stakeholders?
Sir David Higgins: We started the whole discussion around a table where we could fit everyone in a small group. What had happened before was that the train operating owner groups and Network Rail never really had a dialogue at all. Well before the Command Paper came out, and even before McNulty was finally determined, we started getting together a year and a half ago. What McNulty said is that it is a fragmented industry and there is a complete lack of leadership. The only way this will happen is if we start to fill in that vacuum and provide a leadership role. There have been many histories—and Tim knows them better than me—of large groups that went on and became larger and larger after the various crises. I hear the war stories of 20 or 30 people in the room. The obvious groups to involve are the suppliers, train leasing companies, trade unions, employer representatives, right through. Very quickly you can have 30 people around a table, and many meetings in the rail industry do.
The strength of this group so far and why it has kept together is that it is a tight group that we deal with directly in terms of the freight and train operating

companies. Now we need to work out how to have a much greater engagement with the supply community in particular, the labour unions, as well as of course dealing with the many other organisations that would need to be involved. We have to make sure that we can clearly communicate what our objectives are and how we will let them be involved.

Q71 Julie Hilling: That leads me on to my next question because the real question for me is whether the users' voice is in there. You talk about this huge reduction in subsidy. What will the consequence of that be for people? The previous Secretary of State said that we already had a rich man's railway. Will these changes mean that it is a rich person's railway even more so, and it is only the rich who can travel on it? What are the consequences of that reduction in subsidy?
Tim O'Toole: The organisations that are focused on passengers are ones that we are consulting with and are going to include as we go forward. You touch on the heart of the matter, and in many ways the most obvious missing piece from the McNulty Report—as if it is to be our North Star—is that it does not say a whole lot about the passengers and how to make things better for them. At the end of the day, if you don't translate everything back to that, we are wasting our time. Who knows whether it is £1 billion, £800 million, £1.2 billion or whatever number we ultimately come up with. Our success will be judged by whether the public think they ended up with something better at the end of the day. We have to take all of this work and bring it back to that. You are absolutely right, and I have said this to Sir Roy face to face. That is the piece that is missing from the way we look at this.

Q72 Julie Hilling: When you are then considering things like reduction in staff on stations, driver-only operated trains and so on, is the voice of people like me being heard who say, "I don't want to be on a train where I have only got the driver on it"?
Tim O'Toole: In many ways we cannot help but hear it. People are making their views very clearly heard on that subject. Taking off staff is a perfect example of where we, as operators, care dearly about the answer. It is not like we are at war with our own employees. They are the people who create the value for us. I want to do the right thing. The issue is not whether or not there should be people selling tickets from behind glass. We have studied this extensively on the underground. People do not like to stand in queues. People do not like to go to ticket offices. What people do like is information. Some people find they can get it at a ticket office and they can get confounded by a ticket machine. Therefore, they are willing to do something that otherwise they would prefer not to do. The issue really is how we can solve that person's information deficit—how we can get them what they really want.
As we solve that, what will happen is what is happening to most of our customers: they are going to get their tickets another way. You are seeing it in every walk of life. Revenue collection is changing and it will change on the railway, but it should not change until we solve those information questions that people need. I do not believe that anybody wants to stand in a queue at a ticket office, but I do believe that people want to understand how to get the best ticket, how to know where to go and so on. We have to answer those questions when bringing in any new technology on the railway.

Q73 Chair: What kinds of links or conversations do you have with passenger representative groups?
Tim O'Toole: What we have done so far is that at the six-month mark of our work we had a forum, invited them and talked about what we were working on because we were so focused on asset management and the like. We took as our agenda the big numbers in McNulty. We said, "All right, let's take those apart first." We looked at train utilisation, programme management, asset management and supply chain management. Our work did not implicate any of the things that would have suggested major changes, but, as we go into these subjects in more detail going forward, we will engage with them in more detail.
In the programme and asset management area that I run, we have brought in a supply chain. They work on our sub-groups. I would expect the exact same thing to happen with the passenger focus groups as those ideas are developed.

Q74 Chair: So you will be doing that, will you?
Tim O'Toole: Absolutely.

Q75 Chair: But you are not doing it now.
Tim O'Toole: We don't want to set up any answer that just gets shot down later.

Q76 Julie Hilling: I appreciate what you are saying about fares, but there is also the safety element. Often it is about feeling safe; it is not just about being safe. What consideration are you giving to that element of it?
Tim O'Toole: That is a subject we are constantly grappling with and have in the front of our minds in running the current system.

Q77 Iain Stewart: I would like to pick up on one of Mr O'Toole's responses to my colleague Mr Maynard's questions earlier. That concerns looking at national rail policy in the context of transport policy more generally. Earlier this morning I had a meeting with people from Gatwick airport. Their case is that they are inhibited in their ability to attract new carriers to utilise their spare capacity because in their view the rail links from Gatwick into the centre of London are poor and have diminished in recent years. Are you satisfied that the mechanisms are effectively there for the interests of non-rail companies who have a direct interest in the provision of rail services to get their viewpoint heard? If not, what needs to change?
Tim O'Toole: Their way of getting their voice heard is the same as ours. The Government have an interest in Gatwick working, and they tell the Government what they need in order for it to work. A lot of these proposals on High Speed 2, for example, are all about how you tie in decisions about rail to what you build and the like. It is about co-ordinating those concerns

at the level of Government as opposed to their coming to us to do it. Transport policy generally is for the Government.

Q78 Iain Stewart: Do you think it is working effectively at the minute?
Tim O'Toole: I am sure that you could find examples of it working and of it not. It is just not something that I oversee. I do not think it would be fair to me to grade, but ultimately all of these decisions have to be tied back to some transport policy or principle; otherwise we have no orientation of what we are trying to accomplish.

Q79 Chair: Are you concerned that the combination of alliances and more decentralisation will result in a more complex structure?
Tim O'Toole: Any time you take a single thing and make it multiple things you have that risk, don't you? It is going to be very critical that Network Rail continues to develop an asset register and that there is a guiding mind to standards and the like. It is very important that the alliances go forward so that the train operating companies and Network Rail can produce real savings and we just don't have a proliferation of new smaller overheads. We are all well aware that those are the risks. The upside is so great that we can overcome those risks.
Sir David Higgins: The concept of what we would call a system operator, which we see Network Rail as, is essential to maintain the integrity of the network and get the efficiencies of economies of scale, whether it is procurement or standards. I would support what Tim said on the other area.

Q80 Chair: How do you engage with the trade unions?
Sir David Higgins: Regularly. From Network Rail's point of view, we have an extensive level of engagement and consultation with them.

Q81 Chair: They are clearly very concerned about the implications of these proposals in terms of jobs and safety. How are you addressing that?
Tim O'Toole: First of all, the Rail Delivery Group is not a bargaining unit. We do not make decisions that we would then announce and enforce. The dealings with the trade unions are on a company-by-company basis. Any changes will be by the normal machinery, first of all. As regards the way we think about possible strategies and directions going forward, we will engage with the trade unions and tentatively have already done so, as we do with the ROSCOs and their issues or the supply chain. We will meet with them and will bring them into the sub-groups. We will talk through the issues and get their thoughts as well, but actual changes will only happen through the normal machinery.

Q82 Chair: Are they involved in those sub-groups now?
Tim O'Toole: They have been part of a couple of conversations. I have been party to one of them personally, but it has not gone into any detail yet.

Q83 Chair: How are the interests of freight going to be considered?
Sir David Higgins: They are represented.
Tim O'Toole: They are on the RDG. We have two freight companies on the Rail Delivery Group. They are, for example, represented in my sub-group as well.

Q84 Chair: You do not have concerns that new decentralisation and different structures might minimise looking at the interests of freight as a national service.
Sir David Higgins: It has the potential to within Network Rail, but we have set up a national freight group within our own organisation under a guy called Tim Robinson whose background is freight. He has a national group within our organisation. If we did not do that, we would run the risk of fragmenting the service to freight operators.
Chair: Thank you very much for coming and answering our questions.

Examination of Witnesses

Witnesses: **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, gave evidence.

Q85 Chair: Good morning and welcome to the Transport Select Committee. Would you each give your name and organisation for our records?
Mick Whelan: I am Mick Whelan, General Secretary of ASLEF.
Manuel Cortes: I am Manuel Cortes, General Secretary of TSSA.
Bob Crow: I am Bob Crow from the RMT.
Julia Long: I am Julia Long from Unite.

Q86 Chair: In your submission to us, you show very strong concerns about what you see as the costs of privatisation. How do you think those costs could be addressed other than by changing the whole system, which I know is the tenor of the general submissions you have made? Are there any other ways in which those costs of privatisation could be addressed?
Bob Crow: Nationalise them.
Manuel Cortes: The biggest cost that has come from privatisation has been the fragmentation of the railway and the fact that we now have a whole raft of different operators and different companies all trying to run what used to be a unified structure. If you look at the McNulty Review, he actually says that that has been a major contributor to the escalation of costs, and yet

when he comes to his conclusions he says that we need even more fragmentation. It just does not add up.
Bob Crow: If you take what is happening at the moment, the railways in Europe are 30% cheaper than the ones over here on the basis that the railways in Europe are near enough all nationalised. They do have private companies running them, but they all report to one chief executive. There is no captain of the ship at all of the railways in Britain. In pre-British Railways days, if a light bulb needed to be changed on a station in leafy Surrey, the chairman or chairwoman of the board could ring up the station master and say, "Change the light bulb." Now he has to speak to the company concerned, who subcontract it and who agency staff it. They all have their contracts and they all get their lawyers rather than having one line of command. The reality is—even Sir Roy McNulty recognised this in his report—that there are too many interfaces. We are going to see an announcement on Thursday in the Scottish Railways where they are looking at breaking up Scottish Railways into five separate companies. That is madness. We should be looking at delivering the railway for the travelling public so that they know exactly how to get from A to B as quickly as possible, as safely as possible and as cheaply as possible.

Q87 Chair: In your submission you make the case for renationalisation. You talk about how that could be done. In relation to franchises, you say that when a franchise comes to its end it should be held nationally instead of let out again. But the realities are that at the moment, over the next two years, nine franchises are due to be re-let on a longer term basis than they are now. If your policy was to be accepted, it would take a long time to do that, would it not?
Bob Crow: Not really—not if you want to extend the franchise.

Q88 Chair: What else could be done now?
Mick Whelan: Surely there has to be a recognition that the franchise system as it exists is flawed. The reality is that as a result of the way in which it is distributed you are always going to have franchises that will attract massive subsidy. The reality is that, if there are any gains to be made from that subsidy, it is not coming back into the Exchequer or to the Treasury; it is going out to the shareholders of the franchises. Of the massive investment that goes into the industry, no money comes pouring back in.
The flawed model that originally created the franchise system was based upon competition. They told us that competition would drive costs down, both for the infrastructure and fares. We have seen massive increases in fares, and nobody disagrees with the fact that the fare structures are wrong. What we are planning to do now on the back of McNulty, as I understand it, is possibly to give 15-year franchises and take even more competition out of the equation. Nothing has been done to offset the model that is there now.
For the sake of argument, say that First Great Western did win their franchise and got 15 years. These are the people who handed the keys back three years early so that they did not have to pay back £700 million to the Exchequer. That has to be found somewhere else, surely. The reality is that we should look at doing something different. That is without looking at the other add-ons, where the ROSCOs have announced their profits in 2008 of £700 million. Again, those are assets that we previously owned and assets that the Government invested in and developed. That money is pouring out of the industry and elsewhere.
If we really want to look at cost, all McNulty did was a very bare-bones study about eliminating some exposure by reducing the work force. That will not make for a safer railway. If you are possibly talking about taking 21,000 jobs out of the industry, you are going to make it a less safe place to be, not a better railway.
Bob Crow: You have parts of the railway now that are nationalised. The East Coast Main Line, which runs trains from King's Cross to Inverness, is nationalised. It is run by the state. It is running particularly well. It is moving a lot of passengers up and down, and at the end of the day it gives the opportunity to the Government to do one of two things when the annual accounts come in. The money that the company makes can be reinvested into the railway or the Government can keep it for themselves and give it to other social services.

Q89 Chair: Do you see any benefits at all in having longer-term franchises under the current system?
Bob Crow: No.
Manuel Cortes: No.

Q90 Chair: Does anybody see anything positive at all?
Mick Whelan: If all the investment was going to come centrally, no. These people who are investing in the industry are doing it purely to generate profit where they can for their shareholders, which is their role. They do it very well in relation to the people they represent. What they have is a model where they cannot lose. We have all talked about a capital economy before, about revenue protection, and I will not even get into the realm where they are paying people to run railways and say that was profit when it is industrial strife. It seems to me that the whole of McNulty is a recipe for future strife. It seems that what you are actually inviting people to do is to say what efficiencies they will make and, if the Government believe they have gone far enough, then they will award them the franchises. That is a very dangerous place to be.
Bob Crow: Where has the investment from the train operating companies gone? The only investment I see from the train operating companies is that they love a car park. They love the asphalt. They love putting a gate up and a barrier and charging people exorbitant fees for parking their cars. That is the only investment I have seen by the train operating companies in the railway network.
Manuel Cortes: There is no genuine risk taken by any of the private operators. Everything is underwritten by and large by Government money. There is no risk taken.

Q91 Chair: The things you are saying are probably in relation to the problems that there are. There is a large measure of agreement on those. The issue is whether anything can be done to address those under the current structure, basically. That is what we are struggling with.
Manuel Cortes: Our fundamental view is that you cannot do it under that kind of structure. What we need is a root and branch review of the way we run the railways; otherwise we are in danger of doing two things: cutting back on services that people need and having fare payers pay more and more, even though they already have the highest fares in Europe.
Bob Crow: Why can't Network Rail run a train operating company?

Q92 Mr Leech: We privatised the railways, rightly or wrongly—
Bob Crow: Wrongly.

Q93 Mr Leech: I accept entirely that from your perspective it was the wrong decision. I happen to agree with you, but we are where we are several years down the line. Is there not a danger that you are putting all your eggs in one basket, which is scrapping the system and renationalising? We know that that is your starting position, but isn't there a danger that, if you do not come up with ways in which we could improve the current system, then the decisions will be made without the unions having any involvement in how it takes place?
Mick Whelan: We are not naive enough to believe it is going to happen overnight, but you do need to move towards a model that gives value for money. We hear those words touted and vaunted around—that we need to do away with subsidy. Most of the subsidy is going out of the industry into the shareholders' pockets. The reality is that, even within the Command Paper itself, it talks about involving more interest groups, whether it is locally, in communities, councils or whatever. To do that, you have to look at the Railways Act 1993 and allow public bodies or other transport groups to invest in or own railways. That is the problem unless you move towards that. If all we are going to do is sit here and talk about how we can do it within what we have now, we are going to come here and make the same arguments regularly.

Q94 Mr Leech: I think you are missing the point of the question I asked. The question I asked was, having got that very fundamental position that you all hold, is there not a danger that you then are not able to be involved in the process of change?
Bob Crow: We have not been involved in the process from the start anyway. We have not been involved in the process. The Rail Delivery Group has had a number of meetings and we are not allowed to sit there and put a point of view on behalf of the work force, even though we represent 100,000 workers between all four unions sitting here today. There was one meeting last November. We were basically all in a room together sitting round the camp fire deciding what was wrong and what was right.
You talk about efficiencies, Mr Leech. Network Rail have 160 solicitors who sit there all day long saying it was the train operating company that was at fault for this train being late and that train being late. The train operating company have another 150 solicitors saying it was Network Rail's fault. So you have 300 solicitors sitting there all day saying, "You were wrong for being three minutes' late; you were wrong for being five minutes' late; you were wrong for being half a minute late." If you scrapped that, you could save 300 lawyers' wages straight away and get on with what the real issue is, which is delivering a service for the travelling public.
Manuel Cortes: Just to come back on your point, ever since the railway was privatised every Government that has come in has tinkered around the edges. The reality is that they have not achieved a more efficient railway. I do not know what makes you think that further tinkering is going to achieve that. There is a fundamental flaw with the structure of the railway and it needs to be cured. To do that you need to start from the beginning. The cost escalation came about as a result of the fragmentation. It came about because of privatisation. That is where we need to go back and revisit.

Q95 Mr Leech: Mr Cortes, do you actually believe that what is being put forward as a proposal now is still "tinkering"? It strikes me that it is some fairly major changes that you, as unions, ought to have a significant input into to make sure that you are getting your points across.
Manuel Cortes: Where is the major change? The railways are still going to be run for profit. They are still going to be fragmented. In some of the recommendations from McNulty, fragmentation is going to get even worse, even though he says in his analysis that that is what has led to costs running out of control. I just do not see where the fundamental change is.
Mick Whelan: Some of the structural changes that have been proposed around alliancing will probably give us more cause for concern than where we are now. The reality with that, to all intents and purposes, is back-door mini Railtracks and reintroducing the profit motive to Network Rail.

Q96 Chair: Could you tell us which areas give you more concern about the proposals?
Mick Whelan: The areas of transparency and health and safety would initially give us cause for concern. When Tim Shoveller is the managing director of South West Trains and he runs a Network Rail area and they still trade with each other, that is going to cause a problem. When he starts to devolve certain roles from Network Rail into the top and vice versa, that will cause issues and problems across the board. At the same time we can see that without a proper structure, it is going to cause problems for other operators operating in those areas. We can see that just introducing alliancing per se—which, to come back to your structural point, is a major structural change—is going to cause many issues across the board.
Bob Crow: I want us to get back to why we are here. The reality is that, when Railtrack was set up as a company on the stock market, it failed to maintain the railways of Britain properly because it would rather

spend its money on not providing a service than providing a service. This is not me saying this but the inquiry into Hatfield. They made it quite clear that it was like a steamroller going over a digestive biscuit. That piece of railway broke into 190 pieces. It was done away with because, quite clearly, it had put profit before safety. As ASLEF quite rightly say, we have now set up mini Railtracks. We have a managing director who is now supposed to be responsible for the infrastructure and also for the train operating company. He has Stagecoach in one ear saying to him, "I want you to make a profit", and Network Rail in the other ear saying, "You need to maintain the railways properly because we don't want another disaster." He must be turning into a schizophrenic as every day goes by because he does not know which way to turn. That is the reality of it.

The fact of the matter is that these train operating companies have had over £24 billion worth of taxpayers' subsidy since they have had the railway. It is like walking into a fish and chip shop, asking for fish and chips, eating it, and then when you ask for the bill they tell you, "No, we'll pay you to eat it." That is how crackers this system is.

Q97 Iain Stewart: I would like to pick up on a couple of your earlier comments. First, there is your opposition to longer rail franchises. I want to put to you the example of Chiltern Railways, which I understand has the longest franchise. From my perspective Chiltern has achieved a revolution on that line. It modernised it with new trains and new routes. It has opened up a healthy competition to Virgin in the London-Birmingham market. Am I wrong in the view that it has been a success with a long franchise?

Mick Whelan: I think Chiltern is probably one of the exceptions but it is a captive audience, isn't it? If you look at the future proposals and changes, if you look at the current Thameslink franchise and merge that with Southern and Gatwick Express, you will have 30% of all rail capacity contained within one franchise. Whoever wins that will have the keys to Fort Knox. There is nothing written into that about how they develop the franchise, or them putting in their own money or investment to get a return. It will still be centrally funded with all the profits coming out.

Also, if you look at McNulty and what it allows with the increase in fares over a period of time, it is just a licence to print money while at the same time reducing the amount of staff to run the operation. Fundamentally, this is to do with the ethos of privatisation. We did not call them passengers back then; it was customers, and everything was about customer focus. Because of society we were going to get better information. They were going to put in CCTV. We would have CIS screens and better booking office hours. Now the solution is to turn 180° and close the booking offices, take people off the platforms, encourage driver-only operation and limit the exposure of the companies to maximise their profits by reducing the work force. Chiltern, to take your example, are a company that do believe in serving the customer and have built on that ethos. That is the ethos that has been proposed within the market.

Q98 Iain Stewart: I am specifically asking about your opposition to longer franchises. I appreciate that you have other concerns. Why couldn't a longer franchise operating on the Chiltern model deliver the same improvements to others?

Mick Whelan: Because you are changing the model. The original franchises—and correct me if I am wrong—were let on the basis that you told the operators what trains they had to run—how many trains they had to provide. They had to say what they would do over and above that to encourage central Government to give them franchises. The way I read the Command Paper now is that we will be allowing them to run their own timetables and say what trains they want to run. They will be delivered in a different way. That is not the Chiltern model.

Q99 Iain Stewart: But Chiltern would have the ability under the new arrangement to develop their model in innovative ways.

Mick Whelan: Chiltern are probably now at the zenith of where they can be because of the limitations in and around the Birmingham area and the share of responsibility for the other operators. They are virtually at full capacity. The real problem is down the years. Most of what we have done within the industry has been based on capacity studies, looking at population growth and footfall in the future. The reality is that that is going to slow down purely because of where new property is going to be.

Q100 Iain Stewart: I want to ask one other question in a slightly different area. At the moment the percentage of rail industry income that comes from the fare box is just over half. It is 55% or 56%. In your view, what should the percentage of income that comes from the fare box be? I would like each of you to give an answer.

Mick Whelan: My colleagues are probably more attuned to this than I am. I think it should be a higher percentage. The reality is that, if you want to encourage growth in capacity, you have to get away from the nonsense where you turn up on the day and pay £200 for a Birmingham return.

Q101 Iain Stewart: I was not clear about your answer there. You want the percentage of fare box income to go up.

Mick Whelan: Yes; I would like to see less profits for the franchises and more of the money generated from the fare box to come back into central Government.

Q102 Iain Stewart: Balancing fare box income against net Government subsidy, you would like to see a higher percentage than currently from the fare box.

Mick Whelan: Yes, because at the moment you have organisations out there—and I have dealt with many of them down the years—that will never wash their face economically and they will always be relying on subsidy. The only way that they create profit for their shareholders therefore is by taking money from the subsidy and by running it for less, basically. Unless you take away that model whereby the money in certain areas—if you are not an intercity TOC, in certain regional areas you will always be heavily reliant on subsidy, for ever and a day.

If you take Wales, for example, you could never have the cost opportunity that allows the fares to meet the returns you require. You are always going to have to subsidise. There is not a one size fits all.

Q103 Iain Stewart: Is that a shared view?

Bob Crow: We would support ASLEF, but at the same time we don't support any of these fare boxes. We would like to see the railways being run by the state. That is what we would like to see.

Q104 Iain Stewart: Forgive me, Mr Crow, whether the railways are nationalised or privately run, there is a balance between what the passenger pays towards the cost of running the railways against what the Government provide in net subsidy. What I am trying to get is your view. The percentage now from the fare box is roughly 55%. Is that too high, too low or about right?

Bob Crow: If it was nationalised, I would like to see more in it because we would be dealing with the environmental factor then and getting people out of their cars and on to trains.

Q105 Iain Stewart: So you want a lower percentage and high net subsidies.

Bob Crow: Yes.

Manuel Cortes: Fares are already far too high. It was the former Secretary of State for Transport but one who described it as becoming a "rich man's toy". They are already extremely high, but part of the problem is the amount of money that leaks out of the industry in profits. Part of the problem is how much it costs to run because of fragmentation. There has to be good public investment into the railways. There are social and environmental aims that we need by having a railway.

Q106 Graham Stringer: Mr Whelan, do I take it from what you said earlier that you would ban First Great Western from bidding for the next franchise?

Mick Whelan: I am not saying I would ban them.

Q107 Graham Stringer: Why not?

Mick Whelan: I am giving the example that we have a system at the moment that allows people to walk away from their obligations early, so that they do not have to pay back hundreds of millions of pounds to the Treasury, and then are still allowed within the process to bid for the franchise they have just walked away from. That seems odd to me.

Q108 Graham Stringer: It seems odd to me as well. What I am really asking is, don't you think there should be a penalty for that abdication of responsibility and that penalty should be to be banned from bidding?

Mick Whelan: Of course, and I think the RMT put it quite appositely earlier. At the moment there are no penalties. If you lose you win, and if you want to walk away you still win.

Bob Crow: Take National Express, Mr Stringer. They won the East Coast Main Line franchise, and just as the recession came in they gave it up. If it had been a boom rather than a declining industry, they would have been laughing all the way to the bank. They gave it up. What was their penalty? They were allowed to bid for the c2c route down to Southend. They still allowed them to do that. National Express should clearly be banned from being allowed to put in for any franchise on the railways of Britain.

Q109 Graham Stringer: You mentioned before that there were 300 solicitors talking to each other.

Bob Crow: That is just over fares.

Q110 Graham Stringer: You can expand the answer if you wish because it is an interesting figure. Where is the hard evidence for that? Where can the Committee look to find the evidence for that?

Bob Crow: Ask the chairman of Network Rail, Sir David Higgins. That is what he told us.

Q111 Graham Stringer: You have been told that by the chairman of Network Rail.

Bob Crow: Yes.

Q112 Graham Stringer: We had Sir Roy McNulty here before and we also had the Rail Delivery Group here. I want to ask you the question I asked them. We now have £27 billion of debt on Network Rail's balance sheet. The taxpayer is paying nearly £4 billion a year into the rail system. It is a lot of money. I was in a debate in 1999 with Teddy Taylor when he said that it did not matter that the railways had been sold off cheaply because in the future they would require no subsidy. Where has that £27 billion plus £4 billion a year gone? Where is it going?

Bob Crow: All that has gone in dividends to the shareholders. That is why I said before, Mr Stringer, that, if the railways were nationalised, then each year the Government could decide over a period of time whether they were putting too much in or not enough. If the railways were generating a profit—and don't forget there are more people using the railways now than have done for the last 70 years—then they could do one of two things. They could reinvest it back into the railway network or they could put it back into the state in general.

Manuel Cortes: Part of the cost is for fragmentation. That is what privatisation has delivered. Clearly if you had one national train operating company running for the interests of passengers and not profit, there could be cross-subsidies to those lines that are needed for social purposes.

Q113 Graham Stringer: We were told that it had gone into investment.

Bob Crow: What has gone into investment?

Q114 Graham Stringer: That money was going into investment.

Mick Whelan: It was necessary investment. What we had at the time of privatisation—and one thing we do not nay-say—is the railway being brought up to a certain standard, and it had to be done. There has been procurement for one side. Post-privatisation with Hatfield, the whole industry nearly collapsed. If it was not for the stakeholders that we represent, no trains would have run and we would have no industry now. It was not the TOCs that made it good. It was not Network Rail that made it good. It was the workers in the industry who kept on going through terrible times. That meant that a massive amount of investment had to be put into the industry post that time. Part of the problem with how both Railtrack and Network Rail get their investment, because they are not shown on Government balance sheets, is that they have to borrow at higher rates. Part of the debt is the heavier borrowing costs that they have.

We then went into a series of major investments such as the West Coast modernisation. That was overrun by billions and then was not finished. It was meant to give us moving block. It was meant to give us a similar sort of system that they have on the French railways, and it still has not been completed. What we have is billions of pounds that have gone into the Pendolinos. There was originally going to be a train every 15 minutes out of Euston to all destinations. There would be no timetables; it would be step on, step off. That was going to go hand in hand with the modernisation of the West Coast Main Line. It failed. We have had series after series of borrowing and investment at high cost for things that unfortunately have not been delivered.

Q115 Chair: You see the costs to do with investment costing a great deal more than they needed to, to deliver what they did.

Mick Whelan: Yes.

Bob Crow: They are getting four times more subsidy now than British Rail got. Certainly British Rail was not the ideal position, looking through rose-tinted glasses. There was low pay, long hours and one thing and another. The model that the RMT would like to see is a new board where all the railways deliver one thing, which is a service for the travelling public. There would be representatives from the work force and the travelling public serving on the board with the railway company, which delivers the profits. There is Network Rail, the train operating companies, the infrastructure companies and the subsidy. What the people want is to turn up at a railway station, find it friendly, safe, non-expensive and that they can get from A to B without going through a dictionary of different railway companies.

Q116 Graham Stringer: I want to ask about another cost. I asked Sir Roy McNulty about the cost of salaries and whether top management and the board was costing a lot more money now than it did under British Rail. His answer, and I paraphrase, was that, yes, costs have gone up by more than the rate of inflation, but that was just in line with what the work force was being paid. I would be interested in your comments on that answer.

Bob Crow: The fares have gone up by more than the rate of inflation because they are allowed to put their fares up by over 3% above the rate of inflation. If the workers ask for a pay rise of 3% above inflation, they are called greedy and other names as well. If they put it up, it is seen as good investment.

Chair: Mr Whelan, I think you want to come in here.

Mick Whelan: I was rather interested in Sir Roy McNulty and his report. He spoke about wages drift but he gave no acknowledgment of the fact that we have totally revamped all the terms and conditions of all grade groups across the industry in the last 10 years. Everything we have had has been paid for by productivity. If you look in the McNulty Report or the subsequent Command Paper, there is no recognition of that. They say that higher wage costs must come down. We are happy to reduce the wage costs. We will go back to a flat eight-hour day. That will generate real jobs for millions of unemployed out there. The reality for us is that we believe we pay for what we have. What we did not want to do is pay 26 managing directors six-figure salaries, their finance directors, their operations directors and all the other people who run all these operations that could be simply controlled by one body. As Manuel has repeatedly said, fragmentation brings its own costs, whereby you need 26 human resources directors and their teams, rather than one centralised body under one organisation.

Manuel Cortes: Also, the salaries that are being paid to those boards are well in excess of what people used to get, with any inflation link, in any British Railway board.

Mick Whelan: We will not even get into the share options that these groups award to their managing directors and operations directors, because they do not give them to the staff.

Bob Crow: Also, Chair, it is not like for like. You talk about costs being dearer in Britain. We are talking about a railway network over here that has 4,000 bridges and various structures. It is a Victorian network with a drainage system underneath it. That is compared to the cost of a railway—for example, Barcelona to Madrid—where it is a straight piece of brand new railway. It is not like for like.

Q117 Julie Hilling: I want to continue with my theme of the day, which is asking questions around staffing. The report talks about driver-only operation as a safe method of operation that improves performance. It says the default position should be driver-operated, with a second member of train crew only being provided when there is a commercial, technical or other imperative. I am aware that you object to that. Could you explain your objections to driver-operated trains?

Mick Whelan: We do object to it. I could be parochial and say, "My guys and girls are going to be okay because we will have a driver on every train." That is not what we believe. We see societal issues out there. We see people afraid to travel late at night. We see women not wanting to use them. All the studies tell us that we have problems out there. The reality is that taking people off platforms, off the back of trains and out of the industry does not make the railway a safer place. It does not make it more user-friendly or more cost-effective. We believe it is the wrong thing to do.

Julia Long: The passengers on the trains, especially women and older people, want to be able to go on to the station and for somebody to be there. They want to go on to the train and for somebody to be there for them to feel safe. The proposals are saying that we should just have a train driver on a train and that the ticket offices should not be staffed. To me, that is a danger to all people in this country who use the train. It is not going to encourage them to continue using the train.

Bob Crow: As Unite quite rightly says, in all of the reports of all the incidents that have taken place on the railway—Southall, Hatfield and Potters Bar—it is the guard and the catering staff that are trained in evacuating people, to take them to a safe point, rather than people jumping through windows with trains coming down the other line. The reality is that we do not want a job for a guard just for the sake of him being a guard who is put into a box and who just presses a button. We are quite happy for a person to do the commercial role as well, but there must be someone on that train, in our view, who has the ability to look after the staff. That is what their name says: to guard the people on that train and to make sure they are safe.

If you do not have people on stations, they will become muggers' paradises. There is no point in putting a "Help" point in if someone gets attacked. It will probably get the person sentenced, but we do not want the attack to take place in the first place.

Q118 Julie Hilling: I want to follow up on that with the proposed ticket office closures and the effect of those on passengers.

Manuel Cortes: All the evidence suggests that when you take staff out of stations they do become a magnet, as Bob has just said, for petty crime, antisocial behaviour and vandalism. It deters people from travelling at night in particular. Also, there is no one left behind to lend a hand to those with mobility problems. One of my members works in Birmingham New Street and has given me a good example of what would happen if somebody with mobility problems turns up at New Street and wants to go to a suburban station where there is no longer any staff member. They would be put in a taxi at Birmingham New Street to be taken to the suburban station. That will be replicated across the rail industry. Is that the kind of inclusive railway that we want? Is that one that allows everybody to use it? It is one where people are turned back, when they turn up, and put in a taxi because they have a mobility issue.

Equally important—and this is a question for you—why isn't there going to be a vote in this House about the proposal to shut 675 stations? Why not? I think the issue is so unpopular that they know they would not be able to get it through the House of Commons. So now they are going through the back door and using franchise agreements to try and close down 675 booking offices.

Q119 Jim Dobbin: On the issue of rail freight, do you think there is enough stress being put on this by Government to increase rail freight traffic?

Mick Whelan: The consultation paper that is out now will work on the basis of a "polluter pays" process whereby they want to charge freight trains far more for the possible damage they do when they are carrying heavy loads across the tracks. That will deter people and force traffic back on to the roads, making it a less green option. We are a very small island with a finite capacity. If we want to move bulk goods and passengers, rail should be the cheapest, most efficient and greenest option. Unfortunately, we are in a situation where that is not the case.

Julia Long: The unions have all argued that we should have an integrated transport system and we should be encouraging freight on to rail. We should be encouraging regional hubs so that they can go into them. It does not lose jobs. We have talked about that. We represent the lorry drivers within Unite. Basically, we are saying that we need more freight on rail. It is a nonsense not to.

Bob Crow: We have never asked for a monopoly for freight going on rail. We have said that, as far as we are concerned, long haul could be moved by rail, and then you would have the smaller journeys in rail distribution and freight distribution warehouse hubs taking the localities. We had one in Warrington. There was a massive investment into it and the whole lot shut down. That is what you see with industrial vandalism, in my view.

Q120 Jim Dobbin: I have one question on the back of that. When they create these terminals, are the trade unions involved in any of the discussions?

Bob Crow: I have not been involved.

Mick Whelan: If there is any public consultation, we tend to put our two-penny-worth in to any consultation that takes place, whether it is regional or national, but we don't have direct involvement.

Q121 Chair: Have you been involved in any discussions in the Rail Delivery Group?

Bob Crow: No.

Q122 Chair: Do you want to be?

Bob Crow: We have asked if we can sit at the table.

Q123 Chair: You have asked.

Bob Crow: Yes. We have put our point of view. How can you bring all the railways closer together if the 100,000 workers that work on the railways do not have a voice at the table? We have asked. We have written to the companies. We can show you the correspondence. They say, "At this moment in time we do not think it will be appropriate." They called one meeting last November of everyone, all and sundry. As I said before, it was like sitting round a camp fire and throwing up your ideas about the railway network. The Rail Delivery Group continues to meet. They have set up a number of sub-committees operated by David Higgins and Tim O'Toole. We have not once been invited to go and put our point of view at the table. We are not asking to be a decision maker, but we would like to think we could get the ear of the Rail Delivery Group to express our point of view and what the representatives of the workers feel.

Mick Whelan: My view of the Rail Delivery Group is rather cynical. I think it is a throwback to the Victorian railway owners meeting in a dark room, setting terms and conditions and wages for the future. That is why they do not want any involvement of the employee groups that we represent.

Q124 Chair: Would you want to be involved? I ask you because we did raise this issue with the Rail Delivery Group and they said that you would be involved at a future stage. I just want to clarify whether you want to be.
Bob Crow: We would be involved?
Mick Whelan: Well, once they have decided what they are going to do, then they will tell us what they are going to do. Is that what you call involvement and consultation? Our view of it is that they are meeting in their darkened rooms making their plans for the future and would like to present it as some sort of fait accompli to us, probably Government-backed. We are very cynical about the RDG.

Q125 Mr Leech: In your written evidence you calculate that up to 20,000 jobs could be lost. In one of the previous sessions Sir Roy McNulty suggested that the figure was more likely to be around the 6,000 mark. How did you make the calculation of 20,000?
Bob Crow: That was on the basis of the analysis that was put in that report. It is the amount of booking offices that would close, the amount of catering staff and guards that would be got rid of, and also the cutting back of the agency and subcontracting work that operates in the infrastructure.

Q126 Mr Leech: Would it be possible to send us that evidence?
Bob Crow: Yes.

Q127 Mr Leech: On a separate point, if there are unmanned trains—sorry, driver-only trains—
Bob Crow: That is the next step that the Mayor of London wants to bring in.

Q128 Mr Leech: If there are driver-only trains and closure of ticket offices, have you made any calculations on the potential increase in fare dodging and the loss of revenue protection?
Bob Crow: Only that it will go up. It is obvious. If you have less staff there, it will go up.

Q129 Mr Leech: The question is whether or not you have done any work on it or have made any calculation.
Bob Crow: Not any work. It is on the basis that you put a ticket machine in and a ticket barrier. There is a difference between a ticket machine and ticket barrier. Some people say we can all get our tickets off the internet now, but if you are partially sighted you cannot get your tickets off the internet. They want a machine. The machine will give the most expensive fare. If you put a ticket barrier in, you have to have a member of staff because, if someone gets caught in the machine, there is no one there to help. The reality is that, where companies have put in extra revenue control and extra staff, then fare dodging goes down. It is common sense.

Q130 Chair: It is a general assessment based on experience.
Mick Whelan: The ticket office serves more than the purpose of just securing and protecting revenue. The railways are a strange environment. Everybody in this room has probably travelled to some place on them. With the geography of the railway and the multitude of companies that we have, it is key that people have the right information to travel safely. Without people to pass that information on, the railway is not a good place to be. That is just a fact of life.
Manuel Cortes: There are also so many fares now. It is quite complex for somebody to choose the right fare from a machine. If you go to King's Cross and try to buy a fare from London to Newcastle, there are probably 10 or 12 different fares. When you go to the machine the first one that comes up is the most expensive. It is not the one that would best suit you but it is the most expensive. You have to go to the third screen to find the one that might suit you.
On your specific question about revenue protection, Transport for London may have some good data on this. When they took over the running of what was the North London Line, Silverlink and the Barking to Gospel Oak Line and they put staff in the stations, they started to combat some of the fare dodging that had been going on for years because there was no one around. People had got used to using the railway without having to pay. Their revenue increased very substantially very quickly.
Julia Long: I would also add that a lot of the stations are not in big cities but are isolated. In the local areas where people live in the regions, the stations are very isolated and if you are going along to those stations there is nobody there to help you on anything. It is an utter disgrace, really, even to be saying that we are going to do this. We have to think about disabled people who need assistance. Where is that going to come from if the stations are not manned? There are all those sorts of things that McNulty has not considered in his report.
Even on the wages situation, there is no evidence in what he is saying to say that the wages are too high. His Command Paper is just drawing conclusions and saying, "Let's accept people on our terms and conditions because that will cut the wage bill." The whole thing is a nonsense.

Q131 Chair: You have made your general position very clear, but I have one final question I want to ask you. If the suggested alliances go ahead, are there any measures you would advocate to try to ensure safety and maintenance? Are those your concerns?
Bob Crow: But they are going ahead, Chair.

Q132 Chair: If they are going ahead, is there anything you would press for?
Bob Crow: They are going ahead. It has already started. It has already started on South West Trains.

Q133 Chair: Is there anything specific you would press for to try and address the safety and maintenance issues?
Bob Crow: We would have to be extremely vigilant. As I said before, there is—

19 June 2012 Mick Whelan, Bob Crow, Manuel Cortes and Julia Long

Q134 Chair: But is there any particular thing you would want to be put into that?
Bob Crow: Safety. You have the managing director of a private train operating company who now oversees the infrastructure. That is the sole reason why Railtrack was got rid of. Railtrack thought that a private company was going to come and maintain the piece of rail, and the private company did not want to do it because they thought Railtrack was going to give it to someone else. It never got done, and a train came off at 120 mph and killed the travelling public. That is why Railtrack went bankrupt. That is why Network Rail was set up, and that is why we were told that safety was put first. Now what we are going to see is a number of these alliances—which, as ASLEF quite rightly pointed out earlier on, are mini Railtracks—going back to where we were some 10 or 12 years ago.

Q135 Chair: Mr Whelan, is there anything you would want to add to that?
Mick Whelan: There is one overarching point I should make. With the proposed changes to the ORR and its structure, the ORR will be both poacher and gamekeeper, whereby they will regulate the railways, the franchises and the alliances but will also in future be in charge of issuing those franchises/alliances. Again, we have another tier where there is a lack of transparency and where they are not going to admit they are wrong in giving the franchise to somebody else, or that they have not controlled it and put the right risk measurements in place. We see all this as interlinked. We have a really fundamental problem as to where all of this is going. Strangely enough, I do believe that you will see many battles coming up, possibly, between my trade union, at least, and the alliances when they tell us what they are going to do.
Chair: Thank you very much for coming and answering our questions.

Tuesday 26 June 2012

Members present:

Mrs Louise Ellman (Chair)

Kwasi Kwarteng
Mr John Leech
Paul Maynard
Iain Stewart
Graham Stringer
Julian Sturdy

Examination of Witnesses

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

Q136 Chair: Good morning and welcome to the Transport Committee. Would you first give us your name and organisation? I know you are all familiar faces, but it helps our records.
Christian Wolmar: I am Christian Wolmar. I am a writer and broadcaster, mainly about transport matters. I write history books on the railways.
John Nelson: My name is John Nelson. I am a lifetime career railway person. I am a director of a number of railway companies, including a managment consultancy and an open access train company. I am also an occasional writer for a publication called *Passenger Transport* magazine.
Nigel Harris: I am Nigel Harris. I have been a railway journalist for 31 years now. I am the Managing Editor and Events Director at *Rail Magazine*.

Q137 Chair: Do you think that the Government have set out a clear vision for the railways and the future of the railways?
Christian Wolmar: No. It is hardly surprising that they have not set out a vision because there is nobody to set it out. We have a very strange situation where we have a kind of Ministry of Railways, which we have never had before, run by the Government, but much of the actual work involves other bodies. We have nobody to articulate a long-term vision for the railways.
The abolition of a body like the Strategic Rail Authority was a big mistake. We now have something called the Railway Delivery Group. Tim O'Toole gave evidence at your last session. I do not conceive that a body that consists of a few CEOs and senior railway people can articulate the future vision for the railways. So, no, I think the Command Paper was a mishmash of half-baked ideas that were supposed to be delivered by somebody or other—and I will maybe give some examples later when we talk about McNulty—who did not have a coherent idea of what the railways should be.
We could put HS2 in that context. I do not particularly want to discuss HS2 and you are probably going to steer clear of it, but it was plonked as a solution to some problems of the railways without a wider context. That is something that Eddington referred to. There isn't that visional context of what the railways should be and how they fit into the rest of the transport structure over to 2020 or whatever.

Q138 Chair: "A mishmash of half-baked ideas"—does anyone else agree with that?
John Nelson: I am going to agree with the thrust of what Christian said, but I am going to put a slightly different spin on it. I do think that there are elements within the Command Paper that could construct a vision that we could all recognise. There are elements in it that are quite significant. It recognises, for example, the reality that the railway is going to continue to grow in its use. It makes important points about the environment. Crucially, it recognises the importance of getting much better value for money from the taxpayers' point of view. This may be mundane and workaday, and we may not like it, but it is an essential element of any vision for the railway in the current context. Although I agree with Christian that it could be much better expressed and perhaps better defined, I do think the elements are there.
The other important element that is there is the vision for more localism. Devolution may not be the word, but it is important to recognise that the railway is not the railway. There are railways. The railways perform different roles and different functions in different areas in different parts of the country. The nod in the direction of localism is important.
I do see elements there that may not be an emblazoned vision, but they are elements that could be constructed as an important vision that will help the industry forward.

Q139 Chair: Mr Harris, have the Government presented any vision for the railways?
Nigel Harris: It is implicit rather than explicit. If you look at where we start from, I would repeat the point that Tim O'Toole made last week. The railway is an unqualified success in every respect save one: cost and efficiency. We have the safest railway and the best looking railway we have ever had, and it has grown 5% every year, even since 2008. There is not a country or an industry in the world that has managed the railway's growth. As the Command Paper acknowledges, the railway is not broken. If it is not broken, it does not need a new vision. What it does need is the bits that are not working fixing, and the bit that is not working is the cost and efficiency.
In the Command Paper briefings, I asked Justine Greening whether she was saying that, if the industry steps up, the Government will step back, and she said, "Yes, I think we are." That is not a big headline but it is a fundamental shift. If that can be made real and the Government will stop their day-to-day intervention in the railway, and if the railway can grow up and take advantage of that, it is where the railway needs to be.

Paragraph 7 in the executive summary of the Command Paper virtually says just that. Let's get this the right way round. The railway is an immature business in a mature industry. The railway is, if you like, 180 going on about 12. The mature relationships of trust that you need to run something like this are only now just starting to emerge after, certainly from my point of view, watching it for 17 years from day one.

Q140 Chair: Is it the industry's responsibility to present a vision or to make the system work better?

Nigel Harris: It is a joint vision, isn't it? You cannot have an industry presenting a vision on its own when there is so much public money involved. When you have so much public money involved you are always going to get Government activity, which in itself represents political risk, which the finance industry doesn't like and prices accordingly. Unless you have a genuine partnering arrangement between industry and Government and within the industry, it will not work. The Command Paper puts its finger on that.

What Christian is reacting to is that there are no big headlines. A wider media likes big headlines. The Command Paper represents some genuine changes taking place certainly within the industry, and I hope within Government, that will make that possible. If the Government want the railway to be accountable, they cannot keep all control themselves. You cannot control something and then have somebody else being accountable for it. That has happened too much and too often, certainly with regard to some of the franchises.

Q141 Kwasi Kwarteng: With regard to the state's involvement, you suggested that the Government would step back. This is addressed to the entire panel: what is your view of the optimal relationship between the state and the railway? It is more specifically with regard to the scale of subsidy, if you like.

John Nelson: You can never separate the Government from this industry for as long as it is "loss making". It always has been, and I suspect it always will be. So long as there are large amounts of public money going into the rail industry as subsidy, or however you care to describe it, there will always be a relationship.

My opinion is that the Government will need to prescribe the amount of money that is going into the industry. To some extent it will be what it can afford, and what it can afford may not be what it would prefer. It is the industry's job to respond to that. At the same time it is the industry's job to inform the development of Government policy in terms of what can be delivered. It is a kind of iterative relationship between the industry and the Government.

The Government's role, undoubtedly, is to define a vision. As long as there are large amounts of public money going into the industry, it essentially belongs to the taxpayer and to the Government or to local government, depending on how it is organised. It is for those bodies to prescribe what they wish to see the railway deliver.

Christian Wolmar: Can I add something there because I know it is something that has gone on through history from writing my history books? Railways never pay for themselves. There is just a fundamental problem about that. Even the London underground, which has trains packed with a thousand people at a time, still cannot pay for itself. That is because the infrastructure cannot come out of their operating profits. There are very few examples across the world that are profitable. There is the Hong Kong metro, Indian freight and one or two other railways that are profitable, but essentially they are not. We have to recognise that. There is a fantastic level of dishonesty about that.

Going back to the days of Beeching, Governments are always trying to say, "If this happened and we cut that, or if we invested in that and then that happened, we would have a core of railway that would be profitable and pay for itself." It won't. We have to work on the basis that we recognise that.

There was a very good example yesterday. I got a press release about Warwick Parkway station. It is a great success. It was only opened a few years ago and now they want to expand the car park. The Government are putting £1 million into that, and Chiltern is paying for the rest. You can't even expand a car park without Government aid, so you are never going to get the Government out of the railways. That is the absolute key point. It was one of the aims of privatisation, but it was never going to happen.

John Nelson: I want to make a point about the difference between the social railway and the commercial railway. Whilst it is true that the railway as a whole is loss-making, there are elements of it that are quite profitable and operate in a commercial environment. My own view is that we need to draw a distinction in the relationship between the Government and the different parts of the railway that are either in the social or the commercial category. Beyond that, the railway as a whole is loss-making, but it is open to the Government to determine different rules of operation on a commercial railway, and I wish they would.

Nigel Harris: In the widest sense all that is true, but we never hear too much discussion about the incredible value delivered by the railway. There is a massive cost—yes, that is true—but we have only to be without our railways for a couple of days, be it through the 20 mph restrictions post-Hatfield or the latest RMT tube drivers' strike, and the world grinds to a standstill. We cannot survive without our railways. I don't think the intense use that is made of them is appreciated. Look at the footprint at Heathrow for 70 million people. Liverpool Street does twice that in a year in a space smaller than Terminal 1. We cannot do without our railway. It is almost a sterile discussion. If we have, as I believe we have, the best railway we have ever had, other than on cost and efficiency, the Government and industry really need to park some of their differences and genuinely partner an alliance to solve that efficiency problem.

Some of the things are very obvious. Just to correct some information that was given in this room last week, Network Rail has 150 delay attribution clerks who are counting delay minutes. They play pass the parcel with them as to whether they get them or the operators get them and where the penalty payments go. The operating community has about the same number of clerks. So there are 300 people costing the thick end of £20 million a year just batting delay moneys back and forth so that they do not land on their desks. We need that information collected to improve the performance of the railway, but we do not need to spend for ever arguing about who gets a penalty payment for it.

There is a whole string of things like that across the railway that needs a real good hard look at. The industry can do some of it, but it also needs real leadership and some air cover and support by the Government.

Q142 Kwasi Kwarteng: You have said that the state will always be involved and that there will always be a measure of subsidy. With regard to the actual price of the tickets, to what extent do you think we have the right balance today between getting money from passengers and relying on Government subsidy?

John Nelson: I am going to duck that by saying that is a political question. But if you take the view, which I do, that the industry is currently costing far too much for what it does, the argument needs to be made—this is the heart of McNulty—that, if you can reduce the cost to the taxpayer of the way the industry is supported and operated, with no impact on the performance of that railway, as I believe you can, by the way, that quite clearly leaves it open for the Government and the industry to operate a fares regime that is more favourable than it has been in the recent past. To me, the issue of industry structure and the costs of that structure are absolutely fundamental to the question about fares. If you are not going to do anything about that, you will be very limited in what you can do about fares.

Q143 Chair: But there is still the principle behind Mr Kwarteng's question about where the balance should be between the taxpayer and the fare payer.

John Nelson: My answer to that is, where the commercial railway exists, the balance of the argument should be in favour of the train operating companies who are operating in a competitive marketplace. In the social railway it will always be regulated.

Nigel Harris: I will answer the question specifically. We should return to the 50:50 share between Government and fare payer. Moving it to 75% from the fare payer is a perfect example of the last point that I made—that the Government need to lead on this. Implying that the user should pay more implies that anybody who doesn't use the railway derives no benefit from it. Even if you never get on a train in your life, your life is of much better quality because we have a busy railway. It is the same as if you never use a hospital; your taxes still pay for a good health service. The non-users derive just as much use because, as we have seen, when the railway was shut after Hatfield, the A1 came to a standstill. When there were 20 mph restrictions at the same time, the road users were massively inconvenienced. To put more of the weight on the user skews that equation.

Q144 Chair: So you are saying 50:50.

Nigel Harris: Yes, and I think the Government should lead on that.

Christian Wolmar: I would go further than Nigel. As somebody who studied economics, I would say the externalities of having an efficient railway are far greater than that and deserve much more subsidy even than the 50%.

Q145 Chair: How much more?

Christian Wolmar: We should have lower fares, even on the commercial railway. I do not necessarily agree that the commercial price of the railway should be determined by the competition and how much it costs to drive your car up the M1. It should be determined by trying to attract as many people on to the railways as possible. The problem, of course, is that, if you had 25% coming from the fare payer and 75% from the taxpayer, the demand on the railway would go up and put pressure on requiring more investment and so on. That is the problem.

Certainly if you look at London, where fares and particularly season tickets are quite heavily subsidised, it would be complete chaos if we didn't have the railways. That should be recognised. The money that you are effectively saving—the externalities—should then be used to invest in more capacity.

Q146 Chair: You made a comment before, Mr Wolmar, that virtually all railways needed subsidies. In that Command Paper, the Government state that their aim is to reduce and eliminate the subsidy. Is that a pie-in-the-sky wish or is it something that is possible?

Christian Wolmar: As an amateur historian, I look at the past and past attempts. In 1955, there was a great modernisation programme of the railways, where they invested the equivalent of something like £10 billion or £12 billion in today's money saying, "If we invest this money once and for all, it will be sorted and then the railways will pay for themselves." Seven or eight years later we get Beeching and had to cut again. It is a fanciful idea. It is just not going to happen. What is more, it distorts the idea of what the railways are for. As Nigel says, the railways perform a fantastically important function. It is an economically illiterate way of looking at it because it doesn't look at externalities, which is a very basic concept that any Government should understand.

Q147 Paul Maynard: One of our pieces of evidence suggested tearing up all the rails on the commuter routes into London and putting in a fleet of express coaches that would magically transform capacity and then somehow the railways certainly would pay for themselves but perhaps not in a way that any of us would agree with. You have already mentioned the idea of a commercial railway versus a non-commercial railway. Do you think it is possible any more for a Government to have a coherent, single national rail policy, given that three specific types of railway are emerging?

John Nelson: Basically, the answer is no. As I said earlier, there are railways. Okay, there is a national rail network and the Government must ensure that the national rail network is optimised, but to run the railway as if it were only a centralised entity is a huge mistake. All the evidence of the last 20 or 30 years—both pre-privatisation and post—is that railways operate best when they are closest to their markets, whether they be local metropolitan social networks or long-distance routes like an open access company. All the evidence shows that railways work best when they are organised in that very focused way. Obviously the Government must have a policy, because ultimately the Government are funding the whole thing and need to take account of how it is working across the piece, but I think my answer to your question is no. The railway must be recognised as operating in different environments and in different markets. Therefore the rules need to be bespoke to those situations.

Christian Wolmar: It is a mistake to separate out the railways too much. Yes, there are different railways. It was David Higgins who was defining them at your last session. The intercity services are different from the suburban services and from the regional services, but they do feed upon one another. The idea that you could just have a commercial railway and cut away all the rest would probably not make it viable, because so many people who travel on the intercity services then want to use the regional and suburban services and so on to get to their ultimate destination. It would be a mistake to try to separate them out so neatly.

Q148 Paul Maynard: I would ask, therefore, what lesson you drew from the now infamous table in the McNulty report showing different levels of subsidy for London, intercity and regional that set a thousand hares running that somehow the obvious answer was now to shut down non-regional railways. What lesson did you draw from that table?

Christian Wolmar: I kind of knew those figures anyway. We always know that the journeys on Northern Rail were more subsidised than those on Southern Railway and so on. That was the Beeching mistake. Beeching said that you cut off the branches and the core tree will be profitable. It doesn't work like that. A second reason to not do that is because there is a social purpose for the railway. We have to recognise that. If you cut towns off from the rail network and from any access to the next biggest town, or indeed to London, they will suffer from that. There have been studies into towns that have lost their railways and they have declined. You can't just look at the railway as a commercial entity. I would really like to emphasise that point. We never say, "Oh, that road to that village has only five cars a day so let's not bother to maintain it any more. Let's let it be a sandy track again." We don't do that, so we shouldn't do that with the railways.

Chair: It might give somebody new ideas if you say things like that.

Q149 Paul Maynard: One message that came over clearly last week was that we have a particular issue around load and utilisation factors where we are allegedly doing less well than in some of our European counterparts. The point was then made that that is partly because we provide many more off-peak services. I was trying to make the point that it is expensive to cater for the peak if you then don't use your trains appropriately during the daytime. Do you have any views on why we should be subsidising passengers to utilise off-peak services that, if you did not run the train, would not cost us any more in infrastructure terms? Should we just be catering for the peak or not?

John Nelson: In my opinion we are not subsidising people who travel in the off-peak because, as you pointed out, we are funding the peak. The operation of the railway outside the peak is essentially a marginal cost operation. In the vast majority of cases the marginal revenues exceed the marginal cost.

Q150 Paul Maynard: Would it not be cheaper just to park them in marshalling yards?

John Nelson: Generally no. You might park four carriages of an eight-coach train somewhere, but you would still operate a train. The marginal cost of not running those four coaches is an avoidable cost.

Nigel Harris: There are leasing charges.

John Nelson: Yes. The big difference pre and post-privatisation is the leasing charge for the train. One of the reasons why we are operating far more trains to a far greater frequency is because, if you are paying the lease charges on the train, it is costing you wherever that train is—whether it is sitting in the depot, in the siding or if it is operating revenue traffic. In my view, one of the benefits of the privatisation era is that it has encouraged the use of the assets.

Christian Wolmar: The marginal track access charges are quite low as well. Network Rail with the regulator could change it to charge extra, but why? This is a resource. We are much better than in many places on the Continent, though not Switzerland, but in areas of rural France you will find there is no train between 11 o'clock and 3 o'clock in the afternoon. The train is available, the drivers would not cost very much and the fuel would not cost very much. Why not run those extra trains? One of the reasons why railways lose money is because they have enormous fixed assets, and you might as well use and sweat those fixed assets.

Nigel Harris: You might otherwise be asking us why we have all these hundreds of carriages at £1.5 million to £2 million a pop sitting around doing nothing for seven eighths of the day. There is a real argument that we subsidise the peak, which is the other way round. Your average fare in my part of the world, from Peterborough into London open return, is the thick end of £100. If you buy those in bulk in a season ticket, you will get something like a 70% discount. Now, yes, a cheque for a season ticket is a lot of money, but if you work it out per journey, it is the bargain of the century.

You could put that the other way round. Should a single mum in a Toxteth tower block be subsidising somebody's desire to live in leafy Gloucestershire and work in London? There are all sorts of ways you could look at this.

Q151 Paul Maynard: I have a final question on that point. In terms of the fares review, its specific remit is not to increase the overall revenue base of fares. Is that credible if you are trying to subsidise and

encourage off-peak travel without—and I underline that word—penalising peak-time travel? Does two plus two not equal five in this fares review?
Nigel Harris: You are starting to get into real quarts-in-pint-pots territory with regard to how many people you can get on a train. There is some degree of management, which I am sure John could tell you about, that has been attempted over the years to get people to move from peak trains to shoulder peak—from 8 o'clock to 7 o'clock. You could manage that by price for sure, and maybe some people would get up earlier, but you won't completely solve the problem. The fact remains, and this is where political reality runs into harsh economics, that the season tickets represent a 70% discount or thereabouts—you would have to work it out because it varies—but it is a big discount compared with what everybody else pays. That question is never asked for very obvious political reasons. That is not the railways' doing.

Q152 Graham Stringer: Mr Harris, you mentioned the attribution clerks. These are the 300 solicitors that were referred to.
Nigel Harris: They are not solicitors.

Q153 Graham Stringer: That was what the trade unions told us last week.
Nigel Harris: They are not solicitors.

Q154 Chair: Who are they?
Nigel Harris: They are administrative management staff—clerks.

Q155 Chair: We won't quibble about who they are.
Nigel Harris: They are not lawyers; I promise you that.

Q156 Graham Stringer: I just wanted to clarify that because we asked last week for the objective basis of that. I am confused about this, both by the written evidence and what I am hearing now. I think everybody is agreed that the railways are very expensive at the moment, but actually the images you are offering of lower fares would be likely to cost more. The railways have been a financial catastrophe over the last 10 years, haven't they?
Nigel Harris: Have they? It is a view but—

Q157 Graham Stringer: It is 3% of the gross national product just held on Network Rail's balance sheet. There is a subsidy of nearly £4 billion a year. It is quite a trick to get extra passengers, extra fares and extra subsidy at the same time, isn't it?
Nigel Harris: But the railway is a success. You can bat numbers around the room for ever. When Railtrack was sold, its value was about £2 billion. Normally when a company is sold its value is based on the replacement value of its assets.

Q158 Graham Stringer: The National Audit Office said that it was sold at something like 30% of its value, from memory.
Nigel Harris: Nowhere near. You couldn't build 22,000 miles of railway for £2 billion.

Q159 Graham Stringer: It was not sold at any realistic commercial value. The point I am trying to get at is this. Why do we have railway success in terms of passengers and extra train services—we can all agree on that—but, at the same time as you are getting all these extra passengers paying money, you are putting in considerable extra amounts of money?
Nigel Harris: This ties back into your question you asked last week about where the £27 billion had gone.

Q160 Graham Stringer: Yes; I was coming to that.
Nigel Harris: I thought you might. Typically, BR should have replaced something like 2% of its rails each year. Usually it did about 1%. By the time you get to Hatfield and thereafter, when 3% had to be replaced, it has all gone on infrastructure. That is where the money went. It is coterminous. If you look at the sums involved, all the chickens came home to roost. The other way of looking at your £27 billion is that a lot of it wasn't spent in the decades running up to Hatfield because BR was very good at doing a lot with not a lot but underspent on its infrastructure. I sense John getting twitchy.
John Nelson: I am getting twitchy about that. I go back probably 20 years in the BR period and 15 years in privatisation. I have experience of both systems. I am not claiming for one against the other, but it is undeniably the case—it is factually true in fact—that the structure of the industry that was put in place from 1994 to 1997 was a fragmented structure. It was not an effective structure. In my opinion, the escalation of costs that has occurred in the industry since then is a direct result of the structure that was put in place at that time. I have no doubt about that whatsoever. The subtext of McNulty is precisely that. If you read McNulty, it can be summed up as saying, "The structure of the industry has got us into this place; the structure needs to be changed." The difference is that he is not saying renationalise the industry, as some would say. He is saying restructure it in ways where there can be a coming together of the various elements in a way that will work—not motherhood and apple pie about "Let's work together", but effective structures that will work.
That is the challenge for the industry. I have my doubts as to whether the industry can deliver that for itself. As part of the Government's strategy for the industry it must make sure that the industry does precisely that. If it does not do that and the Government need to save money, and you do not have the structures to deliver more cost-effective railways, then it will be a complete and utter disaster because the Government will say, "We can't afford it", the industry won't be in a shape to deliver it and it will be a complete mess from the passengers' point of view.

Q161 Chair: Is major change possible without a massive restructuring like renationalisation?
John Nelson: The answer is yes. It does not have to be a massive restructuring but it does have to be an effective restructuring. McNulty proposes a number of different formulae for different situations that can and will work. Undoubtedly, yes, it can be done; there is no question about that. It is the Government's responsibility to make sure it is done, in my opinion.

Q162 Graham Stringer: Isn't part of the structural problem that there is no equivalent of either shareholders or elected politicians pressing on behalf of the public? The structure of Network Rail and the Rail Delivery Group is effectively the industry talking to itself. There is nobody from outside saying, "You shouldn't be doing that; that is really very expensive and inefficient." Shouldn't that structure be in place?
John Nelson: I think so, yes. There are obviously different views about this. I don't myself subscribe to the "Physician, heal thyself" philosophy, which in my view is the Railway Delivery Group. I hope it can work. I would like to see it work but I have my doubts. I am more in the camp that I think Christian is probably in, saying there needs to be a small, not a large, bureaucratic SRA type of organisation, but there needs to be some type of leadership organisation within the public sector that is responsible for making these things happen.
Christian Wolmar: I am well known and on the record as saying that the structure is dysfunctional. I am not quite as sanguine as the other two witnesses about the ability of the industry to bring about a solution without some structural change. Again, looking at it from an historical point of view, railways have been an integrated structure for most of their history. Most railways most of the time have been an integrated industry. There is a very simple reason for that. There is always this trite comparison with aviation that airlines don't own the airports and so on. It is a completely different type of industry.
Railways are controlled by signalling; they are on track; they are an integrated operation. This real rail interface separation is an artificial distinction brought about for various political and ideological reasons. There is no doubt that that clear separation, as John just said, has resulted in enormous extra costs. There are very good reasons for that. Each of these entities becomes very risk-averse. They only look at their own bit of industry themselves. I cannot see how this structure of alliances will work because you will ultimately always get either Network Rail's interests or the train operator's interests being different and coming up against legal problems. The only way to run the industry is through some kind of integrated structure where the notional "Fat Controller" can make balanced decisions between different types of investments and different requirements of the industry throughout time rather than saying, "We'll spend billions on rail and then we won't have the trains to run on top of them," or vice versa, as has happened under this structure.

Q163 Chair: Is that decision maker the Government, or should it be?
Christian Wolmar: No, absolutely not. It has to be under the aegis of a relationship with Government. British Rail operated in such a way whereby the Government set a figure and said, "Thou must not spend more than this." Then experienced railway people like John had to go into conflab and say, "This year we can afford to do this but we can't afford to do that. This structure might fail in the next 10 years, but let's do it next year and not this year," and so on. That was the discipline and that worked. Network Rail has no such discipline. Effectively, it is given Soviet-type five-year programmes with vast amounts of money to spend, and towards the end of that it is going to spend the money like billy-o.

Q164 Chair: What about the Rail Delivery Group? Can that do the job?
Christian Wolmar: The Rail Delivery Group is a kind of voluntary group of a few very bright and senior people, but they ultimately are beholden to their various shareholders.
John Nelson: I think we have ended up with the Railway Delivery Group because politically it was deemed unacceptable to have something that might be perceived to be a second generation Strategic Rail Authority.

Q165 Iain Stewart: My questions neatly follow on from that exchange. I want to pick up on a couple of areas where you have expressed different views about reducing costs. Mr Harris, you have written in praise of the alliance between South West Trains and Network Rail. You wrote in March that it is too early to say if major savings are going to flow from that, but we would get an initial view after the first six months' review, which concluded last month. Are we in a position yet to have any evidence from the alliance?
Nigel Harris: Probably not. To use your words from last week, Chair, we are where we are. In the Command Paper, the case for big restructurings is not made. The deep alliance is the only game in town that stands any chance of being a real game changer. We have tried a Strategic Rail Authority. We have tried the DfT Rail Group being in charge. We have tried Network Rail being in charge. There is no one else left to create a body to do that. We have maturing relationships within the industry. It was a really pernicious move to dub the deep alliance "mini Railtracks" recently because I do not think I have come across a phrase more calculated to try and destroy something at birth. There is a real potential game changer there and it will hinge on what goes on in South West Trains.
The savings are blindingly obvious from the word go. I have talked about the delay attribution clerks. Network Rail's own route managing director for Wessex has said, "If this works, my job is gone," and he accepts that. There is inbuilt a whole stream of efficiencies that can come out of that. Incidentally, on the "mini Railtrack" thing, I am a bit confused about how if you put something together, as Christian and the unions want, this is a good thing—it is nationalisation and it works, but if you put everything together regionally and do exactly the same, it is a "mini Railtrack". It is bizarre, because we have put in the same things there, and big savings and efficiencies can flow from that. It needs to be germinated and it needs Government air cover. All the points that John made earlier are absolutely right but, as I said earlier, the Government must lead and give some air cover to enable these changes to take place.
John Nelson: I do not think that there is too much disagreement here. What you have just articulated is precisely what my Government body would be doing.

The way the railway would work would be precisely on the basis of the type of structure that you have referred to in South West Trains.
Nigel Harris: They are crucial. Don't underestimate them.
John Nelson: They are absolutely fundamental to the future of the railway in this country. If that does not happen, I think we are looking at a blank cheque situation. In a sense we do the argument a bit of a disservice by talking about things like—and I am not having a pop at you here—the performance clerks. They are symptomatic, but they are very peripheral. What you would say there is important, but it is an illustration.
Nigel Harris: It is an illustration.
John Nelson: You would save hundreds of millions of pounds if you went down the road of these more integrated structures, without any question.

Q166 Chair: Is that where the efficiencies are to be found?
John Nelson: That is where the efficiencies are to be found.
Nigel Harris: Through the alliances.
John Nelson: They are to be found through the alliances looked at from the point of view of bottom line railway operations, infrastructure and rolling stock, revenue and operations—the whole deal. That is where the benefits are in performance. That is where the cost savings will be found.
Nigel Harris: I would like to add a bit to that. As Christian said, if you have a nationalised railway or a single railway, you can maintain things as an organisational whole. You can take a strategic view of what your plan is and come up with a strategic maintenance plan that is then based on your knowledge of all your assets together. As John said, fragmentation does disrupt that process and drives the cost up. Given that we have the situation we have, we need to find ways to mitigate the problems that that structure brings. The alliances are the only show in town to do that. I am convinced that they can do it, but they need time and support to get properly embedded. I am convinced that people like Tim Shoveller can do that on South West. The minute the McNulty-style savings start flowing out of that, there will be immense pressure to do that everywhere. That is why they are so important.

Q167 Iain Stewart: I want to widen this concept of alliance and pick up on a lot of Mr Wolmar's initial comments that we do not look holistically enough at transport planning in this country. As well as having this integrated alliance within the railways, what scope do we have to start actually adding in other transport modes? At a very local urban level you might bring in bus operators to work in concert with the railways. At a larger level you might look at links between airports and the centres of cities, to bring them in. Do we have to sort the railways first and then move on to that—
John Nelson: No, I do not think so. Let's call it "devolution" for want of a better word. Hand in hand with devolution within the industry, which we have just been talking about—and alliancing is effectively that—should be political devolution in terms of how that works in transport planning within regions of the country. To me, the two things go hand in hand.

Q168 Mr Leech: How realistic is the 30% reduction in costs by 2018–19?
Christian Wolmar: I wanted to say something that clearly carries on from Mr Stewart's remarks. Yes, I agree that alliances might make some savings, but what I am really worried about is this global 30% figure. First of all, although there are inefficiencies in the railway industry and some of the McNulty research has been well challenged, for example, by Michael Schabas in an article in *Modern Railways*, comparing it with Europe is a bit trite. It does not necessarily highlight where the waste is.
The bit that really worries me is expecting these savings out of franchises. In a way, we will know about the savings out of the Network Rail budget in the next month or so when the HLOS and the SoFA come out. I just do not understand where that level of savings on franchises is going to come from. How does McNulty know that the franchised bits—a lot of which, as we know, are up now—are going to come out so much lower than they are at the moment? Where are those savings going to come from? Is it going to come from cutting back services, frequencies, the number of new trains that are coming on stream and so on?
When I asked this question of Justine Greening at the press conference, she got rather cross with me and said, "Of course we can see where the savings are coming from," but if you read the Command Paper there is no detail or explanation of how the bit that is supposed to come from franchising is made.
Mr Leech: Do any of you believe—
John Nelson: I do. I am sorry but I do.

Q169 Chair: Mr Nelson, tell us how it is going to happen.
John Nelson: It is structural. The comparisons with Europe are a complete smokescreen. Although I have served on McNulty's advisory board, I did say to him that I thought these comparisons were potentially confusing and would get us into quite deep water in terms of economists' arguments and what-have-you. Stick to the high level facts of what has actually happened. Don't look abroad. Look at what's happened here. Look at what's happened since 1995–96 when the industry was restructured to where we are today. Look at how the costs of the industry have increased during that period of time.
If you take the view, which I do, that the major reason for that—not the only one—is structural, if you do something about the structure, it is perfectly logical that you should be able to reduce those costs. So I am in the yes camp on that.

Q170 Mr Leech: But can you do it by 2018–19?
Nigel Harris: You could probably do the 20%, as David Higgins committed to in his first answer to your question last week.
John Nelson: Yes, I think you probably could.
Nigel Harris: Whether there is 30% remains to be seen. That is a big number. This Committee would be

leading the party if 20% savings had been flushed out of the railway. There are those savings. We could sit here with a litany of examples from delay attribution clerks to all sorts of things.

Q171 Chair: On the question of whether those savings are achievable, Mr Nelson is saying yes and Mr Harris is saying yes.
Nigel Harris: Yes. The alliance is where—
Christian Wolmar: But I don't understand the process by which it will happen. We are going to get these franchise bids in for 60% or 70% of the railway over the next two or three years. Are these private companies—maybe they will tell you later when you speak to ATOC—really going to be able to bid on the basis of savings that are going to be made in some nebulous way about which we are unclear over their 15-year franchises? I do not think they will be able to do that. I am not blaming them now; I am just saying that I think it's impossible for them to be able to do that.
John Nelson: This is why I keep coming back to the Government's involvement in this. Whether we like it or not, there has to be Government involvement because the Government themselves can set the ground rules for those franchises.
Nigel Harris: And we don't know what that is going to be yet.

Q172 Chair: Can we have one speaker at a time or we will get confused? Mr Nelson, you are saying that the Government need to be involved.
John Nelson: I am saying the Government can determine the nature of a franchise. If, for example, the nature of a franchise is a deep alliance, it is perfectly reasonable in the context of that alliance over however many years to manage it in a way that it has a bottom line that takes account of all of the costs of that railway, which, over that period of time, results in a reduced subsidy.

Q173 Chair: So you are relating it to the alliances.
John Nelson: Absolutely.

Q174 Chair: You are not looking at franchises in isolation.
John Nelson: No; correct.

Q175 Chair: Is that where you are coming from, Mr Nelson?
John Nelson: Correct.
Nigel Harris: Viewing everything in isolation has led us to where we are.

Q176 Mr Leech: Last week there was a massive discrepancy between the views of the unions and others on the potential job losses to achieve these sorts of savings. Where do you three stand on which group of witnesses were right?
John Nelson: I am sorry but I feel really strongly about this. The industry is not going to save a third of its costs through massive redundancies. That is not where the inefficiency lies. The inefficiency lies in the deployment of finance in the direction of unnecessary investment and things that are perfectly avoidable cost-wise. It is not so much in terms of more DOO or more labour productivity. In fact, I am personally of the view that, if the railway is going to continue to grow, the likelihood is that there will be more job opportunities for people in customer servicing at stations and all this sort of thing. The cost savings don't particularly come from labour productivity. In my judgment, the cost savings come from the more efficient use of funds.

Q177 Mr Leech: Is the union view of 20,000 job losses wide of the mark?
John Nelson: I would say it is a figure plucked out of the air.

Q178 Chair: Does anyone else have a view on that?
Christian Wolmar: Yes. I would say it is largely fearmongering. Paradoxically, one of the ways that the railways are going to become more efficient is for investment. A lot of that investment might well result in additional people needing to work on the railways. It may be on different things like IT or whatever, but I don't see massive job losses. I do not think it is feasible to have massive job losses. Every train needs a driver. There is a certain number of—
Nigel Harris: Does it?
Christian Wolmar: It certainly does in our lifetime on the national railway network. Let's not go into that.

Q179 Chair: We will assume that every train will have a driver.
Christian Wolmar: We will assume that every train needs a driver for the moment. There are a certain amount of control rooms and you need a certain number of people. Yes, that will be a bit fewer than currently but not massively. I don't think there is going to be a massive depopulisation of the railway infrastructure.

Q180 Chair: Mr Harris, do you have a short answer?
Nigel Harris: There will be some job losses because in any industry that modernises, be it newspapers—

Q181 Chair: What about the scale that has been suggested?
Nigel Harris: Roy McNulty said it was more in the region of 5,000 or 6,000 than 20,000, but who knows? We are on the verge of real technological benefits to be had in terms of things like remote monitoring of assets, so you don't need to have chaps go and look at them every week. There are going to be big savings and benefits there. It would be foolish and we would not be honest to ourselves if we didn't say there are bound to be job losses, as there are in any industry that modernises. As we said with the alliance, the first redundancy will be the MD from Network Rail, who said, "If this works, my job has gone."

Q182 Chair: So you are thinking there will be some job losses.
Nigel Harris: There are bound to be because there always are; let's be honest about it.

Q183 Mr Leech: I have one last question. Is there an alternative to this? Is there a better way of using and exploiting the existing assets of the railways to grow the business rather than just make it more efficient?

Chair: I am going to ask you for quick answers on that one.

Nigel Harris: No, because what the alliances do is to handle and mitigate the risks that are there as a result of a fragmented structure, as John so eloquently put it. You could end up ideally with the best of both worlds. This is really the last chance.

John Nelson: The answer is no. McNulty represents the best opportunity for two generations, in my opinion, to put the railway right.

Christian Wolmar: As I said, you need to invest in certain things to improve the railway. It should not be about cuts.

Chair: Thank you very much, gentlemen, for coming and answering our questions.

Examination of Witnesses

Witnesses: **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, gave evidence.

Q184 Chair: Good morning and welcome to the Transport Committee. Would you give us your name and the organisation you represent to help our records?

Tom Smith: I am Tom Smith, Chairman of ATOC—the Association of Train Operating Companies.

James Colman: My name is James Colman. I am one of the executive directors at Gatwick Airport. I am responsible for corporate affairs and sustainability.

Ian Yeowart: I am Ian Yeowart, the Managing Director of Alliance Rail Holdings, which is an open access aspirant.

Q185 Chair: Do you accept that UK rail is 30% less efficient than it could be and 40% less efficient than other European rail systems?

Tom Smith: I would agree with the panel that you have just heard in saying that the European comparisons are something of a smokescreen. It is very difficult to be sure of reliable data that gives a genuine like-for-like comparison. As to the 30% that relates to what the industry should cost, it is also very hard to say for sure that that figure is right. There were a lot of assumptions that went into Sir Roy McNulty's work. There were a lot of different consultancy studies done in quite short time order. While I am not going to say to you that there is not efficiency to be had in the industry—there certainly is—I wouldn't want to say that it is 30%. That does not seem to me to be a 100% reliable figure at all.

Q186 Chair: Do you have a figure you would like to suggest?

Tom Smith: The industry has set out in its initial plan that it can reduce annual costs by about £2.5 billion by 2019. That would represent more like 20%, which I think again was mentioned by your previous panel.

Q187 Chair: Mr Yeowart, do you have a view about efficiency?

Ian Yeowart: I would basically agree with Tom. A lot of the comparisons are not like-for-like comparisons. One of the concerns I personally have about the McNulty report is that there is a deal of input but no actual output. It seems to me to be quite a leap of faith to assume that the savings can be made with no detail and direction as to where they will come from.

James Colman: From Gatwick's perspective, I am here representing an airport. The Arup study we commissioned was not focused on the McNulty report. It looked at ways of using the Brighton to London route much more effectively, efficiently and smartly to try and increase the usage of both commuter and airline passengers along that line. Clearly there are things that can be done, not least around timetabling, to increase efficiencies.

Q188 Chair: You are looking in those directions for improved efficiencies.

James Colman: Yes.

Q189 Iain Stewart: Mr Smith, you have suggested as a way of having more efficiency in the railways giving train operating companies much more of a free hand in shaping timetables and service patterns. Looking at the West Coast franchise, you have suggested some concern that, although the DfT has said it wants to take a step back from specification, there is still going to be too much of that by requiring a certain number of station calls at each stop per week. Would you not agree, though, that on the West Coast Main Line and others like it there are different needs that need to be balanced out between, for example, the non-stop fast services from Manchester and Liverpool to Euston against intermediate stops on the line? If you gave complete free rein to the TOCs, someone is going to lose out and you need someone to police those competing needs.

Tom Smith: Yes, I would agree with that. I do not think I or anyone in our organisation has called for a complete free rein for TOCs. You are absolutely right that running an effective railway service is about getting the balance and the trade-offs right between various competing demands. The point that we and our members have been making consistently for a couple of years is that it is the operating community—the industry itself—that can best make and adjust that judgment over time as circumstances change, and not officials at the DfT prescribing, before a franchise even begins, a very precise and set timetable that is rigidly required year after year through to the end of the franchise, with the possibility for change very difficult and time-consuming to agree.

You refer to my call for a freer hand to be given to the TOCs. It is in that context. We are not arguing that there should not be some specification. There does need to be some specification, not least because of the reasons that you mention about balancing competing demands. The detail and the working system that operates and evolves should be left to the train operators.

Q190 Iain Stewart: I want to probe a little further on that. At what point should someone be able to step in? Say that whoever wins the West Coast franchise comes up with a wonderful service pattern from Manchester and Liverpool, and Louise, John and Graham are thrilled to bits, but I and my colleagues in Rugby, Coventry, Tamworth and wherever would say, "Hang on, this is not fair." Who—and at what point—should be able to step in and say, "No, think again"?
Tom Smith: That is not going to happen because there has been quite a high degree of prescription for this West Coast franchise.
Iain Stewart: I am just giving that as an example.
Tom Smith: But, in another example, at the moment with the way the industry is structured—and you have heard some interesting views on structure—that is clearly the role of the DfT, or, to be very precise, it is the role of the franchising authority. At the moment the franchising authority is embedded in the DfT; it has not always been. We would see no reason why that would not continue to be the right way to do it. That authority must have the ability to set out what it requires. It must have the ability to police it. Our point is that the balance has drifted too far towards every last detail being prescribed by that authority.

Q191 Iain Stewart: I want to pick up on some of the points made in the previous panel about the alliance between a TOC and Network Rail. We have the example of South West Trains, but that is in a single operator area. Do you think that model would work on other lines where you currently have different franchise operators on the same line, or would those need to be combined into one for that model to work?
Tom Smith: You are going to hear from witnesses who are very much involved with alliancing and who in some ways are better qualified than me to speak on that. The point about alliancing is finding better and more efficient ways to work together. A good starting point is where there is one dominant train operator whose operations fit neatly with one of Network Rail's devolved routes. That is the case in Wessex. There are other operators who use that railway and they have to be taken account of in the alliance's working and thinking. That principle can apply even where you have a route that has more of a mix of operators. The essence of alliancing is not to form a new entity that excludes other parties, but to find ways within the industry to work better together and in a more aligned way than has been the case under the very noticeable infrastructure-train operations split that was created at privatisation.

Q192 Paul Maynard: Mr Colman, could you explain a little bit about what your concerns are regarding Gatwick's rail links into London?
James Colman: The main concerns we have are trying to ensure that, as the franchise discussions continue, airline passengers are considered as well as commuter passengers. We have had a real concern over the last few years that the Gatwick Express service has declined. We have seen our rolling stock go back in age. We now use rolling stock that is 20 years old. We have seen the Gatwick Express extend down to Brighton, which means that if you get off a plane and then get on the Gatwick Express at 7 o'clock on a weekday, the Gatwick Express is full. It is a significant inconvenience to our customers and passengers. It is one of the things from our perspective, as probably the busiest train station connected to an airport, that the investment we are putting into customer service in our airport itself and what our airlines do is not reflected on the railways.
Our airlines say the rail link to the airport is one of the top three things. It is strategic and really important. It is one of the things they use as a decision-making tool as to why they choose Gatwick. So we have concern that the passengers are not being considered. We are concerned that there is not a lot of joined-up policy. We have lots of discussions in different forums about the importance of connecting an integrated rail policy and air policy, but we are concerned that that does not seem to be as integrated as it could or should be. There is a wider concern with our local stakeholders, especially our businesses, that we might lose competitive advantage for the south-east if the needs of both communities and airline passengers are not considered.

Q193 Paul Maynard: Given those concerns, why was your chief executive telling the press yesterday—and I quote from *The Times*—"We are blessed with excellent connections into London and to the rail network"? Was he spinning to the press or are you spinning to us today, because they cannot both be true from what I have just heard?
James Colman: We are blessed with good connections. It is 30 minutes into Victoria, 28 minutes into London Bridge and 35 minutes into City Thameslink.

Q194 Paul Maynard: If you can get a train.
James Colman: The challenge for us is that we have seen a degradation of that service, especially on the Victoria line. The carriages we have are 20 years old. We have invested a lot in the airport on facilities for PRM, which is passengers with restricted mobility. The carriages are up off the station. You cannot get wheelchairs through. They are not designed for air passengers. If you look at Heathrow and Stansted and the quality of the service and the carriages they have, it is significantly higher. We seem to be going backwards. From our perspective, we think there is a strategic need within the franchise agreement for some specification around supporting that very important connection between the airport and the city. There is not an inconsistency. We are blessed with what we have, but we want to see it improved because we feel it is going backwards.

Q195 Paul Maynard: I will take your word for it. I want to turn to you, Mr Smith. We heard from Mr Harris, citing Justine Greening, that, as the industry steps up, the Government will step back. Is that not a bit of a chicken-and-egg situation? How have you seen the Government step back so far and how do you think your section of the industry has stepped up? Who needs to step first for this to occur?

Tom Smith: The Government need to have some confidence in the industry in order to step back, but that confidence must be generated by their belief in the industry's ability rather than hard and tangible evidence. If they wait for the hard and tangible evidence, we will get the chicken-and-egg situation that you describe. The reason the Government need to step back is because, as I think you heard very fully from the previous panel, there is too much Government involvement in day-to-day issues of running the railway. There are extensive decisions and programmes run to buy rolling stock. There is very close involvement with a number of projects that arguably can and should be left to Network Rail. In my part of the industry there are highly prescriptive and demanding franchise agreements that themselves contribute to the costs and inefficiency that we see in the industry today.

The Government need to step back from all those sorts of details and believe that the industry has the maturity, ability and desire to step up and provide leadership and solutions within a framework that is strategically set by the Government. We are not arguing for the Government to be uninvolved. The point was made very clearly, and I agree with it, that the railway is subsidised. It has a financial stake in it. The state needs a presence in decision making about the railways.

Q196 Paul Maynard: Have you seen any evidence of the Government stepping back in the West Coast Main Line franchising process? Has that lived up to the pre-election rhetoric of franchise reform or not?

Tom Smith: No, definitely not, but, in fairness to the Government, they did say very clearly to us, "Do not judge reform of franchising by the West Coast. It is a stepping stone—a staging post—because it is the first one we have had to do since assuming power."

Q197 Chair: What are you saying about the West Coast franchise? Is it very similar?

Tom Smith: Yes. If you read the invitation to tender—I have probably read too many of those in my life for sanity—it is very similar to the ones that were let under the previous Administration. In some respects it is even a step back. The Government are requiring even higher levels of capital at risk in the form of subordinated debt, equity bonds and parent company guarantees, which obviously can be procured and put in place, but that kind of capital requirement has a cost. Ironically in that respect, they are driving the cost of franchising up in the West Coast case.

Q198 Chair: Mr Colman, when you were replying to Mr Maynard's questions about Gatwick and access to rail, you said there was not proper integration between rail and air services—rail and aviation. Why do you think that is? Is it to do with the way the franchises are put together? Who is responsible and how can we put it right?

James Colman: From our experience over the last couple of years we have been trying to have conversations with, for example, DfT aviation and DfT rail, and in recent months we have managed to bring them both together in a much more strategic way. You have the National Infrastructure Plan, the Command Paper and the South East Airports Taskforce all talking about rail and air and the importance of why they need to be connected and integrated. The first challenge we have found is that it is a case of putting these bits of paper together and making sure, both at ministerial and official level, that it is cross-fertilising so you are getting that integrated view.

Down into the franchises our discussions with the train operators are fruitful in one way, in that we are having very good sessions with them talking about the needs of the airport. There have been some suggestions. The Arup Study, which I think Members have copies of, talks about some of the innovations we can do to use the rail network more efficiently between Brighton and London. They have come back to us and said that, because there is not the specification around the airport or within it, they are worried they are going to be judged purely on value and not necessarily on quality. Whilst they recognise that where you have an airport joining a rail network there is a significant premium associated with those customers and they can charge a significant margin, the challenge is how they can do both of these things and deliver for one set of customers at the airport, which they know they can pay a premium on or passengers are willing to pay a premium on, as well as serving the general commuter population. Without the level of specification, they feel that they are caught between a rock and a hard place.

The challenge is joining the dots at a senior level and making sure that that percolates down through to the actual franchise agreement itself. We are seeing it on the officials bit more and more. That is credit to the DfT. On the franchise side, if the train operators are willing to talk, and to talk about how we can change from the 4–4-2 carriages, which are recognised as poor, to a different sort of world vision for Gatwick, that is where my concerns come from.

Q199 Chair: Is it the DfT or the rail companies? Where do the problem and the solution lie?

James Colman: Our view is that it is what the specifications and the undertakings are within the franchise agreement itself in terms of where that is set within DfT. We are having good conversations with the train operators. The challenge they have is that they feel they are going to be judged purely on the value and price and not necessarily on the quality side of things. They are encouraging us to see how those sorts of things can be put into it.

Q200 Chair: Are you talking about the new Thameslink service as well?

James Colman: Both, yes.

26 June 2012 Tom Smith, James Colman and Ian Yeowart

Tom Smith: I would like to comment on what Mr Colman has said. I think you are referring to talking to prospective bidders for the new franchise.
James Colman: Yes.
Tom Smith: The concern that they are expressing to you about being judged purely on price rather than quality goes right to the heart of one of the reforms that we have urged the DfT to take, which is to evaluate bids on a more equal basis between the quality and robustness of plans and the wider impact on them in terms of passenger benefits and the premium price that they are willing to pay under the bid. At the moment the DfT's competition is run very much on the basis of highest bid wins. As we have seen, that does not always lead to the best outcome.
I would make one more point about this. It sounds as though, unfortunately, Mr Colman has given up talking to the current operator under the existing franchise. If he has, the reason might be that they have been told—

Q201 Chair: He is shaking his head. Have you given up, Mr Colman?
James Colman: No; we are always in active consultation with our rail operator.
Tom Smith: I am sure it is reciprocal. The existing franchise tells Southern exactly what they must do, and their ability to change it is heavily circumscribed by the terms of that franchise. Had that franchise been let on the more hands-off basis that I was describing earlier, allowing greater freedom to the operator, I would suggest that BAA—sorry, I do beg your pardon—Gatwick Airport and its owners would have been able to make considerable progress already under the existing franchise. It is a good example of overprescription harming passengers and third party interests as well.
Ian Yeowart: There are a couple of issues that have come up from questions. Clearly Gatwick requires some commercial competition. In the same way that Heathrow has an excellent service, Gatwick requires an excellent service. After all this time there is clearly an opportunity here, I would have thought, for the Government not to be involved in the Gatwick Express and for Gatwick to step out of that and decide to run the service commercially at its own risk.
In relation to whether or not the Government step back when the industry steps in, I would say unfortunately the evidence would be exactly the opposite. Two years ago our company sought to run direct services to Blackpool. As a result of that, the Government via the DfT submitted an application of their own on behalf of the incoming franchise to run services to Blackpool. All those applications were rejected at that particular time, but when the West Coast ITT comes out within a few months Blackpool doesn't even appear now in the West Coast ITT. There is no strategic thinking within the DfT but it is very reactive. Whenever an open access operator appears on the network, the DfT appears quite comfortable to allow the operator to try and compete with that new operator, but it is very reluctant for the franchises, as Mr Smith has said, to use their own commercial abilities to be able to develop their own network.
York is another example. York now has a higher service than Leeds, for example, because Grand Central operates open access services to York. The work that was done by the ORR indicated that Blackpool services would be best served for the country as a whole if they were operated by an open access operator.

Q202 Paul Maynard: You mentioned Blackpool, so I thought I would clearly leap in.
Ian Yeowart: I saw your eyes light up.
Paul Maynard: What is your view on the DfT's argument that open access cannot go ahead if the consequences for it are what is called abstractive—that is because I get on at Blackpool and I don't get the train from Preston on Virgin, Virgin lose out? What is your view on that argument against open access?
Ian Yeowart: It is an argument that they use every time, but open access has been about since just before 2000. Hull Trains was the first operator on the network. Grand Central arrived in 2007. You are right that the argument has always been used. The outgoing regulator at the time, Tom Winsor, put together a series of very difficult tests for a new entrant to access the market, which included passing what was called a "not primarily abstractive" test. Therefore, are the benefits as a whole outweighed by the revenue that will be abstracted from the incumbent operator?
There are very few open access operators on the network because of that test. It is a very complex test. Indeed, the beauty of open access is that they take that commercial risk. Wrexham and Shropshire took that commercial risk, but was unfortunate in not being able to continue because it was prevented from calling at certain stations.
In relation to the argument, if that was true, then when East Coast was relinquished by GNER in 2008 or whenever it was, and NatEx stepped in to take on the franchise, you would have expected them to offer a lower premium because Grand Central had now arrived on the network. But indeed they offered a higher premium than was offered by GNER. The only example that you have in practice has shown the exact opposite to what the DfT will say. I would say that, after all these years, for them still to be unable to produce one piece of firm evidence to support that argument is quite damning.

Q203 Julian Sturdy: Following on from that, the Government are saying that they do not want to increase open access competition. They have come out and said that. Ultimately, obviously, you feel that is a mistake.
Ian Yeowart: They have always said that. To be honest, it does not matter what colour the Government is, that has always been the stance. The DfT, I am afraid, sets itself up now as the BRB. If it is going to be the BRB, we should have the BRB. As we have seen in some actual instances, the DfT does not always correctly specify the network.
In relation to Grand Central, Sunderland, the east coast and certain parts of west Yorkshire are some of the poorest performing economic areas in the country. They have been greatly improved by the arrival of

direct services to London. Whether we like it or not, the country is very London-centric. HS2 wants to come out of London; it does not want to go between Leeds and Edinburgh.

For most towns and cities that are not linked to the network—and it partly comes back to Gatwick—they have good access to the network, but not necessarily a very good service. Halifax, for example, has cited the case that, had Grand Central not provided direct services to Halifax, RBS may well have closed its entire operation at Halifax, with the loss of thousands of jobs. It is a case of whether or not you want a very contracted and commercial railway that is specified by Government, or whether you want some competition on the real commercial part of the railway. Where there has been competition, it has shown that the increase in passenger revenue is significantly greater than in comparable markets where there is no competition. Coming to London from York, where there is competition, if you want to arrive in London at around the same time from Leeds, you will pay more where there is no competition, even though it is on the same route.

Q204 Julian Sturdy: The other argument is that open access impacts on the franchise. Do you think that is a fair argument, or again is that a bit of a misnomer?

Ian Yeowart: No, because that is assuming that the franchise operators themselves can't live in the real world and they very much do live in the real world. Each franchise operator, where it has open access competition, tries to prevent it in the first place, as I suppose anybody would, but, when it arrives, it steps up to the plate and competes. You only have to look at the East Coast now and the number of services from York, for example, which are far greater than the number of services before Grand Central appeared. That market is growing faster than most of the other markets on the East Coast Main Line because of competition. It is vital. Everything we do in this country is driven by competition. You sit in a competition every five years, you know what you have to do to win that competition. You step up to the plate. If there is no competition—and this is one of the arguments that you have in relation to the costs of the industry—it is very difficult to drive out costs.

Q205 Chair: Mr Smith, do you agree with that?

Tom Smith: Among our membership we have both many franchised operators, but also some open access operators, so the companies I represent have a foot in both camps. With their open access hats on, they would very much agree with what Mr Yeowart is saying. With their franchised hats on, they would not say, "No open access; it's not fair; we don't want it." That is a Government judgment, as I think we have heard—or along those lines. What they would say is, "When we bid for a franchise, we need to have the clearest understanding that it is reasonable to give about the potential for open access operators to come on to this bit of the franchised network and we will make a commercial judgment about how that might impact our costs and revenues, reflect that in our bid, and then we will live with it. If there is competition, we will respond to it." As has been said, that has happened and it has been to the overall benefit of towns and cities in Britain and railway economics.

Q206 Chair: Do they think they have been given adequate information?

Tom Smith: There have been instances in the past where, no, they feel it has been problematic. We would now look to the DfT, and to the extent that there is a role for the ORR to be as clear as possible about the prospects for open access operations.

Q207 Iain Stewart: I have one supplementary question on open access. We had a discussion with the previous panel about the different types of railways. There was the main trunk and then the branches. Beeching cutting off the branches was designed to make the whole more efficient. There is a counter argument that you can strengthen the railway as a whole by linking up branches that have not traditionally been served by the intercity network. Mr Yeowart, what other routes around the country are potentially able to be linked to the national intercity network by open access operators?

Ian Yeowart: I am happy to tell you the ones that we have in the public domain at the moment but perhaps not those we are currently working on.

Q208 Iain Stewart: What scale is there?

Ian Yeowart: In relation to where Mr Smith is coming from, we fully agree that there should be some clarity for the franchise operator. Indeed, Alliance's applications just recently were made at the time the regulator suggested in order to give clarity for the West Coast Main Line. The DfT in effect, by causing all the confusion during the first year with what you can only call a spurious bid for Blackpool, has delayed the entire process. The West Coast bidders now don't know whether or not Alliance will be successful with its very large application to operate on the network.

Currently we are looking at providing services from West Yorkshire into Lancashire and then on down to London; from Bradford through places like Rochdale and Manchester Victoria and from Huddersfield, which is probably the largest town certainly in England without a direct service; coming out of Leeds and providing a little bit of competition down the west coast. It will be linking up places like Leeds and Milton Keynes but will also be providing additional capacity on the west coast.

One other thing that open access has been very good at is forcing Network Rail to identify capacity. This is where competition comes back into it. Clearly if you are the main operator on a route, and this is a concern I have about alliances—no pun intended of course—it is not in your interest to have additional capacity identified on that route if it is liable to open it up to competition. The routes that we are looking at are in effect to link up places that are poorly performing economically but with direct links both into the capital and somewhere else big on the route. That is how the process works. The Cumbrian coast is without doubt the worst performing economic area in Britain, or certainly in England, and we want to provide direct services up there. But it cannot support it purely from direct services to places like Workington, Whitehaven and Maryport. Tied in with that are direct services to Blackpool.

The beauty from an open access point of view is that we don't mind competition when it comes because we think we can deal with the competition. To be fair to the franchises, once it's happened, they think they can deal with the competition because they are mature people working in an industry that is now a mature industry. It is a long time since railways were privatised and it needs a time of settling down.

Q209 Mr Leech: Mr Colman, have you made any assessment of what a 30% cut in costs to the railway would have on passengers going to Gatwick airport?

James Colman: We have not done that level of analysis in terms of what the implications would be for us, because we are hoping that that will not happen. We know with the Thameslink route that we will see a significant increase in usage and the number of trains going into London. We are not so much worried about the number of trains going into London from Gatwick. We are more worried about the quality of the service going in. It is things around the fact that the Gatwick Express arrives at Gatwick full, which is a bit of a problem for passengers. What we have been trying to do with the potential bidders, for example, is trying to work out and discuss smart ways of finding solutions—whether, for example, when the Gatwick Express leaves Brighton and arrives at Gatwick, at the station there are already five carriages that are dedicated for passengers and it joins together and then continues into London. So you are serving both the commuters coming from Brighton as well as passengers.

Our focus is more about finding solutions than looking too much at particular scenarios at that sort of level. It is one of the top three reasons why some airlines do choose an airport and particularly Gatwick. We have been attracting significant Asian airlines into the UK at Gatwick as well as increasing the number of short-haul European flights. We expect to grow another 11 million passengers at Gatwick over the next 10 years. We already put nearly 13 million passengers through that train station today, so the focus for us is more about quality and ensuring we preserve the service.

Q210 Mr Leech: But is the uncertainty having any impact on your ability to attract new customers? I know you have had new customers and new airlines. Is any uncertainty over rail links impacting your ability to grow?

James Colman: Not at the moment. It is something that airlines raise as a concern. That is partly because if you go into Gatwick station at the moment, or have been going into Gatwick station itself, it is a poor relation to the airport. I am trying to be polite, but it looks awful in comparison. When passengers go on holiday or on a business trip, when they leave their house to when they get back to their house is their journey—it's their holiday. The concern from our airlines and from the airport is that the weak link is increasingly becoming the station and the Gatwick Express service. The franchise and the discussions now going forward give us a once in a lifetime opportunity really to turn that around and for us to be at least be as good as Stansted and Heathrow. If you compare us to other international airports around the world, we have some way to go to get back up there. You currently don't even get simple things like free wi-fi. It is not yet impacting. The airlines are hoping the sorts of discussions we are having today will have an impact, but it is something that they are monitoring closely.

Q211 Mr Leech: My final question is to Mr Smith. It is the same question I asked our previous panel: are savings of 30% deliverable by 2018–19?

Tom Smith: We have set out a plan as an industry that gives 20% savings by that time in our initial industry plan. It acknowledges that there may be more that could be achieved if the benefits from reform come through quickly and deliver as intended. As far as the part that needs to be delivered by the train operating companies, that 20% is contingent on meaningful reform of franchises to enable a more efficient business model for TOCs that are franchised.

Q212 Mr Leech: Can it be done without impacting the service to the customer?

Tom Smith: Yes, I think so.

Chair: Thank you very much for coming and answering our questions.

Examination of Witnesses

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

Q213 Chair: Good morning, gentlemen, and welcome to the Transport Committee. Could you give your name and organisation please for our records?
Paul Plummer: My name is Paul Plummer. I am Group Strategy Director at Network Rail.
Peter Anderson: My name is Peter Anderson. I am the Managing Director of Balfour Beatty's rail business in the UK.
Tim Shoveller: I am Tim Shoveller. I am the Managing Director of the Network Rail/South West Trains alliance.

Q214 Chair: We have heard a great deal about the potential of alliances to produce efficiencies and solve all rail's financial problems. Could you tell us how that could work and how it could deliver savings without cutting services and without being to the detriment of passengers?
Paul Plummer: We have heard a lot about the structure of the industry and I see alliancing as fundamentally about making that structure work effectively. It is about getting the best of both worlds, having much more mature relationships between the parties and aligning the interests of those parties. It is leading to very tangible initiatives rather than fluffy working together in a nice cosy way. It is now starting to show real momentum in changing the behaviours on the ground between Network Rail and train operators.
There are some really important principles in making it work—managing tensions between localism versus the network; between the multiple operators versus a closer alignment with them; and between the long term versus the short term. We are designing our approach to alliancing to try to reconcile those and, fundamentally, to get the best of both worlds, as I say.

Q215 Chair: Mr Plummer, could you tell us if it is factually correct, as has been said to us before today, that Network Rail has 150 staff dedicated to attributing delay costs and compensation?
Paul Plummer: I don't know the precise number, but a substantial number is working in that area. As Mr Harris said, the purpose is to get management information that you need to understand performance. That is the critical thing.

Q216 Chair: Is it likely to be 150?
Paul Plummer: It is of that order. In the context of alliancing, one of the things we are doing with the performance incentive regime is prompting conversations at a local level between Network Rail and the route about whether we can do some of that more effectively so that we remove some of that cost without losing the management information.

Q217 Chair: How is alliancing going to work? Mr Anderson, I know you have sent us some written evidence about this. Could you tell us more?
Peter Anderson: Yes. I come at this as an infrastructure construction provider. Balfour Beatty has a number of alliances. In fact, we have done an internal review of more than 45 alliances that Balfour Beatty across its group has been engaged in. They range from alliances with National Grid to provide power transmission services, with gas networks and with organisations such as the Post Office to provide infrastructure service and facilities management support. What we find from the alliances that we have been involved in is a real drive for cost efficiency and a real engagement of teams for mutually the best benefit outturn for the project, aligned objectives, no man marking and best man for the job. These are all phrases that come out of our alliancing experience. I am delighted to see that from our perspective, in Balfour Beatty Rail, we are starting to engage with Network Rail in alliances for construction projects.
I can cite the South East Spur as an example of an alliance, where we are absolutely aligned in one organisation office to deliver the outturn of the project. There have been a number of changes associated with that particular scheme. It interfaces with Crossrail. The team have worked jointly to design and develop the scheme and progressively assure the costing model, and we are moving forward with that alliance towards construction delivery. From our perspective, we absolutely applaud the benefits of entering into an alliance because we have seen experience of that across our group.

Q218 Chair: Mr Shoveller, what can you tell us? How can it work and how can all stakeholders feel that they are being treated fairly?
Tim Shoveller: There are a couple of questions there. First of all, how can it work? It is working. The alliance has been formed for eight weeks. The word "alliance" is used very frequently and it has been used much today. In terms of what we have created with Network Rail, it almost does not do justice to what we have done. We have created one organisation where we have 6,000 people delivering a railway service and everything that comes with that—both the track and the train. We have overview of all of that. We are providing services to half a million passengers a day and our customers, who are the freight operators and some of the other passenger operators who operate trains over the tracks for which I am responsible. It is actually happening and that is fantastic. It is absolutely the game-changing thing that we needed to do within industry.
What is it about? Of course it is about working together. It would be easy to say that this is common sense. The railway is an incredibly complex organisation and yet we have been labouring under a structure that has achieved notable success. We have been labouring under a structure for a long time where people have been too focused on only and purely their own interests because that was the way the system was organised.

What we have now with the alliance is an opportunity for organisations to work commercially and sensibly together for the best effect for those organisations and ultimately for the passengers we deliver services for. It is a very different approach from what we have seen for 15 or 16 years now.

Q219 Chair: What kinds of processes are built into this to make sure that the passengers do benefit and that this is not something of help to the industry and not looking at the passenger interests?

Tim Shoveller: I would start from the pretext that if it is good for the industry it is good for the passengers. The 6,000 people who work as part of our organisation get up in the morning, or very often in the middle of the night, and come to work to do a job. They do that job to run the trains and the railway safely. Everything that we do is geared towards doing that better. That is why we exist. We don't differentiate between what we are doing for our own organisational self-satisfaction and what we do for the customer. We live to provide a safe, reliable train service and we do that as best as we can.

If we can provide that through having fewer disputes, by having people lined up, by people working together and through joint objectives, it must, without a shadow of a doubt, result in a better service for the passenger.

Q220 Mr Leech: The unions say that alliances would increase fragmentation, transaction costs and inefficiency, and reduce economies of scale. Why are they wrong?

Tim Shoveller: The reason for doing the alliance is because, rather than guessing or taking a view on something, we are going to do it and we are doing it. In time we will demonstrate one way or another that either this works and we can save money and be more efficient with new services, or this model does not achieve that. I am not going to judge why others may have taken a view; I am going to deliver it.

Paul Plummer: I will add to that. Of course we do need to drive efficiencies. That is not affected by alliancing or anything. The industry needs to drive improvements in efficiency and value for money. That is the reality of the situation we are in. I do not think alliancing changes that. It is one of the ways in which we think we can achieve it.

In terms of fragmentation, we certainly see devolution within Network Rail to the routes and alliancing as fundamentally inseparable. One is an enabler for the other. That is not about fragmentation. What we are passionate about, as well as pushing accountability locally and creating partnerships with customers locally, is maintaining the focus on the network. That is absolutely critical in terms of getting the maximum network benefits for passengers.

It is critical in the context of multiple operators, even where it is relatively straightforward. Wessex has one main operator, and, even there, there are other operators on other bits of the railway. It is much more intense. Likewise, in terms of long-term stewardship of the network, we want devolution and alliancing to create challenge and pressure to identify opportunities to improve efficiency, but not at the expense of simply cutting costs now and having the problem later. We do not want to recreate those problems of the past. That is why I keep saying it is about the best of both worlds and getting that balance right.

Peter Anderson: If I could add to that, it is also about flexibility. When partners come together in an alliance, they bring together the resources of their respective organisations for the mutual benefit of the alliance. That necessarily means that their resources have to be more flexible. They have to meet the demands of the overall alliance. This is not siloed delivery models; this is an alliance response. The organisations' own resources have to be more flexible. For us, that means we have to tackle the terms and conditions of our work force. We have to make our work force more flexible in terms of the rostering hours that we can use them for. That involves engaging with the unions. Yes, job cuts are an inevitability of that as mechanisation and flexibility of the work force increases. That is an inevitable benefit of alliancing.

Tim Shoveller: We have to make sure that through hearts and minds we deliver a railway service. I do not see people that work for the alliance as the enemy. This is not somehow a problem. Our people are our greatest asset. I know that is an overused phrase but it is absolutely true. Throughout my railway career I have focused very much on the technical gadgetry of trains and gadget details but, fundamentally, as a railway we perform well if our people work well. If our people work well together, and are motivated, enthused and have good leadership, we can deliver a good railway. If our people are frightened and scared for their jobs, or if they think the change is negative, then we will not deliver a good railway. Uncertainty, of course, is an issue for people. It is absolutely essential as we move into this period of change that we put a lot of effort into providing that guidance, support and explanation for all our people so that they can be confident in what they are doing. What we do not want to have is people being distracted from their core task of maintaining the railway, driving the train or looking after the customer. We do not want to have those people distracted from that task because they are worrying about what might or might not happen in five or six months. This is a period for mature debate.

Q221 Mr Leech: I was talking to somebody at the weekend who works for Network Rail. He gave me an example of an overnight work project that needed to be done. Either five or six different organisations were managing a project that ended up with two members of staff carrying out the work overnight. Will those additional levels of management be thrown away with alliances, or will it be necessary to change attitudes within the industry to make sure that the alliances just carry on with the same managerial merry-go-round without achieving any efficiency?

Paul Plummer: A lot of it is about attitudes. Without a detailed example, it is difficult to comment, but there will be reasons as to why that has happened. Some of those reasons are often about the different parties involved not being properly aligned. In that context, it may be around our contractors, suppliers, Network Rail and the train operators. Are we putting in processes that are not necessary because we have not had a sufficient understanding of each other's problems? Do we have sufficient openness to say right at the beginning, "What are we trying to achieve? What is the best way of achieving that in partnership with Network Rail and operators and then with its suppliers?" That is a lot of what alliancing is about.

There are lots of examples similar to the one you have described. You can have greater transparency between Network Rail and an operator about where value lies for an operator in running additional services at the weekend, for example, and where cost lies in terms of Network Rail keeping the railway open very late at night. That simple transparency, without any extra money flows, is identifying mutual benefit, which is doing the sort of thing that you are describing. It is not going to wipe it out overnight.

Q222 Mr Leech: As a follow-on question from that, are alliances absolutely necessary to do this, or could it be done with just a different attitude from all the different players in the rail industry? What value do alliances add into the system that makes it easier to deliver?

Paul Plummer: Alliancing is a very broad term. At one end of the spectrum we have the arrangement that Tim has, which is a very deep alliance. I will come to that at the end of this narrative, if I may. At the other end there is the simple, "Let's talk; let's understand each other better and get a mutual understanding of the opportunity. I can help you and you can help me." That is happening more now as a result of this dialogue being created. Going on from that, we have said that we want to give some support, some process and some tools to people to help them when they identify a particular opportunity to follow that through, declare it as a project, work on it together and share the gains from it. We have referred to it as a framework agreement for alliancing that builds on that.

Beyond that again, you might have much bigger projects. If you think about some of the refranchising coming up, there are major programmes of enhancement. How do we get the conversations together between Network Rail, its suppliers and customers about the opportunity there and sharing the benefit of that, which ultimately then flows to the taxpayers and so on?

At the other end of the spectrum, as I stated, there is the very deep alliance, which is what most people talk about. You could not do that in many places. Instead of having lots of specific deals where you say, "I can help you, you can help me and we will share the benefits," you say, "Let's have an overarching deal that says that we agree our baselines, and if we beat our baseline we share it, and if we beat your baseline we share it." That then changes the dynamics in an even more fundamental way. I stress that you can only do that extreme where you have a very close alignment between Network Rail's route team and the train operators. In other places you need to do something a bit different.

Q223 Paul Maynard: We heard earlier from Christian Wolmar about the importance of investing to save, if you like, or to meet the McNulty challenge. I am a regular customer of South West Trains on the Kingston Loop every day. I have not noticed any improvements yet, but you are only eight weeks in, so I will give you time. None the less, I pass through Clapham Junction. It is the busiest train station in Britain, so we are told by the big sign at the end of the platform, yet it has one of the weakest retail offers of any large train station in the UK and certainly across the developed world. Is not the danger of alliances that you will be focusing on the engineering and the railway side, and not on the idea of driving revenue up and expanding employment opportunities, for example? There is a big fear on the part of the unions and the left that alliances are cloaked to sack loads of people, when surely an alliance is an opportunity to drive investment in these locations. Every single station on the Kingston Loop probably sees more footfall than a local town centre. What are you going to be doing to drive the potential that your stations represent and actually grow jobs?

Tim Shoveller: We are starting from a high base, it has to be said. Taking the railway generically, if you look at the railway retailing offer now compared with what it was 10 or 15 years ago, it has been transformed. There is a lot more that can be done. Clearly there are places—and Clapham is a great example—where a railway station is begging for redevelopment. Let us come back to Clapham specifically, because it is a really good example of an area where an alliance can have a big impact in helping to shape Government policy.

In terms of your comment about the eight weeks, we have 15 or 16 years of culture, regulation and expectation of our teams that we have to change. Our drivers and signallers who interface with each other on a daily basis have been working in a certain way for 15 or 16 years, and that clearly is going to take some years to change, I expect. Passengers will not notice tomorrow that things have suddenly got better. The most important thing we can do by working together is improve performance. You will notice that a lot of the platforms for those services are growing every day. As you go into Waterloo, you will notice that a lot of them have been transformed from eight-car to 10-car. Over the next two years, many of the services that use that route will be extended to provide more capacity. That is being done by working together. It is more than just Network Rail staff and South West Trains. The Department for Transport is involved. Alstom is involved through working on the trains. There is a whole number of organisations working together to deliver better capacity.

Finally, in terms of Clapham Junction itself, it never ceases to amaze me that it is not dissimilar today from when I joined the railway over 20 years ago. The big issues at Clapham Junction that cause problems for passengers are about the capacity of the station and the way the railway lines approach the station. There is the fact we cannot stop the trains there that we would like to, and the fact that some of the gaps between the platforms and the tracks are too wide. There is no doubt that Clapham Junction needs an incredible redevelopment scheme. The reason why it has not been done is because the complexity of doing it while keeping the railway open—as you say, it is one of the busiest in Europe—is just enormous, the costs would be great and there have been other calls on that demand. One of the things we are focusing on very much within the alliance is that we have a commercial director to focus on today and a business development director to focus on tomorrow by working with Paul's colleagues in planning in Network Rail and with the Department for Transport. We have been in to see them just last week to discuss how we can move forward plans to develop the capacity of the railway between Waterloo and Clapham Junction. To my mind, that is one of the single biggest challenges that we have.

Peter Anderson: From our perspective, we are starting to have approaches from train operating companies as they approach the rebid on their franchise. Increasingly, Balfour Beatty are being approached by train operators to understand what services we could offer in terms of enhancements to the infrastructure, the station infrastructure and facilities management. Station leaseholds and the operation of the stations are increasingly going to move towards the train operator. Looking at the project we are developing for the South East Spur at Abbey Wood station, we are remodelling it with Network Rail to provide the right level of footfall. How do we increase retail space? How do we move passengers through that station environment, because we have expertise in doing that across airports and stations globally? We are increasingly being brought into that debate to help improve both the infrastructure for the train operator and the station environment for the passengers.

Q224 Julian Sturdy: We have heard a lot of words about alliancing so far. We have heard that alliancing is a very broad term. We have heard about deep alliances. Ultimately, to me, it just seems like it is about working together, which is basic common sense and which I think was mentioned. The big impact really is what it is going to save us, and I still have not heard anything about that. You have obviously come into this. You will have done the cost analysis as businesses coming into this. You have to think it is beneficial to you as businesses. Ultimately, what is it going to save?

Paul Plummer: We certainly think it is beneficial to us, and then ultimately to taxpayers and users. I am not going to give you numbers and I will explain why. Some time ago we came very much to the view that we could not keep driving improvements through incrementally while working the way we were. We needed something to achieve a step change. That resulted in the devolved accountability to a local level and saying we wanted these sorts of alliances. We have a belief that that will identify things that we could not do without making those changes. Fully quantifying that is an issue because, almost, if you could quantify them, you would not need to go through all that process—you would just implement it.

Q225 Chair: But, Mr Plummer, you must have made some assessment.

Paul Plummer: The way we approached, for example, the alliance with South West Trains was to say very explicitly, "This is what we think we can achieve over the next few years without an alliance." Then we said, "If we can achieve more than that by working together, we share the gains." That is fundamentally the approach.

Q226 Chair: But you must have made some assessment of what you think you can achieve by having an alliance.

Paul Plummer: I don't think that over the next few years in the Wessex alliance we will be saving many tens of millions of pounds, but it will certainly deliver real benefits in that time. It is certainly already resulting in people working together in a different way to the benefit of users. It is certainly resulting in ideas that are going to result in further benefits in terms of our capex programme, which is not yet within the alliance programme. It is certainly resulting in lots of ideas that we are able to deploy elsewhere across the railway. Devolution and alliancing together is changing the way we work as the industry at a local level between Network Rail and operators. How you identify it and say, "This change is because of devolution," or, "This change is because of an alliance," is almost impossible.

Q227 Julian Sturdy: I am just interested to see what the other members of the panel have to say on that.

Peter Anderson: I want to come at it from a track renewals perspective. It is not called an alliance, but we are in a partnership arrangement with Network Rail to deliver track renewals. Balfour Beatty delivers track renewals across the south-east of the country. Out of our cost base, we have demonstrably taken 20% out over the last two or three years. We intend to target taking another 10% out of the remaining—

Q228 Julian Sturdy: But you have already done that before entering into these alliances. You have taken 20% to 30% out already, haven't you?

Peter Anderson: We have taken 20% out by working closely with Network Rail and by rationalising the work bank—the programme of work that we deliver—and normalising that, by introducing mechanisation, and by changing the process of delivery. We are working with train operating companies to negotiate better access so that we can do our work quicker, leaner and more efficiently. Most importantly for us, it gives access to the train operators, who can run a service on the Saturday.

For instance, when I started in the rail industry only six years ago, the majority of our weekend work was 54-hour weekend possessions. That is the whole of the network down for the weekend—Saturday and Sunday. I guess I could count on one hand the number of 54-hour possessions we now have across the south-east. What that means for Tim and his colleagues is that he can run a rail service on Saturday. I then take possession of the track from Network Rail at midnight on Saturday and hand it back on Monday morning. We have demonstrably shortened the time period that we take and have consequently reduced the cost.

Q229 Julian Sturdy: I do not think anyone is arguing that working together has to be the right way forward. It is the common-sense approach, and you have already demonstrated that you have been doing that over a number of years and it has been working, as you have just said, so you deliver more efficiency both for you as a company and also for the rail network as well. My question is: what do you feel you can get out of this alliance, as we term it, now going forward? Do you have any hard facts and figures that you can deliver? As companies, you must have come into it thinking, "This is a good idea and we can deliver efficiencies." You must have worked those out before going into it. Again, that is common sense.

Peter Anderson: Yes. Working in an alliance where we are jointly incentivised to reduce the cost absolutely has a benefit for organisations such as mine—there is no doubt about that. We enter into alliances where there is lots of uncertainty. That works for both sides. A project that is not absolutely defined in terms of scope and programme is an ideal candidate to enter into an alliance. There is uncertainty, but both sides of the alliance work together to resolve all of the issues jointly with the most efficient solution.

On occasion—repeatedly and increasingly—there are situations where you move beyond an alliance. We are seeing some of our National Grid frameworks moving beyond alliance, where there is a challenge thrown down by the customer to take another 10% out of the cost base. We are incentivised to do that so that we get in a huddle and work out with the client how to take 10% out. That is the challenge. When you have a mature alliance, you can address challenges such as that in a much more joined-up way and from the perspective of saying, "This is the challenge that the alliance faces, so how are we going to solve it?" You then work together to do that.

Q230 Julian Sturdy: I want to come back on a slightly different angle. You said you have had 20% efficiency delivered over the last four to five years by closer working together, which is brilliant. Could you put it in percentage terms of where you want to be and what you think this new alliance would deliver? Are we talking about another 10%?

Paul Plummer: Over the past two control periods, including this one, we have delivered savings of over 20% in each five-year period. In the next five-year period, in the initial plan that we have put forward within Network Rail, we said we thought we could achieve at least 16% further efficiencies on top of that 20%-plus in each five-year period. The work we are doing with train operators through the Rail Delivery Group and at the local level between the route and the train operators is to say, "In developing our strategic business plan how much further can we go?" We are at the stage where that plan is being developed. It is drawing in all the work on alliancing, whether it is a deep alliance or very much more specific stuff. It is drawing on the work that Peter referred to in terms of what we are doing with our suppliers. It is drawing on all those things to say, "How much funding do we need in the next price control period to deliver the outputs that the Government want?" We know that we have to achieve very substantial efficiencies from that. Some of it will be enabled by the alliance.

We can talk about lots of specific examples that will inform our judgment, but it is still very difficult to say that it is because of separating out what it is that is driving this. We know what it is that we need to do in most instances to drive efficiency. Alliancing is about lubricating that; it is about enabling it. It is about having a conversation so that we can help each other to make it much easier to implement the things that we all know need to happen.

Q231 Iain Stewart: I certainly agree that the alliance you have between South West Trains and Network Rail has very exciting potential. Where I am less clear is how this model can apply to other routes on the network where you have a much greater degree of competition between different TOCs and with freight, particularly on the West Coast line with Virgin, London Midland and the freight operators. I want to ask you all how you see this model in South West Trains applying on other routes like that.

Paul Plummer: Even in this case it is important to refer to a key principle underpinning the model. We are working much more collaboratively and closely together in the alliance but, even then, there are some decisions that ultimately have to be made by Network Rail, including in relation to other operators. That is fair enough in terms of a bit of railway because of the fact of the close alignment between the physical geography. There are relatively few places like that. One of them is Scotland and another would be the Essex Thameside franchise that is coming up. In that sort of place, you could imagine something very similar to that deep alliance. We are discussing with DfT and with Transport Scotland how you would embed that into the refranchising process.

Elsewhere it is very different, as you say. West Coast and East Coast are at the other extreme. You have many operators on the route. There are absolute premium services combined with commuter services and freight, and open access operators. At the end of the day, we have to balance those conflicting requirements. If we fail to do so, the regulator is there to make sure we are doing that properly, but we have to make those trade-offs. That doesn't mean to say that you can't do anything, but the nature of the alliance is going to be much more focused on specific areas, specific opportunities and making sure we do that in a very transparent way. It might be around the delivery of an enhancement project—that it delivers additional capacity that an operator pays for and how we incentivise ourselves around that. It might be how we work together on particular stations. It could be a whole range of things.

In the middle you have some other bits of railway. I am thinking particularly of Thameslink and Western, which are coming up for refranchising. The big opportunity there is how we get Network Rail and the operators working together on the delivery of a massive programme of investment. In one case there is a very large project in one place; in another place there is an integrated programme in relation to power supply and a whole load of other blockages on the network that have to be delivered in a very integrated way, bringing in new rolling stock. The integration of that programme on the infrastructure side with the trains is a different sort of conversation.

The point of alliancing is not to say, "Here is a universal solution; go and apply it." It is to say, "Make sure you have the right people in the room talking about what the problem is at the beginning," and coming up with a mutual solution to that. We need a lot from the regulator and the Government in terms of framework, but at the end of the day it is far more down to Network Rail and the operators working together openly to solve those mutual problems while respecting the network issues, the long-term sustainable stewardship of the network issues and the other operators to get that balance right.

Tim Shoveller: I would absolutely agree with Paul's comments. Within the alliance we have to demonstrate that we can provide access, services and a good-quality railway for the freight companies and passenger train operating companies that use the network. We are putting a lot of effort into doing just that. Time will tell. We have our first stakeholder board next week and they are going to give me feedback on how we have done in the first eight weeks. We will learn and adapt. Right from the beginning I have set out to make sure that this is an inclusive alliance and that the other train operators feel as though they are very welcome on Wessex. Indeed, they pay an income to my organisation—my business—for using those tracks. I want to encourage them to use more. I can grow my top line by adding more track miles from other train companies on Wessex, the same as I can if more SWT services run. That can only be a good thing in terms of growing my top line.

Let's see what happens over the years, but I would like to get to the point where we can demonstrate that by having a joint profit and loss account through the alliance, as we have in effect, then if we organise our railways in a slightly different way, we can create efficiency through organisation. McNulty and many others have commented on the fact that some of the inefficiencies are as a result of the organisational structure that we have and the misaligned incentives and objectives. What we are trying to do in the alliance organisation and pull-together is to bring together the objectives and responsibilities that Network Rail has and those of SWT.

Q232 Chair: But, if you are left to your own devices to do it, I do not think that it logically follows that the passenger benefits from all that. For example, how are we to make sure that you don't cut corners on safety?

Tim Shoveller: Our first objective is safety.

Q233 Chair: You might say it is an objective, but how can the public be assured that the alliance, which sounds a very good idea, is not just a cosy arrangement, whereby the businesses involved are very happy but passenger needs are not necessarily at the centre of it? Mr Plummer made reference to the Rail Regulator when he was talking about freight. There is going to need to be regulation there to watch what you are actually doing. How are we going to be assured that it is not just going to be a cosy inward-looking arrangement but is going to benefit the passenger?

Tim Shoveller: Clearly the law would not allow us to do that.

Q234 Chair: Mr Shoveller, I am looking for answers here as to how it is actually going to be done. It is no good just saying, "This is all going to be great. We are all going to work together and automatically everybody is going to benefit." Life just isn't like that. Organisations and businesses have their own interests. Unless there is somebody watching that and looking at the public interest, that does not automatically follow. I am asking you how that is actually going to happen.

Tim Shoveller: Let me explain what we have done in putting the alliance together then. As I was starting to say, the law sets out through the ROGS—the railway operation legislation specific to railways—as to how we operate our businesses. We have developed something called the principle of ultimate accountability. Within the alliance organisation all of the things that are the responsibility of Network Rail—the regulatory and legal responsibilities relating to the employment of those staff—remain the responsibility of Network Rail. All of the things that previously were the responsibility of South West Trains remain the responsibility of South West Trains. I and my team of executives have the responsibility through our governance board to Network Rail and to South West Trains for all of the things that we previously had responsibility for. So there is no doubt—no dubiety.

To demonstrate that process, we ran a very comprehensive series of workshops, including trade union representatives, facilitated by the rail industry safety body, RSSB, at which the ORR were present and we had an independent observer to validate all the work we were doing. That very substantial process over three or four months led to the development of a safety certificate—a detailed document describing exactly how safety is administered and where the responsibilities lay within the alliance organisation. I suspect there is greater clarity now because, for the first time, we have Network Rail's responsibilities and South West Trains' responsibilities for safety in one place. By creating the alliance, we have been able to look at safety objectives and take a better view of it overall.

For the avoidance of doubt, I am a duty holder for delivering railway services, as is Network Rail. We clearly would not take risks with our own liberty, with our staff or our passengers. We have been at pains to demonstrate throughout the process that the validation of the changed process we have followed has been done with great diligence, as all of our staff and customers would expect. The great news is that we have involved many of our staff in that process so that they can have the confidence that we were understanding the issues and looking for risks that perhaps we had not seen. When we were thinking about setting up the alliance, because this had never been done before, we said to our employees and other train operating companies, "What might we have missed? Perhaps there are some concerns you have about how we will manage safety in this alliance that we might not have recognised." We gave them that opportunity for input, and through those workshops and the validation process that we used we were able to satisfactorily answer all of those questions. We would not have gone live with the alliance had we not been able to do so.

Chair: Thank you very much for coming and answering our questions.

Tuesday 10 July 2012

Members present:

Mrs Louise Ellman (Chair)

Steve Baker
Jim Dobbin
Julie Hilling
Kwasi Kwarteng
Mr John Leech
Paul Maynard
Iain Stewart
Graham Stringer

Examination of Witnesses

Witnesses: **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, gave evidence.

Q235 Chair: Good morning, gentlemen, and welcome to the Transport Select Committee. Could you give your name and organisation to help with our records?
Stephen Joseph: I am Stephen Joseph. I am the Chief Executive of the Campaign for Better Transport.
Mike Hewitson: I am Mike Hewitson, Head of Passenger Issues at Passenger Focus.
David Mapp: I am David Mapp, the Commercial Director at ATOC.
David Watkin: I am David Watkin, Commercial Director of CrossCountry Trains.

Q236 Chair: Thank you very much. Would you say that the current fares structure is fit for purpose?
David Mapp: We would agree that there are certainly aspects of the fares structure that could be improved, but we don't think the system is fundamentally broken by any means. Perhaps a compelling piece of evidence in that context is the fact that, over the last 15 years, we have seen roughly an 85% increase in the number of people that use the rail network. That growth is continuing into this year. It does suggest that we have a fares system that allows people, in increasing numbers, to find a good-value fare for their rail journey. We would certainly agree that there are aspects that could be improved. Indeed, we have a programme of initiatives to make improvements, particularly with regard to making sure that people are provided with simple and clear information about the choice of fares open to them. We would not regard the system as being fundamentally broken.

Q237 Chair: Are there any other views? Does anyone think that the system is fundamentally broken or a little bit broken?
Stephen Joseph: We think that the current fares system and the way fares are regulated needs fundamental reform. The way in which fares have been built up has added incentives, with privatisation for individual train operators, on to an existing structure set by British Rail without any fundamental reform. In particular, there are groups of people who are not well served by the current system, such as part-time workers who find themselves either paying for a full week's season or having to buy tickets on the day. Their costs are significantly higher for travel than people working full time. There are problems for them.
There are also problems on some of the intercity routes in the way in which advance tickets are sold. We have been arguing for a pay-the-difference rather than start-again for passengers that get on the wrong train with an advance train-specific ticket.
Those are examples of the kinds of issues. Fundamentally, what we need is a system that is simpler, fairer and also cheaper given that, as Passenger Focus's research has shown, we have some of the highest fares in Europe. Passengers in the south-east pay about 30% more than the European average.

Q238 Chair: Mr Hewitson, Passenger Focus has conducted a lot of work on fares among the travelling public, and you have reported a lot of dissatisfaction. Could you tell us the main findings of your research?
Mike Hewitson: On dissatisfaction, the main one relevant to fares and tickets is value for money. We ask about value for money rather than the cost of fares because if you ask a passenger whether they would like their fare to go down the answer is yes. We look at value for money, which brings in cost but also what you get, and we have seen that decrease. It is 40% at the moment. It goes a lot lower for commuters in the sense that they are not getting value for money. That is what comes through.
I would go back to one point that you were making earlier about the structure. We do think there are problems with the structure, but there is also a problem in that passengers don't trust the structure. It is the perception as well as the reality. Both need to be addressed. If you ask passengers, they are just not sure that they have been sold the right ticket. They are not confident. The cost of getting it wrong now—being on the wrong train with the wrong ticket—can be huge. So there is a big perception element in there as well.

Q239 Chair: Where is passenger dissatisfaction the highest? Is it to do with being able to access the best-value tickets or is it to do with the actual prices?
Mike Hewitson: It is mainly around the sense of value for money: "What am I paying?" and "What am I getting?" The "What am I getting?" part is linked with punctuality and getting a seat. It is very much a core focus and a core product: "Does the train turn up when I want it to?", "Do I get a seat?" and "Does it get me

there on time?" That is what you weigh up against the cost of the ticket.

The other thing that comes through is the cost of flexibility. There is a real concern among passengers in the research we do about, "How much does it cost me if I can't book ahead 12 weeks in advance for this train only?", "What happens if my meeting overruns?", and "What happens if I need another half an hour somewhere? Do I rip up my old ticket and have to buy a brand new ticket?" That comes through quite strongly as well. That takes us back to Stephen's point about upgrading tickets.

Q240 Chair: Mr Mapp, you have heard Mr Joseph talk about the high cost of fares. Why should fares cost people so much? Is it because the train companies are pocketing the money?

David Mapp: If you look at the average fare paid by customers over the past 10 years in real terms after allowing for inflation, the average cost of a rail journey has remained roughly stable. In terms of the tickets that people are buying, the cost hasn't risen.

Q241 Chair: Mr Mapp, I don't think you can talk about averages in that sense. If somebody goes on a train and their fare increase is 10% or 11%, which is what it could well be and has been in the past, they are not interested in talk of some spurious average, are they? They just know they have to pay more.

David Mapp: What has happened is that there is much better information about fares now than there used to be. In the past, getting information about fares was really a matter of going to the booking office and asking questions. Now, of course, information about fares is very widely available on the internet. There are all sorts of internet sites that provide comprehensive information on rail fares. That seems to allow people to make a much better and more informed choice about the best-value fare for their journey. Typically, we have seen large increases in the number of people who buy advance fares, for instance, which offer the cheapest deals on longer-distance routes. We have also seen increases in the number of people who buy fares that are discounted with a railcard. So there has been a switch in the market from people simply buying the first ticket that they were offered to choosing in a better informed way than previously, and very often choosing to go for a cheaper and better-value ticket.

Q242 Chair: Mr Watkin, did you want to comment on this?

David Watkin: Yes. As Stephen and Mike said, the explosion in the sales of advance tickets recently is a good thing because it enables us to manage demand where we have capacity. As they both said, we need to work harder to look at different ways of making advance purchase tickets available much closer to departure. At the moment the cut-off is the day before, which is very much an historic legacy of the time it took to print a reservation label and stick it to the back of the seat. Those days are gone. Many of us have electronic reservations now or—you don't actually need a reservation on a train—you can have what we call a counted place. My train company is working on technology to enable advance tickets to be available up to 10 minutes before the customer boards the train. We are certainly not guaranteeing that they will pay a much cheaper fare, but they will pay the fare that we can offer at the best possible price, given available capacity. I would agree with Stephen and Mike that we need to do more work to make advance fares easier to use, easier to buy and more available.

Q243 Iain Stewart: I would like to pick up on Mr Joseph's point about moving to a pay-the-difference situation rather than a start-again one if someone misses their booked train. We had an away day last week and we heard from one operator where the train managers already have a reasonable degree of discretion and can judge between those who have missed their train or connection for a genuine reason and those who have deliberately bought the cheapest ticket and then tried their luck on a more expensive train. That was just one operator. Do you not think that is a fair point across the network, that discretion is already available?

Stephen Joseph: The problem is, first, that the discretion is there and is applied very differently across the system, so that some companies seem to crack down much harder than others. Secondly, it gives no transparency or expectations for people when travelling. It produces a level of fear that if you get on the wrong train or your connecting train is delayed you will have to pay the difference. Pleading with the guard is not something that everybody wants to do. As Mike has said, what we need to get is a level of transparency and trust into the fares system so that people know roughly what they are going to be paying and have some clear expectations of what will happen. Apart from anything else, leaving it up to staff on the frontline is poor management practice and lays staff open to verbal and sometimes physical abuse in that situation. I do not think it is an appropriate way of setting the fares policy in general. We would like to see a proper system in place.

Q244 Iain Stewart: Let me play devil's advocate. If you move to a pay-the-difference regime, is there a danger that everyone would book the cheapest ticket possible and then, on the day, decide that they wanted to move on to a different train and upgrade? The original train would then be full of reservations for people who will not travel. Is that not going to lead to inefficiencies in operating services?

Stephen Joseph: To an extent that happens now where you have lost some tickets. People just book trains and then use the next one, particularly where you have, as on the West Coast Main Line, an almost turn-up-and-go service on some of the intercity routes. In practice, as David has said, the difference between some of the advance fares and some of the walk-on fares is such that people won't want to play those kinds of games. This is about having a clear set of rules that don't feel like people are being criminalised. I don't think that any other business doing retail, which is roughly what the railways are doing, would treat customers as potential criminals or put staff in a position where they have to do that. That is the way it often comes over if you listen, particularly as I have, to conversations on trains with people who have genuinely got the wrong ticket.

Q245 Chair: Mr Hewitson, would you agree with the comment that has just been made, that train companies treat people like potential criminals?

Mike Hewitson: At times, yes. A recent report from us on ticketless travel—this is from complaints we get—found too many instances of passengers who have made an innocent mistake being scooped up into this net. Intent didn't matter: it was a black and white issue. "Did you have the right ticket?" "Yes. Fine." "No. Pay this much or risk prosecution." That was black and white and quite stark. It could be, as Stephen says, just down to individuals on the train taking a hard line. Somewhere else they could take a softer line.

To take the point about advance tickets and upgrades, there is also a big element here of passengers not understanding the terms and conditions of advance tickets. The Rail Regulator did some research recently and found that something like 37% of passengers with the advance fare did not realise that they had to travel on that train and that train only. That is quite a high proportion of people who have bought a ticket not knowing the conditions. That instantly puts them in an awkward position. As Stephen says, it goes back to the guard on the train having to make a snap judgment about "Do I trust you or don't I?" That can be a very unfair position.

Q246 Kwasi Kwarteng: In relation to fares—we have all had experience of this—they are very complicated now. Do you think there is any way in which we could make the system simpler while, at the same time, keeping the price discrimination aspect?

Mike Hewitson: Yes, I think so. There are some things that would instantly do that. For instance, the single being £1 cheaper than the return looks odd to passengers. If you could have a single leg pricing system whereby a single is half the price of a return, it looks right. It allows me to book an advance fare going out and have some more flexibility coming back without looking like I am buying a return. You can do things like that. You can bring in new products to simplify it as well, such as carnet-style tickets for people who are under that season ticket threshold. You can certainly simplify the provision of information and take me through the fare-buying process so I end up with confidence that I have the right ticket rather than, as at the moment, "I will have that one and I'll hope."

Q247 Kwasi Kwarteng: Why is it so complicated in Britain? I have had experience of travelling on the continent and a single ticket is, as you say, half the price of a return ticket. It seems much more transparent and makes more sense. Why do we have this rather bizarre system?

Stephen Joseph: It is partly to do with the structure of the railways, in that individual companies get to keep the bulk of the revenue from the fares that they set. That has two consequences. First, there are some incentives for game playing the system. You will hear from the Rail Settlement Plan director later on and you might ask him about that. That adds to the complexities on the system. In some cases it might lead to sub-optimal use of firm capacity because operators will price up particular trains in order to get a share of the revenue for later on in the journey from a particular station.

The second consequence of the structure is that the system becomes very complex in general and is completely untransparent for the passenger, as we have said.

Q248 Paul Maynard: Train companies tell me that, on average, they make about 3% profit from their revenue. Do you accept that figure?

Stephen Joseph: We do. The railways are not something you would go into if you wanted super-normal profits. What we have argued, though, is that there are ways in which Government can adjust the fares system. This is down to Government regulation. I should have said that one of the other consequences of the system is that it is much more difficult, with a number of different train companies, for David and his colleagues at the Association of Train Operating Companies to get an agreed view on simplifying the systems. I think that is down to Government.

We have welcomed the recent fares and ticketing review, but our argument is that simpler, fairer and cheaper tickets can generate more revenue. You will hear later from Transport for London that the evidence from adding National Rail to the Oyster card has been a growth in revenue because the system has become more transparent and simpler to the travelling public.

Q249 Paul Maynard: I have read your 13-point Fair Fares Charter which I note was endorsed by virtually every major transport union. What is the overall cost to the taxpayer of your proposals?

Stephen Joseph: We think that there will not be a cost to the taxpayer because a lot of the things we have in here are about simplifying revenue and the ticketing system. We have made the point that the share of the taxpayer contribution to the railway is falling and has been falling for the last five years, even through the recession. That has not happened before. In previous recessions the taxpayer contribution to the railway has risen. As we have said in our evidence to the Committee, the Government is on course for meeting a target set by the previous Government where the taxpayer contribution will be 25% of total railway costs by 2014.

We have also made the point, by the way, that 85% of that subsidy goes to Network Rail rather than the train operators. We do not believe that there are large taxpayer contributions involved in this. We do think, though, that there is a case for not moving towards RPI plus 3% as the Government is currently committed to. We believe that, in practice, the evidence from, among other things, studies done for the McNulty Review suggest that will not generate lots of revenue and that moving to RPI plus 1% or less will actually generate revenue.

Q250 Paul Maynard: You are proposing RPI minus 1%.

Stephen Joseph: We have been.

Q251 Paul Maynard: Are you not now?
Stephen Joseph: We are.

Q252 Paul Maynard: You are suggesting that will be met by revenue savings arising out of McNulty and the imposition of fuel duty on domestic aviation. In your document you don't state what you estimate is the balance between the two. What do you believe will be the impact on domestic aviation fares of your proposals?
Stephen Joseph: We did some research on this a few years ago—I can let the Committee have that—which goes into some detail about what the impacts might be. Currently domestic aviation pays no fuel duty. We had some work done which calculated what the revenue would be from imposing a fuel tax at the normal rate used for cars. Our argument was that it was a way of rebalancing domestic transport so that the greenest and most efficient mode of transport, which is rail, should be the cheapest.

Q253 Paul Maynard: Finally in this batch of questions, you have placed great emphasis on how your proposals will address the issue of peak overcrowding, yet I feel it is the area where your proposals are perhaps the weakest. I cannot, for the life of me, understand properly how you are pricing in dwell times on suburban platforms, for example. You are calling for greater investment in carriages with no indication of where the capacity on the track will appear to accommodate those extra carriages, or indeed extra trains. Can you explain a bit more about how you are going to magic, out of thin air, peak hour services?
Stephen Joseph: I think that some of this is line-specific. In some cases the overcrowding—for example, outside London and the south-east—could be met by longer trains. There is a problem with the availability of rolling stock for those longer trains, but certainly in places like Manchester and Leeds it is possible to run longer trains without having large-scale extra capacity. As we know, in Manchester there is a case being put for the Northern Hub which will provide that capacity.
It is fair to say that the railway industry's proposals in the Initial Industry Plan will address this. We await the Government's response to the high-level output specification which is due some time before the recess. The industry has clearly set out where the overcrowding is and the ways of dealing with it. It is case-specific.
In the longer term, we have supported the case for High Speed 2, not on speed grounds, which everybody talks about, or indeed the way the Department for Transport calculates the stuff in relation to timescales, but on the basis of capacity and the need to provide capacity—both for passengers and freight on the classic line—to serve, among others, Mr Stewart's constituency because we believe, as we have said in our paper, that the railway is growing as a share of total transport in this country.

Q254 Graham Stringer: Looking at headline figures for public expenditure on transport—you are in favour of better transport all round—do you think the balance between the subsidy to rail passengers and the subsidy to bus passengers is right?
Stephen Joseph: We have argued for more funding for buses, and against some of the reductions that have been made, on the grounds that bus passengers are some of the poorest in society and need the bus services that are available. We have seen, today, a report from the Joseph Rowntree Foundation pointing out that it is generally thought that people outside London should have a car if they are going to be able to participate in society. It is the first time that survey has found that. That is because of the decline in public transport outside London. A lot of that is down to bus. In other evidence to this Committee, we have talked about the importance of buses.
We think that railways are a different case. The functioning of the major cities in this country requires good rail transport and the functioning of labour markets in those cities requires that transport to be affordable. As I have said, the price of rail travel in London and the south-east is already 30% above the European average. If the Government's current plans for increases at RPI plus 3% are implemented over the next couple of years, rail travel for people commuting into London will be significantly more expensive than the cities that London competes with in Europe. There is a competitiveness issue about this because no other country makes its rail systems run at a profit, and it is accepted that there are wider benefits.

Q255 Chair: Mr Hewitson, does Passenger Focus have a view on this?
Mike Hewitson: We don't necessarily see the funding for rail and buses as being competitive. We would like money going into both. Bus passengers' views are largely similar: they want punctuality, reliability and seats, and the more the better.

Q256 Graham Stringer: Precisely. That was Stephen's answer as well. It was not really an answer to the question as to whether the balance is right. He was saying, "We would like lots more money." We all would, but in the real world there is a limited budget. I was asking a very simple question. Is the balance right where rail passengers are subsidised at considerably higher rates than bus passengers and, by and large, rail passengers are more affluent? Is that balance right?
Stephen Joseph: No, I don't think it is right, but the way we address that balance is for more funding for buses and—

Q257 Graham Stringer: That comes back to the "more" answer, doesn't it?
Stephen Joseph: If I may say so, it is finding new sources of revenue for rail. Previous Transport Secretaries have talked about a choice between the taxpayer and fare payer as if those are the only sources of revenue for the railway. It is already the case that 10% of railway revenues come from neither of those sources but from, for example, station developments. We have done some work on this and that proportion could increase significantly. If the Government is looking to get institutional investors to invest in transport, we think that railway stations—which, after

all, don't have a revenue stream—would be an appropriate and attractive form of investment. It would provide a lot of the investment that, currently, has to come from both taxpayers and fare payers. There are options that the Government have not looked at yet in terms of finding new sources of revenue for the railway.

Q258 Graham Stringer: The overall money going into rail is a very large figure—nearly £4 billion a year. Do you think we are getting value for money for that? It is a lot more than went into railways pre-privatisation. As we have all these extra passengers using the railways, do you think we use the right assessment methodology and criteria for investing in new rail?

Stephen Joseph: No, I don't. We have said in our evidence that, of the £4 billion going into rail at the moment, £3.4 billion is going to Network Rail for investment and maintenance of the infrastructure. At least some of that is just to catch up. In the 1980s rail got below 30% compared with road in terms of investment. That led to significant under-spend on basic maintenance and the slimming out to single lines and things like that in places that clearly, with a growing railway, need investment. At least some of that investment is genuine investment in the maintenance of the system, as is the spending in the Highways Agency and things like that.

In relation to investment appraisal, we have done a lot of work on this. We think there are areas where the benefits of rail investment are not fully taken into account and the forecasting methodology used by the rail industry is not appropriate for new stations and lines. It is the case that, of the re-openings of stations and lines in the last 15 or 20 years, all of them have performed above forecast—some substantially. In your own part of the world we argued that the reconnection of the Todmorden Curve, which did get regional growth funding, was justified on the basis of the economic benefits to Burnley and the connection to that. None of that is in the current Department for Transport appraisal framework. I know that the Greater Manchester authorities have argued for a different approach to appraisal based on gross value added in terms of investment. We think there is quite a lot in that.

Q259 Chair: Mr Watkin, do you have any view on where the money goes and where the investment is?

David Watkin: I can really only speak for my train company. We don't own stations. We do not operate any stations. We pay the station operators for accessing those stations. The investment in my company is more in the technology side of things. Certainly, in terms of fare systems and ticket delivery systems, it is very simple to prove a return on investment from those areas. From my company's point of view, that is a private investment. That is my company investing in its own systems as opposed to Government investment. As I say, I can only comment on my company's experiences.

Q260 Chair: Mr Mapp, do you have any comments on that?

David Mapp: It is worth going back to the McNulty Report itself, which gives some interesting conclusions on what industry strategy should be focused on. The very clear conclusion was that industry costs should be reduced. If you look at the Initial Industry Plan that we published a little while ago, there is a target of reducing costs from there of £1.3 billion by 2018–19. That provides options to Government. Having a lower level of cost means the Government can choose to reduce subsidy. It can choose to reduce the amount of taxpayer support for the industry. It can choose to invest more, if it frees up funds for investment in rolling stock and infrastructure of the kind that Stephen has described. It also allows the Government to choose to increase regulated fares by less than it would do otherwise. The McNulty Report and its essential conclusion, which is that industry costs are currently too high and could be reduced, is an interesting approach in terms of the future. It would provide funding for a range of policy alternatives, all of which we have debated to an extent already.

Q261 Jim Dobbin: Are we seeing the demise of the ticket office?

Stephen Joseph: I think there is a danger that we are going to see the demise of the ticket office. There are already proposals by some train companies to take out staff at stations. London Midland, for example, has done this. There is a danger that the overall conclusions from the McNulty Review that costs on the railways can be cut get translated not into greater efficiencies within how the railways operate but on to the passenger-facing parts of the railway such as ticket offices.

Our argument, following the previous discussions about the complexity of the fares and the lack of transparency in some cases, is that we need ticket offices. Until we have ticket machines that are more sophisticated or fares are simplified so that you can sell a less complicated range of tickets through those machines at stations, we will continue to need the ticket office or at least staff at stations to provide support, as they do now. The problem we are getting is not that ticket office staff are being moved to other duties but they are just being taken away. Increasingly you find completely unstaffed stations which have implications for safety and security, people's feelings of safety and security on the stations and customer care and support.

Q262 Chair: Mr Hewitson, you have done quite a bit of work on this, haven't you?

Mike Hewitson: We have indeed.

Q263 Chair: Is it that people want the ticket offices or is it that they want somebody there to reassure them and give them information?

Mike Hewitson: It is the presence of a member of staff. Certainly, if you have a complicated ticket purchase you want someone who can help you with it, but it doesn't have to be behind the perspex. It could be someone up front walking you through the ticket machine, for instance. It is the human presence which adds value, not only in ticketing but in provision of information and all-round reassurance. When we ask people about what makes them feel insecure on the railway, it is always lower-level antisocial behaviour. If you ask people what makes them feel more secure, it is the presence of a uniformed member of staff. A lot of the debate around ticket offices gets wrapped up in the fact that it is virtually the only regulated staffing on the station. If you take the ticket office staff out, you take staff away completely. That is probably more of a risk at the smaller to medium stations than the larger ones. I think there is a real danger with the McNulty conclusions about cost in that it looks purely at the cost of retailing. It does not take into account the benefits of their physical presence.

Q264 Jim Dobbin: Are there more passengers obtaining tickets from the machines or online?
Mike Hewitson: David has the numbers on that one. Certainly ticket machines have a role.
David Mapp: There has been a very significant change in the way passengers buy tickets over the last 10 years, in particular. There is a very strong migration away from ticket offices to the internet, self-service ticket machines and, in London, to Oyster pay as you go. As Stephen mentioned earlier, that has been very successful and does not require you to buy a ticket at all. The result is that the number of physical tickets issued through stations has decreased by 25% over the last 12 years since 2000, which was its peak, and that trend is continuing very strongly. Passengers are voting with their feet. Many of them find it easier to choose their ticket from the comfort of their own home or their office and, if they are making a quick, simple journey, to buy from a self-service ticket machine.

Q265 Julie Hilling: I would like to follow up on that, and I ought to declare that I am a member of TSSA, which represents booking office staff. When you talk about people using machines, and I am thinking particularly about people with disabilities and older people, how are they accessing their tickets now and how do you expect them to continue to access their tickets?
David Mapp: Of course, many disabled and elderly people are able to use our ticket machines and indeed buy on the internet. In many cases that is their preferred way of buying a rail ticket. Going forward, we are aware of concerns in terms of those particular passenger groups. We are looking, for instance, at extending ticket retailing to post offices which would provide people with a way of buying tickets in their high street. We are also looking at guaranteeing telephone selling for the foreseeable future. Almost all disabled and elderly people have access to a telephone so it will enable them to purchase our tickets by telephone if they wish to do that. We are very conscious about the concerns as to those groups and we are taking steps to address those concerns.

Q266 Julie Hilling: Are your members going to close as many ticket offices as McNulty suggested?
David Mapp: No. I can categorically deny, on the record, that there is any kind of hit list of ticket offices. That simply isn't the case. What we have argued for is a degree of reform of regulation that would give train companies greater freedom, either to change booking office opening hours or, in some cases, to close booking offices.

Q267 Chair: Mr Mapp, doesn't this amount to the same thing? You say you do not have a hit list but you want the freedom to close offices as you wish.
David Mapp: The reform that we have argued for would allow individual train companies to review ticket offices on a case-by-case basis and take decisions based on what they felt was the best outcome from a passenger point of view. In my view, that doesn't amount to any kind of list of stations where we would like to restrict opening hours or close ticket offices. It does provide some freedom to allow train companies to begin to change their retailing in a way that better meets passenger needs moving into the future.

Q268 Chair: Mr Mapp, do you think that the train companies should decide that, or the Department or somebody else?
David Mapp: We have been discussing proposals with the Department for Transport. Our proposals entail, for any major changes, consultation with Passenger Focus, London TravelWatch and PTEs, so there would be a degree of consultation involved in any significant changes.

Q269 Julie Hilling: Do you have an estimate of how many stations that are currently staffed will become unstaffed in the future?
David Mapp: No. It is worth going back on the point that Stephen and Mike have made about having a staff presence on the station. Even in the circumstances where booking office hours are reduced or, in some cases, closed, some of those staff at least would be redeployed on to other customer-facing duties on the station.

Q270 Iain Stewart: I would like to go back to the issue of peak time travel and the possibility of incentivising some people to travel on less crowded peak services. I have asked this question to previous witnesses and I have not had a clear answer. I don't know whether that is because the information is not there or they just don't want to say. What proportion of commuters into big cities, who travel daily or four times a week, have to travel at that time because of their work commitments or getting kids to school first? What percentage has to travel at that time and what percentage could be incentivised? Have you done any work on that?
Mike Hewitson: We haven't, but the McNulty Report looked at how much you would have to put fares up to see how much demand you can shift. It was looking at a 40% increase in peak fares to shift 10% of demand. That gives you a sense of how drastic it is. I suspect you can incentivise people at the margins. If you get into work at nine o'clock you might have some scope to get in at 9.30. But I expect that, for a

lot of people, if your boss tells you to be at your desk by 8.30 then that is when you get to your desk.

It is not just a question of changing times for work. Everything is tied into it. There are school pick-ups, drop-offs and such like. It is a quite big cultural work shift rather than a railway shift. The closest I can get to answering you is that it is a 40% price hike for a 10% shift.

Q271 Iain Stewart: But that is about penalising, in some sense, people who have to travel at that time rather than—looking at it in a completely different way—giving them the incentive, by a cheaper ticket, to travel differently?

Mike Hewitson: There might be some scope for the numbers of people who work four days a week, in particular. If you had a ticketing system that said if you don't use that fifth ticket in the week you can use it the next week—you can roll it on, it is not time expired—that might encourage a few more people. But at the moment if I have bought an annual season ticket I might as well travel, although I get benefits from staying and working at home. I suspect you could bring some of those people into it but I don't have any numbers.

David Watkin: I should say that the increasing adoption of smartcard technology, which the rail industry is starting to adopt and roll out, would make such differential pricing far easier. The current fares system and regulation, as it is structured, makes it rather more difficult. One of the questions issued in the recent Command Paper that we responded to was asking how we would use smartcard technology to price differentially in the peak. It is an issue we are certainly open to.

Q272 Paul Maynard: You just said that you are starting to adopt smartcard technology. You were starting to adopt it about four years ago. We have not seen much progress outside of Greater London on the better use of smartcard technology. CrossCountry showed us all sorts of fancy whizz-bang stuff on your mobile phone, on the day that we travelled with you, that looked wonderful. Why isn't ATOC trying to spread that sort of best practice out faster and more widely? Clearly the technology is there. Why are you holding back? I don't get it.

Chair: Mr Mapp, why aren't you doing more?

David Mapp: We strongly support the roll-out of new technology. Quite a number of train companies are trying things like bar codes on mobile phones and print-at-home ticketing with bar codes. We welcomed, in particular, the £45 million worth of funding for the extension of smart ticketing into the wider London and south-east area that the Government announced a few months ago. That latter investment is providing the opportunity to investigate the new sorts of commuting products that Mike and Stephen referred to. We are fully supportive of that. At the moment there is a lot of work under way to investigate how we can use that additional £45 million worth of funding and the smart enablement that it provides to trial things like carnet products, where you would be able to travel for three or four days a week. You could also trial things like off-peak season tickets as well.

Paul Maynard: On my Virgin West Coast Main Line train you can sell me a hard ticket for the underground for the day, but you can't top my Oyster up. It does seem rather bizarre.

Q273 Chair: Should ATOC and the train companies have been doing a lot more on this?

David Mapp: What we proposed to the Government is that there needs to be an overarching strategy for the rail industry as far as ticketing and technology is concerned. It is an area where having a network-wide strategy with technical standards that support that strategy would facilitate a much quicker and wider roll-out of new technology. We would very much like to work with the Department over the next few months to put that strategy in place so that we can roll out more quickly things like print-at-home tickets, bar codes on mobiles and also smartcards into other areas of the country as well.

Chair: We are going to explore this issue more with our next set of witnesses. Thank you very much, everybody, for coming and answering our questions.

Examination of Witnesses

Witnesses: **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.

Q274 Chair: Good morning, gentlemen, and welcome to the Transport Select Committee. Could you give your name and organisation to help our records?

Shashi Verma: My name is Shashi Verma. I am Director of Customer Experience for Transport for London.

Howard Smith: My name is Howard Smith. I am Chief Operating Officer for the London Rail division of Transport for London.

Steve Howes: My name is Steve Howes. I am Managing Director for Rail Settlement Plan within the Association of Train Operating Companies.

Q275 Chair: Thank you very much. What is the case for introducing smartcards more widely on the rail network? What can they achieve?

Steve Howes: It follows on from the conversation we were just having. It provides an opportunity to introduce some more flexible products. As David Mapp was just talking about, the so-called south-east flexible ticketing programme in particular, which will extend to quite a wide area of the south-east—from north of Milton Keynes in the north to Brighton in the south and from Newbury in the west to the Kent coast—will enable the introduction of flexible season products.

Q276 Chair: Would anybody else like to add anything? What are the benefits of smartcards?
Shashi Verma: If I could go back to why we introduced Oyster, which is probably the best experience of anyone around the world on this, there are three reasons. One was the speed of access to train services. Passing through the gates becomes faster. Had we not done that, we would not have been able to operate the stations that we operate today. Many of them are carrying two and a half times the traffic we carried 30 years ago. Passing through the gates becomes faster with Oyster.
The second reason is a reduction in what we would call travelling without a ticket, which may be fraud but sometimes people travel without a ticket because ticket buying is too difficult.
The third reason is reducing the number of times that people have to interact with the ticketing system. No one wakes up in the morning wanting to buy a ticket. People want to get to work. Every single transport system around the world forces people to buy a ticket. We realised a long time ago that we wanted to make people's lives easier. That is where things like Oyster pay as you go have come in. People top up once and they travel five times or 10 times with that one top-up. All three of those things have been very successful in the roll-out of Oyster.

Q277 Chair: Why has ATOC been so slow in developing smartcards?
Steve Howes: New ticketing has progressively emerged on the rail network over the last few years. Ticket on departure, which is where you can pick up your ticket at the station having bought it online, print-at-home tickets and Oyster pay as you go are all examples of where we have introduced new ticketing on to the railway. Print-at-home, in particular, has been hugely successful. It is well liked by our passengers and something like 20% of advance purchase tickets are now fulfilled by print-at-home rather than by the conventional rail tickets.
Moving into smart, the essential difference between smart ticketing and other forms of ticketing is that a smart ticket has an individual identity. That does enable some of the things that Shashi was describing.

Q278 Chair: But why has ATOC been so slow? We heard a little while ago that ATOC thought there should be a DfT strategy, but there doesn't seem to have been much innovation coming from the train companies themselves in this area.
Steve Howes: I think there has been quite a bit of innovation on the railway in terms of ticketing and many customers are now using different forms of ticket than they have historically. The widespread adoption of smartcard ticketing has been slow, but a lot of work has been done over recent years in developing the technology to a position where it is good to go on the railway. The ITSO technology, in particular, that the Government is encouraging us to use has required an awful lot of work over the last few years by ATOC, working with our members, to make it fit for purpose for use on the railway. It is in that position. The supply chain for ITSO equipment was not mature five years ago. It is now mature and the rail industry has experience of rolling out and using this kind of technology. Progress over the last few years has been slow but we are entering a period where that will rapidly accelerate.

Q279 Paul Maynard: I am pleased to hear you accept that it has been a bit slow. Would I be right in saying that the arguments over what is the best system, be it ITSO or Oyster, have been one of the main drags on development—that the industry had not been able to agree on a particular standard?
Steve Howes: The adoption of ITSO as the preferred technology for smartcard ticketing on the railways has essentially been driven by the Department for Transport. The train companies themselves have been exploring other forms of ticketing technology. As I mentioned, there is print-at-home and the equivalent of print-at-home on a mobile phone, where you have your ticket fulfilled on a mobile phone. Four or five years ago, as I say, ITSO, itself, was an immature technology in terms of application on the railway. It has taken us time to develop it into its current form where it is fit for purpose and where it is now ready to have a more widespread roll-out.

Q280 Paul Maynard: So the Government has foisted ITSO on the industry when you might rather have gone down a different technological path that would have got us out a bit sooner perhaps?
Steve Howes: A technology has to be selected to enable the level of interoperability that our passengers are used to on the railway. From our point of view, ITSO is good to go. Other technologies are around—EMV-based systems and bank card wave-and-pay type technology—which TfL are more than exploring; they are approaching the point of rolling out. It is something we are watching very carefully. The fact is that, today, ITSO does have an established supply chain, and there are suppliers where we can go to buy accredited equipment. We can now move quite quickly.

Q281 Paul Maynard: Is ITSO going to be compliant with Oyster or are we going to have tremendous problems?
Steve Howes: "Compliant", perhaps, isn't the word. Certainly in London, within a short period of time, ITSO and Oyster will co-exist. Rail passengers with an ITSO ticket coming from outside London into London will be able to have, on their ITSO card, a Travelcard which will enable them to travel round London on tubes and buses. It will be a fully integrated experience for rail travellers coming into London using ITSO.

Q282 Steve Baker: Is the Department right to mandate ticket gates as the preferred strategy for revenue protection?
Steve Howes: I am not sure that they do mandate gates as their preferred strategy for revenue protection. Train operators are encouraged to install gates where there is a de facto case for having gates. Clearly they are an effective means of revenue protection, and most typically in inner and outer suburban commuter

markets. For long distance, revenue inspection on-train obviously remains an important part of the overall revenue protection mix and I think that will remain the case.

Q283 Steve Baker: I understood that barriers had been mandated on the Gatwick Express and other non-commuter journeys.
Steve Howes: For services of certain sorts where there is high density and high throughput, yes, gates are absolutely the best solution.

Q284 Steve Baker: Whose responsibility do you see it being to protect revenue? Is it the responsibility of the Government or the train operating companies?
Steve Howes: Absolutely the train operators. They have the primary responsibility for protecting revenue.

Q285 Steve Baker: Given the emerging technologies, things like print-at-home, how do you see barriers fitting in?
Steve Howes: The print-at-home proposition today is only available for advance purchase tickets associated with a seat reservation. That is obviously because you can fairly easily duplicate a print-at-home ticket. We are hopeful and are exploring ways in which we can extend the print-at-home proposition to other forms of ticket, and open tickets particularly, which are not associated with a specific seat reservation. That would require some level of on-journey validation so that the revenue protection inspector could check that it is a valid ticket.

Q286 Steve Baker: Earlier, Mr Verma talked about Oyster as a technology that has allowed greater throughput. Do you see further technological changes in barriers enabling even greater step changes in throughput, perhaps to go and get on longer trains, high speed or whatever?
Shashi Verma: In our experience we have reached the physical limits of how fast the gates can be. They are no longer constrained by the technology but by how fast people walk. That is not about to change. The effort that Transport for London has been putting into ticketing has all been about making it easier for people to travel—not having to buy a ticket and not having to equip themselves with an Oyster card.
We have to understand that the transport experience of buying something is very different from the experience of buying practically anything else. You don’t need to equip yourself with something special to walk into a grocery store, into a coffee shop or indeed into any other retail outlet. Why is it that transport is different? That is the question that we have been trying to address. Out of all that, our research and development work has led us to a place where, later on this year, we will be launching the acceptance of contactless bank cards on buses. We intend to do the same thing on the rail network within London next year. That will allow people to travel with whatever is in their pocket already rather than having to equip themselves with an Oyster card at the first point when they arrive at the transport network.

Q287 Kwasi Kwarteng: I have a question specifically on the Oyster card. This is something that is very pertinent to people in my constituency. Do you envisage any extension of the Oyster card service? For example, when I am going back to my constituency I get off at Staines. If I go to Feltham I can use the Oyster card but at Staines I have to have bought a ticket at Waterloo to be able to get out. This is a big issue for lots of commuters in the south-east generally.
Shashi Verma: It is. We have solved one part of that issue by putting Oyster out on National Rail within London. That was something that took a lot of effort over a long period of time. The structure of the industry and the debate between Oyster and ITSO did not help that at all. It was only after many years’ effort that we launched on national rail in January 2010. The DfT’s policy right now is that, for the rest of the country, the technology is ITSO. We are not permitted to expand Oyster any further beyond London.

Q288 Kwasi Kwarteng: So you are quite happy to say on record that there is no chance that Oyster will be extended further than it is—beyond Greater London?
Shashi Verma: We would be very keen to extend Oyster beyond London. It would not be everywhere because Oyster was built as a technology for London and it would clearly need to be adapted to do anything different from that. But the London commuting zone is not defined by the geographical boundaries of Greater London.

Q289 Chair: How will the harmonisation of fares be taken forward in the wider London region?
Shashi Verma: The first thing to say is that fares in London are already probably the most harmonised you will find anywhere in the country. We have products like the Travelcard which is one ticket that allows people to travel on all modes of transport within the Greater London area. We have Oyster pay as you go which allows the same thing, albeit with slightly different fare structures. I must say that the slightly different fare structures within Oyster pay as you go have not caused customer complaint. It is a system that people understand and it is a system that people use. The effect of the simplicity of Oyster pay as you go is what has led to the increase in demand on the rail network. There is clearly a case for more harmonisation, particularly with Oyster pay as you go, but it is not something that is causing a lot of problems right now, certainly not in the commuting market. All the complaints about the harmonisation and complexity of rail fares come from longer-distance travel.

Q290 Chair: How can that be addressed?
Shashi Verma: In introducing Oyster, we simplified the fare structure a lot in London. There were many different ticketing products which we took away. There was some difficulty because people who buy those products were beholden to them but, through a very painful process, we did simplify the fare structure in London. The same thing needs to happen on National Rail. It is very easy to talk about peak pricing and introducing more flexibility in pricing, but

flexibility is also complexity. Before we introduce more complexity, I would suggest that we should simplify the fare structure.

Q291 Chair: How do you think those problems can be addressed?
Shashi Verma: It is a question for the DfT and the train companies. Fare complexity is something that can be removed by reducing the number of ticket products and harmonising the rules as to what tickets are accepted where. They are things that can be done and we have done that in London.

Q292 Jim Dobbin: On the issue of differential fares and charging passengers for printed tickets, why should they be more expensive than the smartcards that underground users have? Why is there the big difference?
Shashi Verma: The difference is there because it is more expensive to sell a printed ticket. It is not just more expensive but a printed ticket will usually buy you only one journey so you need to keep making repeated transactions. We have produced a technology that is accessible to all. An Oyster card is available from 5,000 outlets in London. It is not a question of accessibility. Anyone can get one and anyone can get access to the cheaper fares. Somehow we need to provide an incentive for people to use the system efficiently, which is what the differential fare pricing is doing.

Q293 Jim Dobbin: But the difference is nearly twice as much.
Shashi Verma: It is. That is what it took to drive people towards the use of Oyster pay as you go in London.

Q294 Julie Hilling: I want to follow up on that point. That is fine when you live in London—you learn very quickly that you need an Oyster card—but when you are an occasional visitor to London it is not so easy to know where to purchase that. Do you think Transport for London should do more to make Oyster available to the occasional users?
Shashi Verma: We do make Oyster very accessible to occasional users. As I said, we have 5,000 retail outlets in London. This is the biggest retail network that anyone operates in London.

Q295 Julie Hilling: But how well advertised is that?
Shashi Verma: It is very well advertised and every gateway station, whether that is Heathrow, Euston, Paddington or King's Cross, has extensive retailing facilities. Having said that—and I will accept your point—the fact is that people still need to equip themselves with something special when they arrive in London. That is what we are trying to address by adopting bank cards because people arriving from other parts of the country into London will probably already have a bank card in their pocket—not everyone, but a large majority of them will. What we want to take away from the occasional visitor is this need to equip themselves with something special as soon as they arrive in London.

Q296 Julie Hilling: I am particularly thinking about older people coming into the City. Would you accept that there needs to be more done to explain to them how to use the technology?
Shashi Verma: We do a lot already. We are quite happy to look at what more we could do. There is a special plan being drawn up right now in advance of the Olympics at all of the gateway stations. This is one of the most difficult markets for us to serve. We understand that and that is why we have put special effort into explaining Oyster to people who are coming in from outside London. That is why we are expanding the retailing facilities at each of these gateway stations. There is a lot that we already do and I would fully accept that it still remains a difficult market.

Q297 Julie Hilling: Do booking office staff, for instance, advise people to get an Oyster rather than buy a ticket?
Shashi Verma: Yes, they do.

Q298 Julie Hilling: How is that going to work on trains if that technology is brought in? Are people going to be disadvantaged if they don't use the technology? Is there going to be a big differential in tickets?
Steve Howes: With regard to the introduction of smart tickets on railway outside London, the focus is on using the technology, in the first instance, to introduce newer forms of particularly season tickets for the reasons that were discussed earlier this morning. There are particular carnet-type products which are good for people who are not working five days a week and there are tickets that provide an incentive, via a discount, for travelling outside the morning peak. The focus is on introducing those kinds of new products rather than simply introducing a differential between similar products, whether it is fulfilled on a smartcard or paper. We have no plans to do that at present.

Q299 Chair: What are the main advantages of the London Overground being a devolved network run by TfL? Mr Smith, can you tell us?
Howard Smith: Yes. I will say a little bit on the background of the Overground. Essentially, what we did five years ago was to take over the old Silverlink Metro franchise. By most measures it was the least popular railway in the country but, to be fair to the management, it was also underinvested. It existed entirely within the boundaries of London so it was an easy devolution to TfL. What we have done, since then, is to change the method of contracting. The contractor to us now—the concessionaire, as we call it—gets paid on the basis of their train performance and not on the basis of revenue risk and effectively betting on central London employment.
We introduced Oyster on day one. That was very well received. We have smartened up stations which, traditionally, have been a very difficult area for National Rail. They fall between a franchisee that has a short-term horizon and Network Rail who are only interested in the very big stations. We have invested in more trains and increased services on a 30-year horizon rather than on a seven-year horizon. The

result of that has been a pretty spectacular success in terms of ridership. It has grown by over 100% in terms of the network that existed in 2007 and, including the new bits we have added, it has grown by about 300%. Customer satisfaction has risen to almost record levels and the number of late trains has been effectively halved. That is the story of the Overground, if I can introduce it in that way.

Q300 Chair: What further advantages do you see coming?
Howard Smith: In terms of what is now being proposed, we have taken a look, as TfL, at the franchises coming up in the near future. The market failure is in inner suburban services. We have looked at those where the traditional franchise mechanism does not reward anybody for doing the right thing; it effectively pays you for bidding on a view, as I say, of central London employment and then delivering the minimum. What we have said is that it is possible for Southeastern trains and for parts of the current Greater Anglia services, in particular, to separate those out and let those as contracts in the same way as we have done the Overground, based on a higher quality and a specification where the contractor gets paid on performance, not on revenue risk. That is what we are proposing at the moment for those distinct areas.

Q301 Chair: How would you resolve disputes about who had priority on the track for different services?
Howard Smith: Absolutely honestly, we do not see that as an issue. The things I identify in respect of that are that TfL has long experience of operating beyond the London boundary. The Metropolitan line, bus services and London Overground itself runs into Hertfordshire. There is no history of pulling each way. Even if our motivations were doubted, track access and the ability to put on trains and block trains from further out is controlled by the ORR and not by us. There is no question of us being able to block out trains by filling the lines with inner suburban trains. Fares and operators for the outer suburban area would continue as is. Their stopping patterns would be dictated by the DfT specification. Fares would be set by the current mechanism.

Q302 Chair: So you don't see any issue there?
Howard Smith: No. I could point to both motivation and our ability to do things wrong, even if we were motivated malevolently, and say that, no, there is not an issue there.

Q303 Paul Maynard: Clearly the Mayor of London has great ambitions for taking over yet more rail services. Would any of these be outside Greater London or will they all be within Greater London?
Howard Smith: What we have looked at are services that are almost exclusively within Greater London. That is because most suburban services almost naturally split into that. The fit isn't perfect but we fundamentally believe that our method of contracting brings the biggest benefits to those inner suburban services. For the longer-distance services, there is an element of market pressure on the contractors to do the right thing. For the inner suburban services, they have very low average fares—around £2 or £2.50—and therefore the incentive is particularly difficult. What that results in is, as I say, effectively minimum levels of service, staffing and station facilities.

Q304 Paul Maynard: But there is no danger of, say, commuters from Guildford suddenly finding Boris driving their trains into Waterloo, as it were. I know we have him on loud speaker every five minutes, at the moment, but we don't want him running the trains as well.
Howard Smith: The London Overground services presently tip over about four stops into Hertfordshire as far as Watford Junction because that is the logical place. Looking at the areas we have identified in the short term, Southeastern trains would go one stop over to Dartford. They may go as far as Sevenoaks—two stops outside the London boundary—but you could, with a small change to the train service, cut it at Orpington so it stays entirely within.

Q305 Paul Maynard: What would the impact on those franchises be for what remained outside the Greater London boundary? Would that then be the poor man's pickings?
Howard Smith: No, I don't believe so. Dare I say it could be almost the opposite: those would remain the commercially lucrative parts of the franchise—quite big, with the majority of the revenue remaining with them—because they are longer-distance journeys?
Chair: Thank you very much for coming and answering our questions.

Examination of Witnesses

Witnesses: **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, gave evidence.

Q306 Chair: Good morning and welcome to the Transport Select Committee. Could you give your name and the organisation you are representing to help our records?
Geoff Inskip: I am Geoff Inskip, representing pteg.
Professor Nash: I am Chris Nash, a Research Professor at the University of Leeds.
Councillor Johnstone: I am Shona Johnstone, a County Councillor in Cambridgeshire but representing the Local Government Association as Vice-Chair of the Economy and Transport Programme Board.
Neil Buxton: I am Neil Buxton, General Manager of the Association of Community Rail Partnerships.

Q307 Chair: There has been a lot of discussion about the decentralisation of rail services, as proposed in the Government consultation papers. Could you tell us what you see as the good aspects of this and what you see as the possible problems?
Geoff Inskip: If you look at the rationale for why we want devolution, it is all linked to what I would call "the prize" at the end of the day: what do we see will happen as a consequence of rail devolution? There are a number of aspects. We see increased economic performance as we put together our transport strategies and our economic and growth strategies as a single, joined-up approach in our regions; we see a better customer offer, being a railway more responsive to local needs; and we see, also, the opportunity to integrate rail with other modes.
We think that under rail devolution the introduction of new services and new stations will be much more straightforward, and we will get a much more balanced view across modes; for example, the introduction of tram conversions and tram train. The big opportunities for us are that we will see reduced carbon through modal shift and, importantly, better performance by the infrastructure owners and operators as well as improved passenger satisfaction as a result of scrutiny by local politicians.

Q308 Chair: Would anyone like to add to that or to disagree with it?
Councillor Johnstone: I think Mr Inskip has summed up very well local government's view too. What is important is the evidence that came out of the Local Government Association's local growth campaign, which we launched at the LGA conference a couple of weeks ago, that local councils are embracing the localism agenda in terms of economic growth and delivery. Devolution of rail would add to that and ensure that local councils can be more responsive to local need. The evidence of the local growth campaign is that we know our areas well and we know what people want in terms of travel to work areas. As Mr Inskip says, there are wider benefits in terms of local economic development, but it also links into wider Government agendas in terms of health and well-being. Greater rail devolution means more people on rail, less congestion and less pollution, and that is an improvement in people's health. We need to look at the very wide benefits, not just at the narrow farebox implications of greater devolution.

Q309 Chair: But what is it that should be devolved? Can anyone explain that to me?
Councillor Johnstone: It has to be flexible according to the local area. In terms of the PTEs, it may be a complete system. In other areas, it may be about more influence and running additional services to the specification or micro-franchises. The options that are set out in this transport paper, from a local government perspective, would support all five options because it is about local flexibility and need.
Neil Buxton: I would add that, in a broad sense, Community Rail Partnerships would support devolved control of railway services but we want to make sure that the devolved body still works with Community Rail Partnerships under the Government's Community Rail Development strategy. That has to be written in because we are a little concerned that the community railways will be on the outskirts of these devolved areas.

Q310 Chair: Professor Nash, do you have any ideas of what should be devolved or do you see any dangers in this situation?
Professor Nash: There are some dangers and some problems. I have looked at the experience in a number of European countries which have devolved services to the regions and, broadly, it supports what has been said: that the regions have invested and improved services and co-ordinated them much better with bus services and land use planning. So, by and large, I am a supporter of devolution.
But there are one or two warnings. In Germany, the entire network of inter-regional services disappeared because the regions didn't work together to keep them running. Clearly, we need arrangements which guard against that. The fact that we don't have regional institutions that map neatly on to the network of services is an issue. In every case abroad there has been adequate finance from central Government. That is clearly crucial. Also, the whole question of how access to the infrastructure is charged for becomes important when planning is devolved to a lot of different organisations. On the one hand you need a charging system which encourages the use of capacity that is there but, equally, a system which charges appropriately where capacity is scarce.

Q311 Kwasi Kwarteng: Specifically on this point about devolution, it seems to be a widely held assumption that devolution will benefit the passenger. If I were a passenger what will I see differently? How will I benefit directly from the devolved control of transport?
Geoff Inskip: There are probably two areas specifically that I can give examples of. One is in terms of improved integrated ticketing. If we have a

devolved railway and one that we look after ourselves, together with arrangements we currently have in place with our bus and train operators, you will see much greater integrated ticketing and smartcard ticketing which is much easier to implement. The other area, as you have seen in places like Merseytravel and London and LOROL, is a much better delivery of the actual service itself. You are getting an increased and improved performance on the railway. As a passenger you will see a much better performance on, say, Merseyrail and on LOROL, for example, which is running at something like 96% of trains within five minutes of time. That is a vast improvement from where we are now.

You will also see a commitment to quality improvements locally. For example, a more specific one for the West Midlands is that, at the moment, we have a fragmentation on stations between the train operating company, Network Rail and ourselves who own all the car parks. That is just not joined up in terms of any policy directive in terms of fares and car parking charges and so on.

Councillor Johnstone: I would give you two examples of where we have already demonstrated benefits. In terms of more devolution, it gives local authorities greater opportunity for better integration between the different modes. If I give you an example in Cambridgeshire of an aspiration that we have for a new station just to the north of Cambridge, that will combine rail, the guided busway plus a park and ride. It integrates all modes. Allowing devolution to the local authority would allow us to deliver that.

The other example I would give is what has happened in Cornwall. They are one of the largest investors in rail from a local authority perspective. They have invested £36 million in the last 10 years. What we have seen in Cornwall is that rail use has grown by 8% in the county as opposed to 3% nationally. Where local authorities have invested and have seen the benefits, it has really paid off.

Q312 Paul Maynard: Can I ask Mr Inskip to give an update on the rail in the north executive proposals? Where are they and what is happening?

Geoff Inskip: There is an expression of interest that went into Government on 28 June. It is a very robust proposal. It puts proposals for Manchester and for the Yorkshires together to look after and take over the franchise responsibilities for both Northern and TPE. As part of that proposal, we are looking at options for taking some of the railway and devolving it directly into Merseytravel and also into Nexus in the north-east.

Q313 Paul Maynard: How are you going to deal with the very real fears that I have been hearing in the shires that, if this proposal goes ahead, it will skew provision in favour of ITA areas because that is where you have the democratic accountability? Are you proposing to put Blackpool councillors on Transport for Greater Manchester? How can I guarantee to my constituents that this proposal won't see worse rail services because we are not fortunate enough to be in an ITA area?

Geoff Inskip: Both in the West Midlands and in Northern we have dealt with this in the expression of interest. I will leave the expression of interest with the Committee Clerk for the record, but I will briefly explain it as well. In the West Midlands area, it is fairly simple. We will be setting up a West Midlands Rail Board. That Rail Board will include everybody from around the shire area who is taking responsibility for the London Midland franchise, as it will be in the future, as it were. For the Northern area, we accept that it is a much wider and larger area and there are many authorities involved. We have to acknowledge that some authorities will be real decision-makers in terms of risk and in terms of the franchise and other authorities may have a lower profile in terms of risk and operational performance but will still want to have a say. Therefore, within the expression of interest, the proposal is that a decision review panel would be taken up. It still needs to have some shaping, but everybody would be involved in that particular decision review panel. If there was an argument over a particular service then it would go to the decision review panel for arbitration.

Q314 Chair: Councillor Johnstone, would you comment on the other point that Mr Maynard made in relation to local authorities that aren't part of integrated transport authorities and don't have a PTE? Does the LGA have a view about how they would be placed on a system of devolution that goes to the ITAs, possibly to the disadvantage of other authorities?

Councillor Johnstone: It is the case at the moment that most of the country is not covered by ITAs and PTEs and doesn't have that say in how local services work in their area. The governance structures will be very important as we go into more devolution, but I think it offers an opportunity, in areas like yours, for greater involvement in how your services are run than at present. So I think there are some real advantages.

If I could quote another example, that of Oxford to Cambridge rail, East West Rail, local authorities are working together to deliver better services for their areas and economic growth.

Q315 Paul Maynard: Has pteg had any discussions with councils such as Blackpool over these proposals?

Geoff Inskip: It is intended that there will be a wide consultation over all of this. The proposal is very inclusive.

Q316 Paul Maynard: You put the proposal into the Department before speaking to the councils.

Geoff Inskip: No. There have been quite a number of discussions locally as well by Northern. I will ask Kieran Preston, who is leading on this, to give you some details of what consultations have taken place in Manchester and across Leeds, but they have been consulting around the wider regions so there is an awareness about what the proposal is. Remember that what we are setting up here is a brand new body. This is not going to be the existing ITAs taking responsibility for it. They will take responsibility through a new special purpose vehicle which we have created to run the Northern railway.

Chair: We would like to be kept informed of what is happening with that.

Q317 Iain Stewart: I want to follow on from that discussion and pick up Professor Nash's point about the possibility of a conflict between regional and inter-regional rail services. I will use the example of the TransPennine Express but there are other examples. A large part of TransPennine's customers is commuter services to some of the big cities along the route. Another large part is longer-distance ones. Is there not a danger that there will be a greater focus on the commuter services—the short-distance journeys—to the detriment of the longer-distance inter-regional ones? Is that a real risk or will the structure deal with it?
Professor Nash: I think it is a real risk. That is exactly the sort of case I was pointing to from the German experience. Clearly, to the extent that Northern Rail franchising would be handled by a joint body representing all the authorities along the route, that risk is minimised. Even so, it may be that individual authorities collectively are more concerned with local commuter services in their area than with the national network. That is why there is a question about how far devolution should go. Where you can define a set of commuter services into a city then there is a very strong case for the longer-distance inter-regional services, it is more difficult and a bit less certain whether there would be benefits in devolving those.

Q318 Iain Stewart: In your opinion should the DfT retain a "watching brief" or an ability to intervene if they felt that that inter-regional capacity was being diminished?
Professor Nash: That is one solution. Another solution is to keep the longer-distance services in separate franchises and leave complete responsibility for those with DfT. I can see some disadvantages with that as well in terms of integration of the network. I am not too sure, but I would certainly start with devolution where it is easier, with networks of commuter services, and then see where we go.

Q319 Iain Stewart: Mr Inskip, do you want the right of reply?
Geoff Inskip: I understand the issue that you raise. This has been widely discussed. Life isn't risk-free and we don't know what the future looks like, to be honest with you. I do think we have come up with a governance structure in both West Midlands and Northern that is robust enough to have that proper mature debate should those circumstances arise and where we find ourselves in need of having to make cuts. Who knows what the future might hold? Remember that the starting point for this is an agenda for growth, not for cuts.
The other point is that we are expecting that in relation to the growth agenda the baseline specification for the franchise will have current services plus growth in it with the right financial parameters to secure it going forward. That is also very important. This deal is not done. We are not saying devolution at any cost. We are saying devolution provided the right financial circumstances can be negotiated with the Government.

Q320 Chair: How concerned are you that that financial deal won't be done? Do you have any concern that the Government might be trying to offload the risk on to you?
Geoff Inskip: No, I don't believe that is the case. I do not think that is the debate or the discussion we have been having with the DfT at all. The discussion we have been having with the DfT is looking at the base level specification. They know, for example, that if they were managing Northern on their own, for example, with TPE they would have to put in investment on rolling stock. We cannot manage on the existing rolling stock. The investment has to go in somewhere and that investment will be made. The baseline specification is also proving the value for that, but of course we are expecting there to be a reduction in rail costs going forward. You have heard the evidence from both David Higgins and McNulty that we are expecting £3.5 billion of savings to be managed on the railway through Network Rail. Part of the prize for us is having those savings delivered locally to Northern and to the West Midlands so that we can decide on how to make that investment going forward.
Councillor Johnstone: It is a concern of the LGA that insufficient funding will be made available to local authorities and that, therefore, the risk will be transferred to us and we will be left with inadequate funds to maintain an acceptable level of service. Obviously, that would not be good for local authorities or for the travelling public. What we would like to see, accepting that there are efficiencies that can be made, is some sort of incentive so that if local authorities deliver the savings, clearly central Government would be expected to have a share of it but so would local authorities. They can then reinvest those savings in further services.

Q321 Graham Stringer: Mr Inskip, in your written submission you are very critical of the role of the Rail Development Group. Basically you say—these are not your words—that they are not fit for purpose, they are self-interested and they are going to be no good for the railways. Would you care to expand on that and give an alternative to the RDG?
Geoff Inskip: In fairness, the RDG has now been in place for a little while. We have not seen too much come out of the RDG and it is a concern of the industry that it is not making sufficient enough progress to deliver the savings. But it is fixed to do that and we need to depend on it to do it. Looking at alternative structures to do that is going to be quite difficult. I am not sure what the alternative is. We just want the RDG to get on with things.

Q322 Graham Stringer: Your written criticism is stronger than that. You are saying that they are self-interested and, by implication, have not done their job and aren't going to do the job. Surely, if you say that, there should be some alternative that will deliver these changes?
Geoff Inskip: In discussions with the RDG, they say they are going to do it and they seem to have a plan of action. Maybe things have moved on a bit since we wrote that. There was great frustration at the time that

they were not really making any progress towards it, but David Higgins and Tim O'Toole now seem to be quite keen on ensuring these savings are delivered. They have a direction from the Secretary of State to do it.

Q323 Chair: Mr Inskip, if you have changed your view from the time you sent us that submission, it would help if you could send us something else because that stands as your evidence.
Geoff Inskip: I can do that.

Q324 Graham Stringer: I will move on. Again in the written evidence you call for more transparency and greater accessibility to the way subsidy and funding to the railways is done on a regional and spatial basis. Could you expand on that and say how you think that would improve the arguments for investment in regional rail?
Geoff Inskip: There has been quite a lot of criticism about the high cost of regional railways, for example, and that goes to the core of this argument: what is the cost of the railway? I am not sure anybody knows what the real cost of running regional railways is. The allocation of costs can be done on a number of parameters. We are not quite sure that the way it is done currently would give the right result. If you take specificity of costs, for example, which is part of our argument, and made it more specific to the cost of actually operating the railway, then I think you would get a much fairer result. At the moment Network Rail's charges are made on a basis which we don't believe reflects the economic performance and cost of actually operating the trains that run on our railway. If you go back in time and think about the primacy arguments that were about intercity running on the railway first, it took the most cost and therefore it had a fair reflection of the cost to run that railway. With regional railways and then freight operating, costs were charged at the margin over and beyond the cost that was there. We think that is a fairer way of reflecting costs going forward. It would help reduce the cost of operating the railway.
Having said that, there is still this issue of the very high cost of running Network Rail. You have to reduce the cost of running Network Rail in the first instance and then apportion it on a better basis than currently.

Q325 Graham Stringer: Just to be clear, your feeling is that, although we don't know, if the assessment of investment and subsidy was done on a more transparent basis the balance between the south-east and the rest of the regions would look less unbalanced.
Geoff Inskip: Yes. We have put in an alternative scenario that indicates that is the case.
Professor Nash: I very much agree with the point that, currently, all published assessments of the cost of different types of service on the rail system rely heavily on some more or less arbitrary allocation of the fixed costs of the system. It is in the nature of a railway that a large part of the costs are incurred by providing the infrastructure. The actual wear and tear of running trains on them is only a small part of the infrastructure costs. That can clearly be directly attributed to individual services, but there is a lot of arbitrariness about how the big rump of fixed costs is allocated. The fixed charge to franchisees, for instance, is simply allocated on a mixture of train kilometres and passenger revenue. The recent regional disaggregation published by ORR again allocates those costs and revenues that are not specific to a region on the basis of train kilometres. That is all fairly arbitrary.
If we really want to know what the economics are of regional services, given that one assumes that the intercity services and the London commuter services are certainly going to stay, then we need to look at the additional costs of adding the regional services on to the network. In some cases that needs infrastructure that you would not otherwise need, and therefore the whole cost of that infrastructure should be allocated to regional services. In other places it is simply making use of the capacity of the existing system, and there is a low cost involved in that.
I am not aware of any attempt to estimate those avoidable costs of the regional network in the last 10 or 20 years.

Q326 Graham Stringer: There is another oddity as well, isn't there, Professor Nash? If you invest in extra rolling stock which can enhance and increase the capacity, that is considered as subsidy. If you make structural changes to the actual railway lines, that is considered as capital investment. Is that a fair way of accounting for money going into the railways?
Professor Nash: It is a consequence of the way different assets are financed, with rolling stock being financed through leasing and therefore being part of the train operators' costs.

Q327 Graham Stringer: Is it a fairer way of doing it?
Professor Nash: At the end of the day, what matters is that there are appropriate methods in place for appraising both investments and subsidies. It is true that a cost-benefit analysis is routinely used with investments but perhaps not so much with subsidies. I think it should be. That would then make all forms of Government finance subject to the same economic test.

Q328 Chair: Professor Nash, to your knowledge has this issue been taken forward anywhere where costings are actually assessed? On the figures produced by the McNulty Report showing what is said to be a very high rate of subsidy for regional railways, it could make those regional railways look very vulnerable. This is a very serious issue. Are you aware that this matter has been considered seriously anywhere?
Professor Nash: Not in terms of recent experience. I find the McNulty figures puzzling in that I could not find any published explanation of how they were derived. As I say, the current fixed charges to franchisees are themselves fairly arbitrary. What has often been done, including by ORR, is simply to allocate the Government grant to Network Rail in

proportion to the fixed charges that are part of the franchise. That would be equally arbitrary.
Chair: We have had information, in written evidence we have received, from Transport for London that claims that London rail users get a 4.8p Government funding per passenger mile compared with 31p for each regional rail passenger mile. Transport for London is putting a case to us that they are in fact getting a bad deal and that the regions are getting a much better deal. This is an issue that somebody will have to get to grips with.

Q329 Graham Stringer: I want to follow up on that. On those figures, the previous Secretary of State said, when we were asking for investment in the Northern Hub, that the bus subsidy was so high that fares would have to go up or we wouldn't get the investment. What you seem to be saying, Professor, is that there is no real basis to these figures and that they are just arbitrary. If that is the case, it is serious. Is that what you are saying?
Professor Nash: In terms of the published figures for subsidy per passenger mile, yes, there is a high degree of arbitrariness about them. There is a serious need to look into this more thoroughly.

Q330 Chair: Mr Inskip, you have submitted some detailed figures to us.
Geoff Inskip: The point is that capital investment is paid for quite separately and directly by DfT to Network Rail. Therefore, it does not form part of the formulation of charges into things like the regional rail charges. The point about capital investment is that a lot of it is invest to save. Where the south-east have had a lot of investment, that has reduced the cost of their railway. What has happened in the north and the midlands is that we have not had that investment. We feel that something like the Northern Hub, for example, will improve not only economic performance but the parameters round the railway. We know that electrification reduces operating and maintenance costs in the long term. We need more electrification. That will help reduce the cost of operating the railway in Northern. It is those sorts of investment decisions that need to be made.
But those investment decisions are taken outside the decision-making process on subsidy. Capital investment decisions are made by DfT, by putting that money into Network Rail quite separately, and then the operating company or the regions don't take a charge for that in the long term. If you were a commercial company you would make that investment and then you would charge depreciation against those particular regions. If you charge the depreciation on the capital investment then that would start putting the charges up where the investment has been made. That would perhaps put up the 4.5p to some different figure, although I can't tell you what that figure would be.
Graham Stringer: That is very interesting. Thank you.

Q331 Julie Hilling: I want to be clear. In terms of your proposal, do you then become the DfT, so you let the franchise rather than operating it?
Geoff Inskip: Yes. We would be letting the franchise on our terms.

Q332 Julie Hilling: What would the relationship then be with the track, with Network Rail?
Geoff Inskip: This is interesting because we don't believe that we want to do any vertical integration. That is not where we sit at the moment. Network Rail charges need to be dealt with quite separately, outside the discussions. They will have to form part of the financial discussions that we have with Government because when Network Rail's charges come through for the train operating company we want to see a flow-through of those. Where they get reduced, part of that should be captured locally. The real costs that we are talking about here are the operating costs of the train operating company itself—bidding out that part of the franchise. As you know, the train operating companies expect the Network Rail charges to be a flow-through in terms of Government funding.

Q333 Julie Hilling: You are saying this would be a bid for growth but where would you then be cutting costs? How would you cut costs?
Geoff Inskip: There are a couple of areas. One is the need for capital investment, which we have said before. We have made the point that electrification does help reduce costs. We also make the point that we would like to prepare our own HLOS—high level output statement—and our own SoFA, so that forms part of what we do. Rather than DfT having their part of HLOS and SoFA at that level, we would take it locally and determine exactly how that gets spent.

Q334 Julie Hilling: How would we ensure that those safety standards and ongoing maintenance, improvements to track and so on, are of the right standard and improving rather than decisions being made at a local level saying, "We will put off doing that until next year because it doesn't look good on the books"?
Geoff Inskip: I don't think we would be looking to put off decisions like that. To a certain extent, putting off decisions like that got us, historically, into the problems of make do and mend. I don't think that is an option. Where we see the benefits is that we do recognise that the Rail Delivery Group, the Secretary of State and also Network Rail are admitting that their view is they can reduce their subsidy requirements from £6 billion down to £2 billion. It is that move down into that reduction of subsidy that should flow through and be captured locally as well. However much of that £3.5 billion or £4 billion will be saved, as RDG do its work and Network Rail deliver those savings, that will reduce our costs. What we are saying is that should not all go back to Treasury. We are suggesting that 50% of that gets captured locally and 50% of it goes back to Treasury. We think that is a fair deal: 50% will go to passengers and locally we would like to determine—effectively, under devolution, our politicians will determine—how that money gets spent, whether on better services, reduced fares or whatever it is.

Q335 Julie Hilling: I am unconvinced about the savings that you talk about. I am also a little unconvinced when you say that the train operating company will pay for new trains. I am a little concerned about the model that you talk about when you say, "There are going to be wonderful savings, we are going to have a better service and we want a share of the savings." I don't see that.

Geoff Inskip: Perhaps I can help a little bit. Part of this issue is in relation to the base franchise specification that ORR will be putting out. To a certain extent that is a negotiation with the DfT at this stage. There is also an element of negotiation with the train operating companies because what we will be putting out is a base level specification—a specification of service and determining how fares will be dealt with. We will get responses from the train operating companies in that regard. That response from the train operating companies will be, in particular, in relation to the cost of rolling stock and the cost of running the trains. It is the above-rail cost, to that extent. We would expect to see, on the growth agenda, some improvements to those services which, incidentally, we can then buy in addition to the base level specification, should we so wish, going forward.

The other part of this equation which is more difficult—and I understand the concerns the Committee will have because we have the same concerns ourselves—is: how is Network Rail going to deliver the £3.5 billion of savings? Sir David Higgins and Tim O'Toole are saying to us all, and they said it to you as well, that they are going to deliver those savings. It is formally their position that they will be delivering a reduction in subsidy from £6 billion to £2 billion over the coming years. If that does happen—when that happens, is what I am saying—we expect that part which is going to arise as a result of those savings, which is relevant, into either the West Midlands or Northern to be captured by us and spent by decisions made locally.

Q336 Chair: Mr Buxton, what benefits do you expect Community Rail to see from devolution?

Neil Buxton: We have already proved that devolution can bring a lot of benefits at local level. As long as we have the support of the devolved body, then I think we can carry on doing that. There are ways forward in which we can do that. Certainly getting communities involved in their railway line and their services can be helpful. I don't think, however, that Community Rail Partnerships are quite ready for micro-franchising just yet. They are not really set up for it, they are not big enough and it is probably better left to the larger authorities. However, as long as we can work with them, that is the key thing.

Q337 Paul Maynard: Do you feel that you are being involved at the moment in discussions over things like rail in the north? I know, for example, that on the South Fylde Line they have seen passenger numbers driven up by the Community Rail Partnership and the same with the Mid Cheshire Line. Is that still going to be the case if the big clumping ITA strides in to say, "Actually, you are outside the boundary. We don't really care about you quite so much because you are in posh Knutsford or posh Lytham. To hell with you"? Is that not a danger?

Neil Buxton: It is certainly a danger but I think they would be very foolish to ignore that. A well-working Community Rail Partnership can deliver a benefit-cost ratio of 4.6:1.

Q338 Paul Maynard: Have they been discussing it with you so far though?

Neil Buxton: We are starting discussions with them, yes.

Q339 Paul Maynard: Starting; good.

Neil Buxton: Absolutely, and I intend to continue having discussions with them on this.

Chair: I hope that they are fruitful ones. In the absence of any other questions, thank you very much for coming and answering our questions.

Tuesday 4 September 2012

Members present:

Mrs Louise Ellman (Chair)

Steve Baker
Jim Dobbin
Julie Hilling
Kwasi Kwarteng
Mr John Leech
Paul Maynard
Iain Stewart

Examination of Witnesses

Witnesses: **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, gave evidence.

Q340 Chair: Good morning and welcome to the Transport Select Committee. Would you give us your name and the organisation you are representing? This is to help our records.
Maggie Simpson: I am Maggie Simpson. I am from the Rail Freight Group.
Nigel Jones: I am Nigel Jones from DB Schenker.
Christopher Snelling: I am Christopher Snelling from the Freight Transport Association.

Q341 Chair: Could you give us an idea of which types of rail freight you think are going to grow and which you think are going to decline? Mr Jones, perhaps you would like to start.
Nigel Jones: One of the main features of rail freight in the last 10 years has been the way in which the movement of containers—what is usually called intermodal freight—has continued to grow and is continuing to grow. It has now overtaken the movement of coal as the largest commodity that is moved by rail in this country. Ever since railways were invented, coal was the single biggest commodity that railways were partly invented for and certainly moved. But that has now changed and will continue to change. The movement of containers, both from ports to inland distribution terminals and increasingly internally within the country and through the channel tunnel, will be the main feature dominating rail freight over the foreseeable future and certainly for the next 15 or 20 years.

Q342 Chair: Would anybody like to add to that or put another view?
Christopher Snelling: I would endorse that view. We tend to represent the customers and the logistics industry in general who want to be users of rail freight. Certainly from our side the desire over the next few years is for a massive increase in the use of containerised services, particularly for the retail industry as well as manufacturers. That is where we would see the real growth opportunity that is worth pursuing for rail freight.
Maggie Simpson: It is fair as well to reflect on some of the more traditional commodities. Although coal is flat or is possibly declining—it is certainly volatile—there is potential for movement of biomass by rail if co-firing of power stations takes off in the way that some people believe it will. Waste by rail is another potential sector that is showing some interest. There is also an increase in the movement of petrochemicals as the pipeline network becomes older and in need of some investment in places. Although I absolutely support the fact that the principal growth will be in the intermodal sector, there are some bulk areas where we certainly expect sustained performance and some growth.

Q343 Chair: Does growth of 4.3% per annum in tonne-kilometres still seem to be the best estimate of likely growth? That is what was in the Initial Industry Plan.
Nigel Jones: Yes. 3% to 4% was the range that was expressed in the Initial Industry Plan. This is what has been achieved post-privatisation, albeit there was a dip during the recession. The sector has recovered strongly. Last year it grew by about 10%, and 3% to 4% is seen as wholly achievable.

Q344 Mr Leech: How much is rail freight policy dictated by ports and shipping companies and their decisions on where they move their containers to?
Nigel Jones: Ultimately it is decided by end customers. It is decided by the people who are causing the goods to move. They decide where they buy those goods and whether they buy them within this country or whether they are imported. They will decide which port of entry is used. Depending on the port of entry, if it is an imported good, for example, there will then be a choice as to whether the distribution is by road or rail. There are many different influences, but I think the key influencer is the principal in the transaction. It is the person who is causing the movement to take place.
Christopher Snelling: There is clearly a very strong role for the shipping company in deep sea traffic in terms of which port they are choosing to operate out of. If a customer's goods are being carried with MSC, they might switch their links from Southampton to Felixstowe. There is then a less direct link as to whether it is road or rail you are using from that port. All of the major container ports such as Southampton and Felixstowe will have very good rail/freight links. The choice is still there even if the deep sea shipping line does change their calling pattern.

Q345 Mr Leech: Would it be fair to say though that, if there was a better distribution of containers around

other ports in the country, there would be more potential for growth in rail freight?
Christopher Snelling: The note of caution I would want to sound on that is that, as an island economy, we do not get to control where the deep sea ships call. The major challenge we face in the UK is getting the deep sea ships to continue calling in the UK at all and not seeing ourselves bypassed as they call simply to the larger ports on the continent and have the goods trans-shipped. If we end up being reliant on that, it adds delay and cost to our supply chain, which is not a good thing. There is a limit to the extent that we can redirect deep sea calls anywhere around the UK because we are in a battle just to keep them coming to Southampton, Felixstowe, London Gateway and places like Liverpool for things like South America or North America's traffic.
Where you do get short sea calls, which will make a much wider use of ports, you are obviously into a different market, because, as you have moved around the UK, the onward distances that you need to move may be a lot less and the volume of containers may be smaller. Therefore, the market economy for rail versus road changes compared to the mass movement into Southampton or Felixstowe, which then might have to travel up to the north-west or Scotland.

Q346 Iain Stewart: In the interim period between now and the high speed network opening, rail freight is going to be competing for a finite amount of capacity on the West Coast Main Line and East Coast Main Line. Are you concerned that your needs will be squeezed out by passenger needs?
Maggie Simpson: At the highest level, yes, we are concerned to make sure that there is enough capacity to enable the growth that we are forecasting and which is being delivered to continue. Having said that, there are a number of things that help. Rail freight has been successful in running very much longer trains. We have seen something like a 32% productivity improvement in the last five years as more goods per train are being conveyed. There are still more opportunities to exploit more trains at the weekend, which is particularly critical in the retail sector. With Sunday afternoon traffic in particular, there is not so much of that as there should be—and possibly again overnight. Ultimately, yes, on the main routes it is important that rail freight capacity is protected as the passenger timetables evolve and passenger traffic grows in the period up to High Speed 2.
It is also important when we are thinking about the development of High Speed 2, with the necessary bills and contracts that underpin that, that the rail freight capacity that is promised as a consequence of High Speed 2 is safeguarded. Experience suggests that, faced with choices in the future between additional passenger services and freight, it is not always as easy to safeguard the freight capacity as we would like to think today.

Q347 Iain Stewart: Can I follow up on what they are calling the "Electric Spine"? Do you think that will help relieve the pressure on the traditional north-south routes in the country or is it different?
Nigel Jones: I think it is different. It may do. In one crucial aspect it does open up new opportunities. The Midland Mainline, which is the railway line north from St Pancras to Leicester, Nottingham, Derby and Sheffield, has historically had a very constrained loading gauge so that the size of the containers you can take on railway wagons is reduced. Electrification north of Bedford will change that. The use of the Electric Spine will offer the opportunity for intermodal freight to access the midlands and the north via the Midland Mainline in a way that has hitherto not been possible. One of the consequences of the Electric Spine will be that investors and developers looking at strategic rail freight interchanges will now look at sites adjacent or close to the Midland Mainline in a way that they have never done hitherto. The main flows of traffic from Felixstowe, London Gateway or Southampton to the north and the north-west are less likely to benefit in any significant way from that element of the Electric Spine. Through-running hauled by electric locomotives in the fullness of time is a different matter, but in terms of capacity there is a less obvious relationship for the traditional flows of traffic.

Q348 Chair: Is there a business case for investment in new electric locomotives on that Spine?
Nigel Jones: That is one of the challenges that the HLOS has given us as a sector. We have invested about £1.5 billion in new equipment since privatisation, a lot of which has been locomotives. Something like two thirds or three quarters of the freight locomotive fleet is new since about 1998. With a life of 30 to 40 years, making a case for premature replacement of that fleet with electric traction is going to be challenging. We have to remember that we are talking here about an electric network that will be in place at the end of the next control period and in subsequent control periods. We are talking five, six or seven years in the future. That is why I say it is a piece of work that we, as a sector, have got to do with Network Rail in working out what the opportunity is and whether there is a case, or how we make a case, for investment in more electric locomotives. We do have some but we don't have a large fleet of electric locomotives.

Q349 Jim Dobbin: Mr Jones has touched on the issue of freight terminals. Are there sufficient freight terminals around the country?
Christopher Snelling: From our perspective, talking with customers and potential customers, their access to terminals in the right location is still one of the factors holding back the use of rail freight. There is a direct relationship. It is not just a capacity issue. In order to make the economics of rail freight work for a user, the terminal has to be quite close to wherever it is you actually want to be. Having the variety and choice, and a wide spread of that, has a direct relationship. The more you have of that, the more rail freight you will have because the more customers will be able to make use of it.

Q350 Jim Dobbin: Following up on that, are you saying that some of the existing terminals are geographically not best placed?
Christopher Snelling: No. Generally speaking, they are in good places and they are very well used in consequence. But, if you have more terminals in more locations, it enables more potential customers to start making use of rail.
Nigel Jones: That is going to be an issue particularly in London and the south-east. That is probably the region that has the least number of strategic rail freight interchanges, particularly for containerised traffic, looking at what the market is going to demand over the next 10 or 15 years. That is where there is a particular challenge in getting planning consents through the planning process at all, let alone in any quick time, to deliver the capacity that is needed to underpin the growth.

Q351 Steve Baker: On capacity, are you satisfied with the way that capacity is allocated to freight?
Maggie Simpson: Network Rail and, particularly historically, the Rail Regulator have generally been even-handed on that. We have been pressing for probably a decade now to have strategic freight capacity defined and safeguarded in the timetables so that those paths, which are already in the timetable in many cases, are clearly marked and allocated and therefore can't be inadvertently lost by pathing of the trains across them or small sections being used. It is particularly important because freight runs across so many routes and the alignment of paths between routes is often as critical as the path itself. It has to be aligned at the port, the terminal and on multiple routes.
I have to say that progress on getting that has been slow at best. It is a real concern moving forward, particularly as decentralisation progresses, that, even where there are paths in the timetable, the connectivity of those and therefore the usability of those will be lost. There needs to be some action on that.

Q352 Steve Baker: Can you imagine circumstances within which you were able to buy the train paths you need in some sort of auction arrangement so that you are able to compete with passenger trains for access to those particular paths?
Nigel Jones: That would be quite challenging because the nature of the access we require to the network is fundamentally different from the passenger railway. To put it at its most simple, we operate freight trains in response to customer demand, whereas passenger trains are planned and operated in anticipation of customer demand. Therefore, our requirements are more flexible. Customers' requirements change, sometimes over surprisingly short periods of time. The access regime has to cope with that as well as the way the passenger timetable is put together.
Historically, it has done that reasonably well. There are collisions from time to time and disputes, but by and large it has worked quite well. It is absolutely essential, as Maggie has just said, that capacity allocation and management remains on a national basis for freight. It is absolutely essential because of the nature of the industry. We would certainly see that as remaining in some sort of system operator role rather than in any sort of devolved structure, concessions or whatever rail reform might bring in the future.

Q353 Steve Baker: Do you recognise a tension between the two positions that you have just sketched? On the one hand there is the need for flexibility in access to train paths, but on the other there is a call for an amount of strategic freight capacity to be set aside well in advance. It seems to me that, within that, there is both a tension and a possibility to waste train paths and run inefficiently. Do you think that is a reasonable point?
Nigel Jones: I understand that. It has to be a dynamic process. You can't just say, "That's a strategic freight right and therefore it is a strategic freight right for the next 10 years." If the underlying commercial demand changes, then we as a sector have to say, "Yes, it has changed and we no longer need that right", or "We no longer need that path", and we can give it up. We do do that. Allocating and using train paths, and giving train paths up, is a very detailed process. There is a lot of work involved in it, but we understand that it has to be dynamic so that the best use is made of overall capacity. We are always open as a sector. If the passenger railway comes and says, "We want to change our timetable and run more trains because we have the opportunity, but you operate a freight train that is causing us a problem", if we can move it we will within the bounds of what our customers require us to do.
Maggie Simpson: Over the last 10 years, bearing in mind the recession, the volume of increase is something like 16% more goods on 32% less trains. As a response to trying to squeeze as much as you can out of the network, there has been a resounding success in trying to achieve that. There are less freight paths held today than there were historically for more goods being moved.

Q354 Chair: You keep raising major concerns about the potential conflict between having more devolution in the way the rail service is operated and the importance of a national system for freight. You are represented on the Rail Delivery Group. Do you feel that is sufficient to safeguard freight's interests?
Nigel Jones: Yes. We play a full role in the Rail Delivery Group. We play a full role as a sector in all the industry groupings, committees and arrangements, because that is the best way of getting other people to understand what our requirements are and protecting our own interests. We are so different from the passenger sector and we don't feel we can stress that difference enough. Hence we will remind our colleagues in the industry, you and other people that freight's needs are for a national network and a national requirement, such as train planning, at a time when other parts of the industry might very legitimately be moving in a different direction. Whatever solution is appropriate for them may not be appropriate for us.

Q355 Paul Maynard: I want to return to the Electric Spine, a phrase I think we will be heartily sick of before too long. If I have understood your answers correctly, this is a project that will only occur if you choose to take a decision to commission further locomotives. You implied that there were six to seven years to go before you would need such locomotives. It may be a sad reflection on the state of rail procurement policy in this country, but six to seven years suggests to me that you ought to be starting now if you are going down that path.

Nigel Jones: I understand that. That is why I said we have started work. What is Government policy towards rail freight? It is driven by a vision for the sector of a strategic freight network. That is underpinned by nine characteristics, one of which is more use of electrification; others are capacity and capability for rail freight. The emphasis over the past five or six years has been on delivering greater capability in the sense of the ability to move bigger containers and greater capacity for rail freight. What this latest HLOS has done is to change, if you like, the Government's priorities as to one of those characteristics of the vision for a strategic freight network. We now have to work out our response to that challenge, which we have.

I fully understand that it takes four or five years in general to specify, procure and deliver electric locomotives, or any locomotives, unless there is an off-the-shelf model readily available and the manufacturer has spare capacity. I don't think there necessarily is a dislocation between the time scales that are implied for doing the physical work to the infrastructure and making a case and then subsequently investing in locomotives. That is the work we have to do, but you have to start somewhere. Do the locomotives come before the infrastructure? That is never going to happen. The infrastructure always has to be the bit that is going to come first with moving from diesel to electric traction. That is what the Government have signalled in the recent HLOS. There is also a lot of detail still to be worked out with electrification as far as rail freight is concerned. It is the detail of which lines, which loops and which connections are going to be electrified that is vital for us. If there is not connectivity between the West Coast Main Line, the Great Western Main Line, the Midland Mainline and the East Coast Main Line, it is no good for us because our services don't just operate out and back along the main lines. They cross all the main lines, as Maggie said earlier. The real detail of which specific pieces of infrastructure are going to have the wires put up—will that link between the two lines be electrified, and will the link into freight sidings, depots and yards be electrified?—is absolutely vital for us to work out what the scope is for moving from diesel to electric haulage. That is part of the work that the industry has to do over the next couple of years.

Maggie Simpson: To be clear, if you wanted to go today and buy a loco—diesel or electric—to run in the UK there is not one available. You can't buy the diesel locomotives because the flexibility package of non-road mobile machinery, which was passed by the European Commission in November of last year, has still not been transposed into UK law so you cannot buy diesel. There are no new electric locomotives that have a certificate for the UK—i.e. the right gauge. As we sit here today you cannot buy a new locomotive.

When people are looking at future strategies, they have to decide principally whether they are going down a diesel or electric strategy. The joy to me of the HLOS is that it starts to move the tipping point for that decision across to electric. It may be that there are no new electric locomotives for a decade, but at least it is a decade and not 50 years. There is no doubt that, with fuel prices remaining, at best, volatile, a long-term move to electric traction has to be in the sector's best interest. I think it is terrific that it is recognised in HLOS, not just in the Electric Spine but in the paragraphs that talk about future electrification, CP6 enhancements, looking at other links to ports and such like into the future. It will help people make those choices.

Q356 Paul Maynard: Mr Jones has spoken a bit about what he thought characterised rail freight policy. Can I suggest that possibly what drives it is a need to ensure that in any given transport policy statement rail freight gets a paragraph so that the interest groups can't say, "We have been ignored"? That obviously makes it difficult for Members of Parliament and indeed others to observe or to interpret what the sum totality of rail freight policy is. To what extent do you think we now do have a coherent policy? Maybe you could sum it up for us in a few words even. I just see the occasional bauble flashing through a ministerial statement without knowing what the sum totality is.

Christopher Snelling: From my perspective, the development of the Strategic Freight Network has been a very good example of as "long term" as Government ever get. It has been a consistent programme and the system behind it has worked very well. The investment has been delivered on the ground and the projects have worked. In terms of developing the infrastructure in the right way in line with what industry needs, that has been a classic example of it working very well. Generally, we would be quite positive about Government policy on rail freight over the last 10 years at least. There are aspects such as planning, in particular, where it is not delivered on the ground because other considerations come into play. The Government might set a reasonable policy for strategic rail freight interchanges, but then getting those delivered through individual planning inquiries becomes impossible.

Q357 Paul Maynard: Eddington stressed the importance of access to international gateways, and ports were a key part of that. Over time we have seen piecemeal improvements to various ports around the country. To what extent do you feel the Eddington vision has been delivered? If there are gaps, either in what has been constructed or even what has been announced but not yet constructed, why do those gaps exist? Do you feel the current Government are still buying into the Eddington vision, particularly given what you have said about decentralisation?

Maggie Simpson: If we had not had the Eddington Report, frankly, we wouldn't have had the Strategic Freight Network. Out of all the Government papers that I have lived through, I would say it was probably the most successful in promoting rail freight growth. The investment that has come out of Felixstowe and the gauge clearance out of Southampton has delivered a 10% market share gain, but I share concerns about other aspects of Government policy, although not necessarily DfT policy. Certainly planning remains a sore point. Whether we need more legislation or whether, frankly, we just need to take decisions on the things that are already gathering dust on our desk might be a good place to start. More recently the debate about freight access charges and the seeming change in policy from the Rail Regulator towards rail freight is of particular concern at the moment.

Q358 Chair: Do the Government have a coherent trans-modal policy enabling freight to move from road to rail and maybe to water? Is there a coherent policy?
Christopher Snelling: In some ways the markets are quite different. When you are looking at the short sea shipping side of things, which is the complementary market that we are talking about, it is predominantly international along with some coastal. By and large they have applied the same thought processes to those, but the Government involvement in short sea shipping is of a very different type. Obviously it is not running over tracks, the development of which is funded by and large by the taxpayer. The ports themselves are of course private concerns as well.
There is some disconnect in grants policy. Rail and short sea shipping are treated in slightly different fashions, although effectively, in environmental terms, they are doing the same job. There is a bit of a disconnect there, but otherwise there are a lot of differences because it is a very different market in terms of Government involvement.
Nigel Jones: There has been an increase in consistency. There has been a growing consistency, particularly, as we keep mentioning, in the development of the vision for a Strategic Freight Network. That has been a consistent and flexible approach to rail freight, but also the relationship between some elements of road and rail, for about five years across two Governments. That has given a stability that has not always been there. You would have to say that there are still big structural differences between road and rail freight. The way in which road freight is charged for access to the road network is completely different from the way that rail freight is charged for access to the rail network. There are still big structural differences that we have to deal with. Roads are a major competitor. We compete with each other as freight operating companies but our real competitor is road transport. Whilst I think there is a general Government policy that would like to see more freight on rail rather than road, there are still some big structural impediments that we have to face in trying to achieve that.

Q359 Chair: Would you say there is a level playing field between road and rail?
Nigel Jones: I would not, no.

Q360 Chair: What would need to be done to make it a level playing field?
Nigel Jones: If you want to operate a lorry to move a container from a port to an inland terminal, it is really quite a simple process. You need an operating licence, so you go down to the Post Office and buy a vehicle excise duty certificate for whatever the class of lorry is, and that is it. Then you go off and you do your business. Effectively the road network is free at the point of use, with relatively minor toll exceptions. There is no need to have access rights, train plans or plans for engineering works. There are big structural differences that ultimately manifest themselves in the cost base. Rail has some advantages and road has many advantages. Is it an absolutely equal playing field? No, I would say it is not.

Q361 Chair: The ORR has proposals for changes for access charges in the next control period. What are your views on that?
Christopher Snelling: We are very concerned about what we have heard about the proposals so far. We were just talking about a level playing field for road and rail. One of the disadvantages of rail that our members see when they come to attempt to use it is that it is a far more complex system. As Nigel was just alluding to, you have to go through a lot more hoops. That is a significant disincentive for our members to consider using rail freight.
We fear that some of what the ORR is proposing will add to that complexity. If you go down routes of geographical charging or if you are splitting up the freight market as much as possible, anything that adds to that complexity makes it frankly more and more difficult to quote to customers about what kind of service they are going to get. That is leaving aside the central issue that if costs increase there will be modal shift. Certainly from the point of view of the logistics industry as a whole, it comes across as a process set in place where rail freight charges are going to get more complex and possibly higher in future, and that has the danger of putting people off considering switching to rail in the long term if they see that every five years we could be going down this route of increasing difficulty.
Maggie Simpson: It is worth remembering that, on coal, the ORR have concluded in their consultation that, if they set a charge for coal that led to a 10% per annum reduction in the volume of coal over and above any exogenous factors, that would be acceptable. They have been unable to explain in their consultation why a 10% per annum reduction in coal volume is acceptable but a 10% per annum reduction in any other commodity sector—or indeed passenger or open access passenger or anybody else—would not be acceptable. We have questioned that. We have not had a response to that. Why is 10% per annum the acceptable number? What is the impact of a 10% per annum reduction in coal volume—whatever you think of burning coal and the overall energy policy—on operators who don’t run their coal business in a vacuum and who share drivers, locos and infrastructure? There are some very serious implications as well on domestic open cast production that have not been properly addressed. Certainly members of mine up in Scotland are very concerned about the future impact on their business. If you take it

overall, in the absence of a proper impact assessment, looking not just at the direct issue of whether electricity bills will rise as a consequence but how it will affect the overall sector and the secondary impact on other factors, this just simply has not been considered. That is on top of the points about complexity which Nigel and Christopher have made as well.

Q362 Jim Dobbin: Following your line of thought, Chair, I am looking at the whole of the freight business. Surely it is in the interests of the consumer and the people of this country that that is done as efficiently and as simply as possible. Are there any round table discussions that take place between the different competitors—air, road and rail—to try and achieve some consensus? I say that because I asked a question a few years ago on this very issue about transferring from road to rail. I was called in by my local HGV group and asked why I had asked that silly question. What is your view on that? It seems to me that there should be more.
Christopher Snelling: Certainly the FTA plays a role in this area. We have our Freight Transport Council. Underneath that we have Road and Rail Councils, which then both feed into one collective grouping. We try to come to consensus industry views on that. It is fair to say that whilst the majority of people work in a very collaborative fashion—and rail operators accept that road is a vital part of the logistics network, and most road operators are very happy to see the use of rail wherever possible, to exist as a complement to road—there will obviously be some operators who are wedded to road freight and don't take any interest in rail. That is the way of the world, but we certainly have mechanisms to try and come to a common logistics view.
Nigel alluded earlier to a level playing field for rail freight. What we always want to see is a levelling up. We want to achieve the maximum efficiency within every mode because the modes do have different roles to play. From our point of view we don't get anywhere in the long run by hindering one mode to try and protect another. What we want to see is the optimum efficiency in all modes.
Nigel Jones: Some of our customers are road hauliers. We work in partnership with road hauliers and logistics providers to offer solutions to end customers. Sometimes those commercial relationships are quite complex because we will compete with one person for one set of traffic and we will be collaborating with them for a different set of traffic. We have to remember which meeting we are going to.

Q363 Chair: One of the McNulty suggestions is that Network Rail should cease maintaining lines to freight standards if there is little likelihood of freight use. Are you comfortable with that suggestion?
Nigel Jones: We have been involved in working with colleagues in Network Rail because there are parts of the rail network on which there is no freight and which, to be honest, there is no reasonably foreseeable freight use simply because of the nature of the economic geography of that part of the United Kingdom. We are comfortable, provided not just ourselves and Network Rail but all potential stakeholders—whether that is local authorities or local businesses—have had a say on that. If there is a consensus that that is a good thing to do, and if Network Rail can make efficiencies and cost savings from doing that, it would seem to me to be a very sensible thing to be done.

Q364 Chair: Is that view shared or are there concerns?
Maggie Simpson: Within reason, it is a very sensible thing to try and identify assets that don't have any realistic prospect in the modern age of ever being used and allowing them to be either maintained less cheaply or, if it is land, disposed of or whatever. We need consistency so we can't end up with charging policies and frameworks or routeing policies that change every few years, because people who are looking to invest in major interchanges need to know that, once they have built it in that field in Leicestershire or wherever it is, they are going to be able to serve it properly in the long term. There is a risk of saying, "It's very expensive to maintain this route; this year go that way", and next time round flip it back. As long as we have consistency in the routeing strategies pinned to the Strategic Freight Network concept, then I don't have a problem with looking at the other routes.

Q365 Chair: The Government are said to be considering new infrastructure projects. If that is the case, what would you like to see happen to support freight?
Maggie Simpson: I would like to see the planning applications that have been sitting on Ministers' desks for over a year decided.

Q366 Chair: Are there any other suggestions?
Nigel Jones: This comes back to electrification. It is making sure that the real detail of the rail network that is going to be electrified is maximised and that the maximum amount of sidings, entry into yards, customer terminals and connections between different main lines and different running lines is electrified. If you are going to move the industry towards an electrically hauled future, I think the quicker we can move with the majority of the network, the better.
Chair: Thank you very much for coming and answering our questions.

Examination of Witnesses

Witnesses: **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, gave evidence.

Q367 Chair: Good morning and welcome to the Transport Select Committee. Would you give your name and the organisation you are representing, if any?
Dr Wellings: I am Richard Wellings. I am Head of Transport at the Institute of Economic Affairs.
Paul Plummer: I am Paul Plummer. I am Group Strategy Director at Network Rail.
Michael Roberts: I am Michael Roberts, Chief Executive of the Association of Train Operating Companies.
Jeremy Candfield: I am Jeremy Candfield, Director General of the Railway Industry Association.

Q368 Chair: Do you support the Government's overall strategy in HLOS? Have they got the right priorities?
Paul Plummer: Perhaps I can comment first; I am sure others will. Very broadly, yes. We have done a lot of work across the industry to say what we thought should be the strategy for control period 5 and where we thought, as an industry, Government should be investing in growing capacity. A lot of those things are reflected in the HLOS, so in very broad terms we see that as very positive. It is continuing to invest in infrastructure, which delivers real value not just to users of the railway but to the economy as a whole.

Q369 Chair: Are there any other comments?
Dr Wellings: I would say no. The Government have not dealt with the fundamental problem that the rail industry is hugely distorted by subsidies and other distortions such as the planning system. Basically, the central planners in the DfT are groping about in the dark. They don't have an idea of genuine levels of demand or genuine prices because we also have price controls. Basically, before embarking on these absolutely huge investments at taxpayers' expense, they ought to get the fundamentals right and remove these distortions and, in particular, the subsidy regime.

Q370 Chair: What would you like to see change?
Dr Wellings: I would like to see the subsidies phased out and a change in the planning laws that force developers into corridors around railway stations, for example. There needs to be a change in the tax regime as well so that there is a level playing field with other transport modes.

Q371 Chair: Are there any other changes that anyone would like to see?
Michael Roberts: I would add my voice of support to the comments of Mr Plummer, not least because the HLOS largely reflects a lot of the work that the industry, which in large part is private sector, has been engaged in for the last 18 months. The railways have been extremely successful since privatisation. We want to continue being successful. We regard investment over the long term as a key part of that. The HLOS underpins that investment. It will be investment that is paid for, yes, in part by the taxpayer but increasingly by the fare-paying passenger. I think there are some issues, which have been raised by Dr Wellings, that are legitimate about the degree to which the industry is cost-effective and relies on subsidy, but the Government are clear, as indeed is the industry, that in earning our opportunity to continue to invest we also need to improve our cost-efficiency, which is very much what we are trying to do.

Q372 Chair: Mr Candfield, do you think HLOS reflects the industry's view sufficiently? Has anything been missed out? Would you like to see any changes?
Jeremy Candfield: Broadly, yes, I do. The supply industry is involved in the planning process to which Mr Plummer referred. We are engaged in that and we see the priorities very much as are reflected in the IIP—the Initial Industry Plan—and which are broadly reflected in the High Level Output Specification. What I would add, if I may, from a supply perspective, is that it is especially helpful to see plans being laid out, which, although they relate to five years, are of strategic significance for the longer term. That gives supply industry companies a significantly greater degree of confidence and, in principle, willingness to invest in training and facilities than would otherwise have been there. The repeated references to a rolling programme of electrification, for which we have been asking for many years as being the most economical and optimal way of delivering electrification, is especially welcome.

Q373 Chair: Is there enough there to support the supply industry?
Jeremy Candfield: So far as electrification is concerned, yes, there certainly is. There may be some other areas where it is not quite so clear, but, broadly speaking, we are talking here about a major investment programme by comparison with where we have been in previous years. The straightforward answer to your question is, yes, there is.

Q374 Mr Leech: Dr Wellings, you argue that there is no economic case for the improvements because of the cost to the taxpayer. You suggest that taxpayers are already paying about £5 billion a year in subsidy. As far as you are concerned, that is an unacceptable level of subsidy. What would be an acceptable level of subsidy?
Dr Wellings: Zero. I would like to see it phased out over a period of, say, 10 years to zero.

Q375 Mr Leech: What impact do you think that would have on fare prices on trains and the number of passengers who could afford to use them?
Dr Wellings: It would vary. I don't think it would have much impact on, say, the London commuter market, which I think is probably fundamentally economically viable, particularly if we also liberalise the planning system so that rail companies could make money from property development as they do in Japan. At the other extreme, you have railways in

places like rural Wales that are very poorly used. I think they should definitely close down. There is no economic case whatsoever to keep them going and there is also no social case.

Q376 Mr Leech: On the basis that there is a subsidy taking people out of cars and reducing carbon emissions, in your studies what impact would there be on carbon emissions and on the cost to congestion as far as the economy is concerned? Have you done any of that work?
Dr Wellings: It is a myth about carbon emissions. If you closed the entire rail network down overnight, the impact on carbon emissions would be barely measurable. There are two reasons for that. One is that it is quite a small share of overall transport use. The second reason, of course, is that we are talking about a different market from cars. A high proportion of journeys are into central London, for example. These would probably hypothetically go on to coaches and buses, which are more efficient than trains. It would actually be barely measurable.
There is also the effect of subsidising people to move further and further away from where they work through cheaper train fares. You end up, for example, with long-distance commuters through the season ticket system. Although the rail journey might be relatively efficient from an environmental perspective, in terms of the whole lifestyle they probably emit more than if they lived in inner London or close to work.

Q377 Mr Leech: Would I be right in assuming that the other members of the panel probably disagree with Dr Wellings?

Q378 Chair: The general suggestion seems to be that, if subsidies are required to keep the service going, then the service should not be run. Am I right, Dr Wellings, as a general statement in the way you are looking at it?
Dr Wellings: That is right. There should be zero subsidy. I don't want to do it overnight. I realise that it will affect people in certain areas.
Chair: That is what you would like to see.

Q379 Mr Leech: Dr Wellings was not able to say what impact that would have on train fares and passenger numbers. Perhaps people in the industry could give us an indication of what the impact would be with a zero subsidy.
Paul Plummer: I don't agree with the simple proposition as it was put, but there are a number of things underneath that. First of all, clearly we have acknowledged that the industry as a whole can improve efficiency. The subsidy peaked at around £6 billion. It is now closer to £4 billion, and by the end of the next control period in 2019 it will be down towards £2 billion. There is then a public choice as to what one does with that. Does one want to see further reductions in subsidy? Does one want to invest that in growing the railway or does one want to change the balance between fares and subsidy? There are public choices there.

Q380 Mr Leech: The subsidy will be down to £2 billion at the end of the control period.
Paul Plummer: At the end of the next control period.

Q381 Mr Leech: If we were to make the subsidy zero, what impact would that have on the cost of rail fares and the number of passengers joining or leaving the railways?
Paul Plummer: You could obviously do it in a number of ways. One would be to have substantial increases in fares, which has obvious implications. I cannot quantify that for you. The other would be that it is easy to run a purely commercial railway but it would look like a very different railway from the one today. That is not in the sense of physical infrastructure, but how we would use it. Reference was made to a London commuting railway, but there isn't such a thing as a simple London commuting railway. We have a mixed use railway. If one wanted to eliminate subsidy on that railway, one would stop investing in capacity to grow the peak, because that fundamentally costs a huge amount of money where you have that capacity constraint. One would stop a lot of commuter service in favour of longer distance services into London, which would have radical implications as well. There are different ways that one can do it. The way that we approach this, working very closely with the rest of the industry and with the Government, is to try and optimise within what the Government says it wants to buy from the railway as a good thing for the country because it is so fundamental for the economy.
Michael Roberts: The impact of taking subsidy down to zero will ultimately depend on decisions by Government, either in terms of what it wants to see happen with fares—and members of the Committee will be aware that nearly half of the fares that exist are regulated directly by Government—or it may mean that less of the investment that is being proposed under HLOS in increasing capacity, tackling overcrowding and addressing journey times would occur, with downsides and negative impacts on passengers.
Ultimately, we believe there is an ongoing case for some degree of public support for the railways on the back of the wider benefits that the railways deliver to the country. The industry proposals, which in large part have been endorsed by the Government in the HLOS, envisage that for every pound invested in the investment proposals the country would benefit four and a half times to the better. That would be through direct benefits to passengers in improved journey times and the ability to get a seat at peak time, wider transport benefits such as decongestion of the road network that would otherwise happen, and wider economic benefits such as the increased ability of some of our major cities outside London, such as Manchester and Leeds, to compete in the global attraction of business.

Q382 Steve Baker: Mr Roberts, you have reminded us that prices are tightly controlled by the state. They are not just covered by the supply and demand of transport. Mr Plummer, you have just explained some of the effects of removing subsidy. If I turn this round,

would you agree with me that your argument amounts to saying that tight state control of prices plus large subsidies has produced enormous distortions in people's transport patterns? I think that is just another way of looking at the argument you have advanced.
Michael Roberts: The combination of the two has certainly influenced the ultimate demand and the pattern of demand for rail transport. There is no denying that.

Q383 Steve Baker: If I was to look for an area of agreement between you and Dr Wellings, it is that the railway is not a free market operation, the state is tightly involved in it, and that has produced a system that works otherwise than it would have done if it were determined by people's free choices.
Michael Roberts: That is correct. Most markets are imperfect. The rail market has a heavy degree of intervention by Government. Most players in the rail industry have argued in different ways for a lower level of Government intervention because, ultimately, the greater use of market forces, we believe, will lead to a more efficient use of resources.

Q384 Steve Baker: What is the role of reducing subsidies in liberating those market forces?
Paul Plummer: I will try and answer that. One area where we certainly strongly agree with Dr Wellings is the need for much greater transparency about where costs are incurred, what decisions drive those costs and therefore how collectively we make decisions about how we want to grow. That is a strong area of agreement. If, on the back of that greater transparency, decisions are made that as a country we want to continue to subsidise the service as a railway, then we would want to continue to provide that. That is where we would come from on that.

Q385 Steve Baker: Dr Wellings, in your article for City AM in July you were highly critical of the Government. You said that "cynical political calculation seems to be the driving force of policy". You talked about the railways as a classic example of a politically distorted market. You have also said, without reading the whole article, that many of the projects are motivated by politics rather than economics. Could you give us some examples of where these things can be seen?
Dr Wellings: Yes. The most telling example from the recent plans was the plan to electrify the branch lines in south Wales. Of course the Welsh railways already have perhaps the highest operating subsidies per passenger mile in the whole network. We already have a false market, a rigged market, and yet we are going to invest good money after bad in this already hugely subsidised market. It seemed to me that the Government were allocating new schemes across the country to pay off various special interests. Few of them made any economic sense to me. For example, if you wanted a fast train up to Sheffield, it can already be done by the East Coast Main Line in an hour and three quarters. There just isn't the demand for that kind of service. The idea to spend this money electrifying the Midland Mainline to make some very tiny time savings didn't make any business sense to me.
Of course the worst example of all is High Speed 2, which has a very low benefit-cost ratio. We saw road schemes being cancelled in the Comprehensive Spending Review that had a benefit-cost ratio over three times High Speed 2. There is no economic logic at all behind current transport policies.
Chair: We are on rail today, though.

Q386 Steve Baker: I would follow it up by asking this question. Isn't it true that all Government investment decisions, including right across transport, are influenced by politics to some degree?
Dr Wellings: What we have is basically a thinly veiled version of Soviet-style central planning here. It is hugely centralised with the DfT and politicians making the big decisions. This is in a morass of economic distortions from price controls, subsidies and distortionary tax treatments as well. These people just can't make sensible investment decisions because, first, it is hugely politicised, and, secondly, because we don't have genuine prices or genuine levels of demand.

Q387 Paul Maynard: Entertaining though the show is, I would return to the HLOS statement. There is something in it for everyone, I thought. One goodie that struck me was the Western Access rail route to Heathrow. Mr Plummer, I understand it is meant to be subject to a satisfactory business case. As I understand it, there has been an economic appraisal. Quite what are you waiting for? Am I being cynical in suggesting that you are waiting for BAA money?
Paul Plummer: There is an element of that, yes. That wasn't at the heart of our Initial Industry Plan, but it is something that we have been working on with BAA and the Department for Transport. We think there is a good case there but there is more development work to be done. One of the questions as a result of that is who should pay for it. There is the extent to which BAA, among other people, benefit commercially from that investment and whether they should pay for part of it. That is a conversation we are having with BAA and I am sure that BAA are having that conversation with the Department as well.

Q388 Paul Maynard: Does uncertainty over aviation policy impede the development of this project? I know we are not going into aviation policy.
Paul Plummer: That has not been part of the conversation we have had with BAA as an issue.

Q389 Paul Maynard: I would also ask Mr Candfield about procurement and ancillary issues. In the MOD, defence procurement has always had a strong element of planning, understanding the importance of what they call "drumbeat", ensuring we have the skills base and the sovereign capability to ensure a steady supply of skilled people who can project manage. It has not always been the right outcome in terms of cost-effectiveness, but the concept has been there.
Do you now feel that in terms of rail procurement, the Department for Transport is reaching a phase where it now understands the importance of trying to ensure

that we actually have the skills base that can deliver very ambitious infrastructure goals?
Jeremy Candfield: I cannot speak for the Department for Transport of course.

Q390 Paul Maynard: I am asking for your opinion.
Jeremy Candfield: My view is that the Department for Transport has been very helpful in promoting and encouraging the development of the National Skills Academy for Railway Engineering in which all three of our organisations played a central part. It is still the case—and it will take quite some time to change—that we see cycles of procurement going through the industry. I have already said that we welcome particularly what has been said in the HLOS about electrification, but it follows a long period when there has been very little new electrification in this country at all. There are clearly skills issues that we are talking about, particularly with Network Rail, in seeking to resolve that.
To an extent some of the cycles are inevitable but there are some that are not. We are working with our other industry partners, and to an extent with the Department for Transport, to seek to smooth these out. In fact the whole concept of the HLOS itself is very helpful in that regard. It is frankly very helpful for the industry to have assurance for a period of five years on what its funding is. I work with quite a number of countries in overseas markets where funding for the railway is determined every year and it is not a good place to be. It is very difficult to work in that situation. Certainly we do have problems. We have not yet fixed all the problems to do with feast and famine, but we are in a much better place than we have been in the past and that we see in some other countries.

Q391 Paul Maynard: Many political observers agitate for what they call shovel-ready projects, as if there are gangs of marauding workmen on the streets waiting to start digging something up and doing something. Do you think that that is a helpful concept or is it rather a misnomer? Is there ever such a thing as a shovel-ready project?
Jeremy Candfield: Others on the panel may have views on that as well. For a lot of railway work, because the railway is an integrated system, the amount of planning that is required for any substantial change is very substantial and involves a lot of parties, and it requires quite a lot of planning. There are some things that can be done shovel-ready. There are some works on stations, for example, and buildings and matters of that nature. They can sometimes be accelerated very quickly. I have no information on what might be available in that category now but there are some works of that nature. They are relatively limited as a proportion of the investment programme as a whole. Most railway investment takes time to plan, procure, organise and deliver.

Q392 Iain Stewart: Mr Plummer, in an answer to an earlier question you referred to the mixed use nature of many lines in the country. An earlier panel of witnesses raised some concerns about rail freight having sufficient access to the lines within the passenger sector. There are competing needs between commuters and faster intercity journeys. Do we have the right mechanism for fairly apportioning capacity on our network?
Paul Plummer: Broadly, yes, again. It is one of the reasons why, even with what we are doing at the moment, which is devolving accountability locally and looking at alliancing with operators, we preserve and hold dear within Network Rail the fact that it is still a network and we need to be able to plan and allocate capacity at a network level. Beyond that, if we are not able to reach agreement with our customers, with their competing aspirations, then the regulatory framework ultimately provides for ORR to make decisions about that. What we have been trying to do is to look much further ahead in long-term planning and the route utilisation strategy process to say what the best use of capacity is and then to feed that into the competitive process and make sure it does not constrain competitive process at franchising, so that there is scope for innovation.
Ultimately, Network Rail has to sell access rights to somebody and flush out whether there is a case for further investment in there. The process has lots of checks and balances in it, which makes it quite challenging sometimes, particularly as we are using up and have used up more and more of the spare capacity and we are getting to the point where we have to make further investment. Even beyond that, getting to the point where you can't sensibly incrementalise yourself forward with the existing railway so you are into big step change, do you want to do something radical like build High Speed 2, on the basis that incremental work does not give you enough any more? Does that begin to answer your question?

Q393 Iain Stewart: Mr Roberts, from ATOC's perspective do your members, such as London Midland, feel that they get a fair bite at the cherry compared to Virgin or FirstGroup or whoever takes over West Coast?
Michael Roberts: I thought we were answering questions about freight and the respective merits of freight.

Q394 Iain Stewart: It is about how we apportion the capacity on the network fairly between the different operators, be that freight, commuter traffic or intercity traffic.
Michael Roberts: I don't think there is an issue there for our members. Going back to the earlier questioning in respect of priority given to passenger and freight operators in the round, issues to do with the relative charging mechanisms aren't one of the major issues of concern for our members. With regard to the interaction between, say, freight and passenger operations, I think there are three things from the perspective of train operating companies.
The first is that, where paths are allocated to freight operators, their use is well planned and that, once a path has been identified, it is used at the time that has been set aside. The second is that, for any freight train that then uses that path, it runs reliably, because a broken down freight train causes significant disruption, as indeed does any broken down train.

Thirdly, as part of the wider industry desire to see increased capacity in response to growing demand for rail, whether it is by passengers or by freight, we have supported the industry-wide call for investment in a Strategic Freight Network, which, again, the Government have largely endorsed in their HLOS proposals.

Q395 Jim Dobbin: Some experts would argue that rail freight in this country is possibly less efficient than it is in our European counterparts—for example, France and Germany. If that is your understanding, what are the lessons that we could learn if you agree with that statement?
Paul Plummer: I suspect you should have been asking that primarily of the previous panel. From our perspective the issues are around how we allocate the capacity.

Q396 Jim Dobbin: The reason I have asked the question is that Dr Wellings was making an issue about subsidy and so on. I am just trying to get your view of how freight is run in Germany and France.
Dr Wellings: I would just add that it may be partly to do with the distances involved. A high proportion of the freight in this country is run over short distances—for example, between Immingham docks and the Yorkshire coal-fired power stations or Immingham docks and Scunthorpe steelworks. If you have shorter routes, this tends to be less efficient than the very longest hauls allowed on the continent, so it could just be a question of geography.
Paul Plummer: I would agree. Efficiency, in that context, is a very stark word. It may be that the cost per mile of a service running over a shorter distance is higher, but that doesn't mean to say it is less efficient in meeting the market requirements. I was trying to answer your question in terms of the way we allocate capacity. Certainly we have some legitimate questions that we are working on with freight operators about the overall network capacity for freight. The previous witnesses were commenting on that in terms of some of the work we are doing with them where they don't need us as infrastructure manager to maintain the capability, whereas in other areas we need to provide additional capability, diversionary routes or whatever, so that they can meet their customers' requirements as efficiently as possible.

Q397 Chair: What sort of savings can the rail industry make in the next control period? What would the reduction of annual industry costs be by 2019? Who can tell me that? What are you assuming can be delivered?
Paul Plummer: The Initial Industry Plan set out our view on that a little while ago. That was ultimately input into the Government decisions about the High Level Output Specification and the statement of funds available. What we now have to do is produce our strategic business plan which says how we are going to deliver that.
In the Initial Industry Plan, in very simple terms, in Network Rail's element of the costs, we highlighted the fact that we have already achieved a lot of the potential savings highlighted in the McNulty report. We effectively said that we could commit ourselves to delivering the low end of the savings identified by McNulty over the next control period.

Q398 Chair: How does that relate to the figures that the Government are assuming in HLOS?
Paul Plummer: I was going on to explain that. The statement of funds available now has assumed that we deliver that commitment but that we go beyond that and, in very simple terms, on the infrastructure side of the costs that we end up halfway between the high and the low end of the range identified by Sir Roy McNulty. To achieve that, bearing in mind that we already thought the Initial Industry Plan figures were challenging, certainly raises risks and there is a possibility that we won't get that far. Certainly we are committed to taking it as far as we can, and in the strategic business plan we have set that out in more detail, but at the moment we don't have the detailed plans for that. We are talking six and a half years away. No business would know precisely what efficiencies it is going to achieve over that time period. We have to—and will—do that in more detail. There is then the train operators' side—

Q399 Chair: Mr Plummer, does that mean that the industry is not certain it can deliver the reduction of annual industry costs of £3.5 billion by 2019?
Paul Plummer: Absolutely it means that.

Q400 Chair: In that case do some of these HLOS schemes become questionable?
Paul Plummer: I will answer the first part of that question first. There are things that we need to do within the industry to enable us to achieve as much efficiency as possible. We have talked here before about how we work collectively in terms of alliancing. That is a key issue. There are things we need from Government in order to be able to deliver the outputs they want as flexibly as possible. Those are some of the discussions we will be having.
If, at the end of that, choices are made that suggest those dependencies can't be delivered—some of them by us but others from Government and elsewhere—then choices have to be made as to whether you want to deliver all the outcomes. That is not where we are at the moment. We are committed to driving this as far as we can and getting a strategic business plan that goes along as far as possible towards that. At the moment, sitting before you today, we are part-way through that process so I can't give you a definitive answer.

Q401 Chair: Mr Roberts, did you want to add to that?
Michael Roberts: First of all, I support Mr Plummer's points that we cannot today commit and say that the £3.5 billion that you have referred to can be achieved by 2018–19, which is the year that is in question. That is not to say that we aren't seeking and striving to meet that aspiration.
I would say that two things are important here. The first is that the Rail Delivery Group, which has been in existence for just over a year, has a clear

programme of work looking at those areas identified by the McNulty review where we think there is significant opportunity to improve the cost efficiency of the industry. One of the biggest areas, for example, is asset management, where a different way of working between Network Rail and the train operators potentially has major scope to improve cost efficiency. That is something that the industry has taken as an issue under its own initiative and it needs to be taken forward.

The second material point, particularly with regard to the scope for train companies to contribute towards that end goal on cost efficiency, is that we believe that the framework within which train companies provide train services through the franchising agreements needs to be reformed to give greater flexibility to train companies to deliver better services. That greater flexibility will enable us to do that at lower cost.

In principle, the Government have said that they support that agenda and have been taking that forward through some of the recent competitions, but I think there is still some way to go yet before that reform is fully fledged and therefore delivers the train operators' ability to contribute to the cost-efficiency goal.

Q402 Paul Maynard: On that specific point, what aspects of the Government's franchise reform proposals do you feel have yet to be implemented?

Michael Roberts: If I could start with what I think has happened that is favourable, we have seen a move towards longer franchises. Longer franchises, if nothing else, allow train companies to invest and implement initiatives that not only deliver better services but also help reduce cost. We have also argued for more flexibility in the way the service is specified that they are then asked to run. Again, we have seen some movement in that direction. For example, in the invitation to tender on the West Coast competition there was some flexibility offered to operators around the timetable that they were allowed to bid against. We think that in that area in particular, in service specification, a move to a more output-based approach to specifying what the Government want as part-funder of the franchise agreements would be helpful in allowing the train companies to innovate more in how best to deliver those objectives.

Again, there are some positive signs. For example, we are seeing a move towards Government expecting train companies to deliver against improvements in the National Passenger Survey ratings of customer satisfaction. That is exactly the sort of outcome-based approach to specification that we want to see more of. As I say, I think it is work in progress at this stage.

Q403 Paul Maynard: Given that a lot of franchises are being let in a relatively short space of time, do you have any concerns that the opportunities further to reform the franchise process along the lines you indicate is perhaps limited because the DfT lacks the time to implement those changes, and that this represents the end of franchise reform rather than the beginning?

Michael Roberts: It is certainly a challenge. We have said before that, within the space of the next couple of years, as an industry we have a generational opportunity to change the way in which we provide and procure train services. It is something like 70% of the market in terms of the revenue being put up for competition. If we get it right now, not only is that important in terms of scale of the market but also because we are now letting these competitions out for a 15-year process. The decisions now will effectively determine the future of the market for a longer period of time.

Q404 Paul Maynard: As you state, we are having longer franchises. Do you believe the franchise appraisal process can carry out the comparison of rival bids that far into the future adequately to make a valid judgment? I think "valid" is the word.

Michael Roberts: Clearly it is a complex and sophisticated piece of work that needs to be done. If we look back, to give us some sense of how capable the Department is in carrying out this function, we need to recognise that, for example, the National Audit Office has looked at past competitions and work which the Department has carried out and has indicated that the DfT has been incredibly effective at achieving good value for money for the taxpayer.

Going forward, we are clearly looking at a different proposition in competitions. There are longer franchises and a different risk and reward balance between the client—the Department—and the provider in terms of train services. We are looking at the need to look longer term in forecasting and the like. It is more sophisticated at a time when the Department has gone through, like many other Departments, a reduction in headcount. Clearly there are some challenges, but past performance by the Department suggests that there are strengths upon which to build rather than this necessarily being a cause for despair.

Q405 Chair: What are you assuming the split will be between the traveller and the taxpayer in relation to fares by 2019? What will the proportions be of who pays what?

Paul Plummer: We are assuming in the Initial Industry Plan a continuation of the existing fares policy. If that changes then we would change that, but we have simply applied that policy as it was at the time.

Q406 Chair: It would be the same. Is that assuming RPI plus 3% as the cap on average increases in regulated fares in 2013 and 2014?

Paul Plummer: Initially.

Q407 Chair: Those are the assumptions that you are working on.

Michael Roberts: Those assumptions were built in and they followed what we understand currently to be Government policy. That was the reason for building those assumptions in.

Q408 Mr Leech: How reliant are train operating companies on growing the number of passengers as opposed to cutting costs? My understanding is that the emphasis has been on growing the number of passengers and increasing the revenue rather than necessarily cutting the costs. Have the train operating companies got the balance right?

Michael Roberts: The record of train companies since privatisation in the mid-1990s has shown that they have been extremely successful, notwithstanding some of the constraints and limitations of the franchises that I mentioned before. They have been extremely successful in both growing patronage—the number of passengers—and revenue. The figures approximately for an increase in patronage are 80% and an increase in revenue of 60% over that period of time. That in turn says two things. First of all, notwithstanding a lot of the concern around fares that reasonably and legitimately exists, train companies have been successful in offering a service that is sufficiently attractive, at a fair price, for people to want to pay to use it. The second thing is that it shows that we are on firm foundations in terms of our longer-term objective as an industry of trying to shift the balance of effort for paying for the costs of running the railways from the taxpayer to the passenger. Ultimately, that feels very consistent with the sort of instincts expressed, in perhaps a slightly more extreme way, by Dr Wellings.

Q409 Mr Leech: Is there a danger in the future, if passenger numbers don't grow as much as train operating companies are assuming they will, with the change in franchises and less restrictive franchises, that train operating companies will then reduce staffing levels and services available to passengers part-way through franchises and that ultimately passengers will get a worse deal?

Michael Roberts: When bidders apply and compete to operate a franchise, they clearly look at both the opportunity to grow the market and to increase revenue on the one hand, and to deliver those services that achieve that in the most cost-effective way. Looking over the long term, they clearly seek flexibility both to continue to grow revenue and to deliver services in the most cost-effective way in order to deliver a payment line which is fixed at the outset. That is one of the reasons why we have argued for franchise reform of the sort that I mentioned before.

Q410 Steve Baker: We have talked a lot, Dr Wellings, about capacity allocation. Could you think of a couple of ways in which the current mechanism for capacity allocation could be improved?

Dr Wellings: Ideally I don't think we should even be in this place having this discussion. The Government have basically imposed a complex and hugely costly artificial structure on the industry. I think the industry should be left to its own devices to find the optimal level of vertical integration, for example. Personally, I think there are good reasons to believe that you would end up with vertical integration if the market was left to its own devices. Then, basically, the owners of the tracks would be the same people that ran the services. They would determine who had access to those tracks as the private owners of that infrastructure. It is a far simpler system and you don't have all these parasitic lawyers, highly paid consultants and senior civil servants who raise costs for both passengers and taxpayers. You could remove all those layers of bureaucracy.

Q411 Steve Baker: This is radical stuff. It is usually me saying these things. Other people have sat on these benches and advocated the nationalisation of the railways. You have suggested that this is already thinly veiled Soviet socialism, I think you said. Many of the resources are privately owned and operated so it is this hybrid system. You are advocating radicalism. Wouldn't it be better radically to nationalise or privatise the whole thing? Is it sustainable to keep going in the way that we are?

Dr Wellings: It can limp on in the way that we are going now but I would be sceptical as to whether huge cost savings can be delivered unless there is serious structural change. I would advocate going back to privatisation but doing it properly this time and removing all the political control and regulation. We lost all the real benefits that privatisation can bring, which are things like entrepreneurship, innovation and flexibility. That did not happen because the politicians wanted to retain tight control over the railways. In many ways it was a sham privatisation. Yes, revisit privatisation, but do it properly this time and allow the industry to determine its own structure. That would probably mean vertical integration. Whether it would be large regional chunks, as we had in the 1930s, or a kind of British Rail plc, I don't think politicians should try and determine that in advance.

Q412 Steve Baker: In my own experience, Dr Wellings, some of these arguments are met with the claim that it is just pure ideology. Could you explain why it is that you take this view? What are the impacts for society of not adopting the ideas that you are advocating?

Dr Wellings: One thing that is neglected in rail subsidies and support for these "grands projets" like High Speed 2 is the economic damage done by the taxes and borrowing that is needed to fund these projects. Every pound that is spent on these projects loses far more than a pound in the wider economy. The problem is that a lot of these costs aren't very easily visible; so people focus on the concentrated benefits of new stations and so on but they forget that jobs are being lost across the whole country and businesses are closing down because of the wider economic impacts of the higher tax and the higher borrowing needed to fund these schemes. That is completely neglected.

There could be egalitarian arguments for subsidising public transport, but that definitely doesn't apply to rail because the typical rail user is far wealthier than the general population.

Q413 Chair: I want to ask you about level crossing safety. It is an issue that this Committee has been concerned with. The Initial Industry Plan asked for £346 million for level crossing safety. HLOS allocates £65 million. What does this mean for making level crossings safer? There have been a number of very tragic accidents and there has been a commitment from Network Rail to put that right.

Paul Plummer: Almost regardless of where one ends up on that spectrum that you identify, we have to prioritise the funds we have to improve safety at level crossings. In many cases it simply wouldn't be value for money to make that investment. We need to be very explicit and clear about how we are making those choices. Moving from the amount of money that we suggested towards the lower amount of money obviously means that we would not be able to remove as many level crossings as we were suggesting would be possible. Again, that is a choice to an extent in terms of the safety on roads at level crossings versus investment in other forms of transport and how you can improve safety elsewhere.

Q414 Chair: Are you likely to be able to add to that allocated amount?

Paul Plummer: Only if we outperform our business elsewhere and manage to redirect some outperformance into that money. That is what we have been doing in this control period. We have identified some of the outperformance from beating our regulatory targets and dedicated that to invest in improving level crossing safety. We can't sit here and say we are going to outperform in CP5 because at the moment we don't know how we are going to deliver CP5. I certainly can't commit to that, no.

Q415 Chair: Mr Candfield, the Government want to boost the economy. Do you have any specific suggestions to make on what could be done to support the railway industries better?

Jeremy Candfield: The area of training was touched on earlier and it is one that is really very important. It is an area where the industry is likely to need some considerable investment in the next few years, not least in the case of the electrification programme. There are some other areas of training where Government are involved or are contemplating becoming involved in funding. We would see that as an area which is of considerable benefit to the supply industry as a whole, because we need more people—and it has been difficult not least because of the cyclical nature of investment programmes—and of benefit to the economy as a whole. Trained people will generally be people who are earning more than they would otherwise have been doing and will be contributing to the economy in that way. That would be my most immediate answer to your question.

So far as investment as a whole is concerned, of course there are bound to be areas in investment programmes where more can be done. There are bound to be areas where some degree of smoothing of investment expenditure would still be helpful. I will stick, if I may, to my original position that this is a good settlement. It envisages a very substantial investment programme and we are very supportive of it.

Chair: Thank you very much, gentlemen, for coming and answering our questions.

Examination of Witnesses

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

Q416 Chair: Good morning, gentlemen, and welcome to the Transport Select Committee. Could I have your name and the organisation you are representing to help our records?

Kaj Mook: Kaj Mook representing Merseyrail.

Simon Rutter: Simon Rutter representing Solum Regeneration.

Joel Brook: I am Joel Brook, Property Director of SSP, which is a food catering company specialising in transport locations.

Q417 Chair: How are sites for development being identified?

Simon Rutter: If I can explain just a little bit of background as to how Solum was set up, Solum was a joint venture between Network Rail and Kier Property. It was established in 2008 and originally it went through an OJEU process. The original sites that we are bringing forward for development were selected for us by Network Rail. We are bringing forward three of those sites at the moment. Future sites are selected on the basis of a particular need for railway improvements, the need for commercial development in certain areas and on a collaborative basis. It has to be said that the Solum Regeneration model is not a one size fits all. It will only work in a specific set of commercial circumstances, but thus far is proving a success.

Q418 Chair: How can we be sure that the long-term needs of the railway are not being compromised by short-term developments? What are the procedures to address that?

Simon Rutter: In the past there was a danger—and it has often been talked about—of selling off the Crown Jewels. I think all the Crown Jewels may already have gone. All the sites that we have now are very complicated. They all have a little bit of history to them. I am sure people in various constituencies have seen sites that have not come forward even though they have been promoted.

Network Rail have put in place a very stringent procedure for site certification ultimately controlled by the ORR. The Regulator has final sign-off. Network Rail protect their land position because in each of the sites that we deal with they get land value, station railway improvements and because of the risks they are involved with they are now taking profits at the other end. I think it is a pretty robust model for Network Rail and certainly there is the idea of protecting the railway going forward.

Q419 Chair: Have you quantified the benefits to Network Rail and how profitable it is?

Simon Rutter: I could just give you some high-level numbers. What I don't want to do is project forward. We are a joint venture which was established in 2008.

It is fairer for this forum to talk about the schemes which we have on site. These are schemes that have been through planning and they are on site. Epsom is due to be finished towards the end of this year, Walthamstow is next year, and there is a site in Christchurch next year as well.

The gross development value for those schemes is about £60 million. Solum will make a profit out of those sites of about £5 million. That is relatively meagre but is potentially controlled by the difficult economic circumstances we are in. For Network Rail, out of those three sites, they will see value of just over £3.5 million. They will see station improvements of £3 million and they will obviously share in the profit. It is pretty robust for Network Rail in terms of the original model.

Q420 Iain Stewart: Is your regeneration solely related to stations and the surrounding land or do you have other parts of the railway assets?

Simon Rutter: Solum was set up as a joint venture with Network Rail, and we solely concentrate on assets that have Network Rail ownership as part of them. It is not just stations. We look at vacant sites that have been under-utilised. We are able to buy land next to stations to improve what might be the station offer, but we were set up as a specific Network Rail property joint venture.

Q421 Iain Stewart: The reason I ask is because as part of our investigation we visited a depot at Allerton in Liverpool that has now been brought back into use to manage extra carriages on the network. There was a risk that that site would have been sold off for housing. I want to probe a little bit more about how you identify the long-term needs of the railway as opposed to short-term commercial possibilities. What is your horizon? Is it five years or 10 years?

Simon Rutter: The joint venture was set up in 2008. It has a 10-year initial life with a potential extension for five years, so our intention is that we will certainly be around until 2023. The way that the original schemes were scoped was that Network Rail put together what was a detailed station design brief, which set out requirements for the railway as part of the development. That dealt with car parking and station capacity. All our stations are designed with a minimum life until 2055. It dealt with what you might call softer benefits such as cycling provision. All of our stations have a minimum requirement to increase cycling provision by 125%, if not more. The brief has been set by Network Rail and therefore set, in our view, by the rail industry. We are then led by that to put a commercial development around it that is economically viable so that the drivers for the railway come from the railway, and not from us as the private developer telling them what they can have.

Q422 Iain Stewart: Perhaps you are not the best person to answer this question, but I am still not clear who is identifying the long-term potential needs of the rail system in terms of depots, stations and everything else as opposed to selling it off for a short-term commercial gain. I am not clear in my mind who is making that decision and on what time horizon.

Simon Rutter: You are probably right; I am probably not the right person to answer it. In our mind the process that we go through in order to be able to dispose of or purchase railway assets goes through a rigorous internal process in Network Rail. There is internal consultation and external consultation through the ORR, which ultimately has the final sign-off. I suspect you need to ask Network Rail specifically a little bit more of the detail about how they do that.

Q423 Paul Maynard: I will try and ask the same question in a different way.

Simon Rutter: I will probably give you the same answer.

Paul Maynard: Have there been any projects that have come from Network Rail to you that have in any way had to be suspended, altered, changed or abandoned because they have identified a future operational need that they had not identified when they gave you the project, as it were?

Simon Rutter: Again, we are dealing with a relatively small number. We had seven originally. We now have 10 contracted and we have discussions on another four. It is fair to say that, of the 10 we have contracted, no. In effect what we are asking them to do on one or two is perhaps to look at a more strategic approach. We are working quite closely now with the alliance, particularly down on the Wessex route. There are some discussions coming out of the alliance that look at a longer-term vision for maintenance, for example. We are asking questions because that is what we were set up to do—it is to challenge the commerciality of parts of Network Rail. We are asking them questions about the necessity for maintenance in multiple locations, for example.

Going forward, we are talking about certainly one of the schemes. Definitively, we are not quite there yet with our contract. That is on the basis that there are a number of implications, particularly around freight, which determine that we are not quite in a position to enter that contract, and they are still making some decisions. I suppose the answer is yes, yes and no.

Q424 Mr Leech: As a follow-on from that, the collaboration with Solum Regeneration was set up in 2008.

Simon Rutter: Yes.

Q425 Mr Leech: With some of the places that you have identified, have there subsequently been any decisions made to postpone developments simply because of the economic circumstances, or is there an incentive to get these schemes built now even if they would make more money if it was held off for the future?

Simon Rutter: We have looked very carefully at the schemes that we have promoted. It is fair to say that, for example, the schemes at Guildford are big schemes in our world. Guildford has an end value of £175 million or £180 million. To turn the question round, in a different economic climate we would have brought some of those schemes forward much quicker. The economic climate has made us stop and think about what we are doing and check that what we are doing has the right drivers to it.

In terms of Network Rail, the way the contract works for them is that the contracts are in effect revalued once planning permission is granted. They don't fix values at a point in time. They allow improvements in value to flow through the joint venture mechanism because they are not just selling land to Solum; they take the benefits of the joint venture.

Q426 Mr Leech: But you were given a remit to raise some revenue when you were set up in 2008. Is there a danger that we are looking at raising that revenue too quickly, whereas, if we waited for better economic circumstances in the future, there might be a financial benefit to holding off on some of these schemes even though you were given this 15-year period to do all this work?
Simon Rutter: If we look at it holistically, it is not just about the money, certainly not for Network Rail. From a Kier perspective it was about being a commercial organisation and being in a commercial position. That was the Kier financial incentive. But actually it was about more than that. For anybody who had been to Epsom three years ago, the station was pretty horrible. What you will find now is a station that has a new ticket hall, platform improvements and other improvements. The incentive was twofold. We want to get rail infrastructure improvements paid for by commercial developments. The other driver was around the financial returns.

Q427 Mr Leech: So it is not just about financial returns.
Simon Rutter: It is not just about financial returns. We are looking at places that we will be proud of as Solum going forward because these are about stations. We all know about stations and we want to make them gateways that people are proud of. Therefore, the drivers aren't purely about the commercial elements.

Q428 Mr Leech: But is it not fair to say that, because this is a 15-year deal, there is an incentive for the partnership to get work done now and get it all completed, whereas from Network Rail's perspective and from a financial perspective that may not be the best deal for Network Rail?
Simon Rutter: Again, it is fair to say that, if that was the case, with the seven schemes that we were originally ceded in 2008, we would be here in 2012 trying to put those on to site to fulfil exactly the criteria you are talking about. We have all recognised that we are in a difficult economic situation. Things should improve, but please don't ask me when they will improve. From that base we will see the upside of that going forward. At the moment 2023 is a long time away. Our schemes are taking 18 months to get from drawing board to planning. They are taking about a year to get through planning. Dependent on other constraints, let's call them—planning being one of them—we are on site and completing them in two years. At the moment we are not fettered by the end date. We are looking at what is right for a scheme with the benefits that Network Rail have sought, that have been identified by train operators and Network Rail, and progressing those in tandem.

Q429 Chair: Mr Brook, it appears that, when we go into a railway station and buy something to eat or drink, whatever brand we think we are buying, we are actually buying from Select Service Partners.
Joel Brook: That is a lovely thought.

Q430 Chair: Isn't that a great monopoly?
Joel Brook: As I say, it is a lovely thought but not quite correct.

Q431 Chair: Tell me what is correct.
Joel Brook: We have a good share of the station retail catering market and there is a history to that. As a private company it goes back to 1988 with the privatisation of the British Rail catering company Travellers Fare. There is a long history, but, with 24 years of station redevelopments, open market tenders and endless competition from Costas to Neros to Prets to McDonalds and to Sainsbury's, the choice these days is an awful lot wider than the brands that we operate. However, our market share is sufficient that it does allow us to create partnerships with people such as—

Q432 Chair: What is your market share at railway stations?
Joel Brook: I don't fully know the answer to that. I will have a stab at it.

Q433 Chair: You can answer it the best you can, but we do need to have an answer to that.
Joel Brook: The only reason why I say I don't know is that I don't have access to all the information of all the competitors. My gut feel is that it is probably 30% to 40% these days. It is a fair chunk but it is a long way from a monopoly. One of the benefits, if I may try and take that—

Q434 Chair: Let me just stop you, Mr Brook. I just want to be clear what the situation is. If somebody goes on to a station and buys something under one brand name, is it actually that brand or could it really be SSP?
Joel Brook: It could be in fairness. If you were at Liverpool Lime Street station and you went into the Marks & Spencer Simply Food, that is a franchise operated by SSP. That is one of the benefits of ourselves having a fair market share and a fair market business so that we can create partnerships. We now have 36 Marks & Spencer's Simply Foods on stations. Hopefully, we are using our involvement in stations to widen the selection that you have. Certainly, if you went into Costa at Liverpool Lime Street, that would not be ours. If you went into Caffè Nero, that would not be ours. We have a large business but it is a long, long way from a monopoly.

Q435 Paul Maynard: Do you have any plans to follow the practice of motorway service stations and start charging a premium to customers for the pleasure and honour of purchasing your goods in a high-cost environment such as a station?
Joel Brook: We don't have any plans whatsoever to change the pricing structures that we have. Obviously we have our own brands, and Upper Crust is an

example. We operate other people's brands. Starbucks or Marks & Spencer would be examples of that. We have to agree pricing with those people, but we have no plans to follow the motorway route.

Q436 Chair: When you say you "operate" those brands, what exactly does that mean?
Joel Brook: They are franchises. We operate our own brands. Upper Crust is something that we own. It is a brand that we have developed. We operate some of the Starbucks on the stations as a franchise. Marks & Spencer on the stations are ourselves. Burger King we operate but we don't own. We operate a number of brands, but a long way from all of them.

Q437 Paul Maynard: You operate at airports and at motorway service stations, both of which have a high cost base. There is an intention in policy to reduce the overall cost of the railway. Clearly one way of doing that would be to start to generate more revenue streams from existing shops and outlets on station concourses. If I think of Euston compared to five or 10 years ago, there is an immense variety. I would agree that there is no lack of choice, but there is also an upwards increase every year above, I would suggest, the rate of inflation in the cost of what you are charging.
Joel Brook: I would have to compare rates of inflation. Food costs have not been very kind to us, but that is not meant to be an excuse. As I say, we don't operate on motorway service stations. Historically, there was a part of the company that was sold separately. We do operate in motorway service areas on the continent but not in the UK. We do have an airport business. We try and vary how we do that and maximise potential and so on. On the stations there is no intention whatsoever to change our pricing policy. You have already mentioned the increased competition at Euston. That just makes us work harder. It increases the competition and it is better choice for passengers. It creates more revenue.
One of the keys of where you should be going, in my view, is how you create more commercial space at reasonable cost in good locations on stations, whether that is to ourselves or not. Everything on the stations these days is open market tenders. Generally station rents are very high because that is what the market brings. Creating more space in an age of technology, do they need the booking offices quite the size that they are? Could you free up half a booking office, which is probably about the size of a small Marks & Spencer Simply Food or a small Boots unit, which is not ours? The key is to free up space in the right locations that are correct for the pedestrian flows and drive more revenue and customer facilities in that way.

Q438 Chair: Are you saying there is an open competition for each of these stations?
Joel Brook: Categorically, yes. We have a long history that goes back to 1988—
Chair: I am just looking at how it works now.

Q439 Mr Leech: How many stations do you operate on where there is no competition to you?
Joel Brook: I do not have a precise number.

Q440 Mr Leech: Are you able to provide us with that?
Joel Brook: Categorically, yes; no problem at all. That will be in places, for example, like Taunton where the nature of the station means that you would only have one unit. If somebody wants to market a second unit at Taunton, that really would not be under my control; that would be under the landlord's control. I only manage what we manage.

Q441 Mr Leech: Euston Station, for instance, is one that anyone using the West Coast Main Line uses regularly. What proportion of the units there are yours?
Joel Brook: Euston Station, inside the main station, in fairness, is probably the highest proportion of any station that we have.

Q442 Mr Leech: I have picked a good example, then.
Joel Brook: You have picked a very good example. I could think of lots of other examples that would disprove the point, but even at Euston there is all the catering outside. In many ways station redevelopment sorts this out for itself.

Q443 Mr Leech: You did not really answer the question. Of the units that are there—
Joel Brook: At Euston Station I would say in totality 60%, but that is a high share in comparison to lots of other stations.

Q444 Mr Leech: Where you have no competition, are your prices the same as where you do have competition?
Joel Brook: Absolutely.

Q445 Mr Leech: Whichever station you go to, your outlet, whether it is Burger King or Marks & Spencer, you would have exactly the same prices.
Joel Brook: Our pricing policy tends to be identical within our own units. I think we probably have a Pumpkin Cafe at Taunton. The principle is that we are going to try and provide a service to people and take revenue and pay rent to the railways. We are going to do the coffees, the teas, the sandwiches, the confectionery, the newspapers and the magazines. There are certain locations where there is a benefit in having one operator who is trying to do a multipurpose unit.
The other point I would mention is that the railways have always operated on turnover rents. You can go back to 1846. There was a gentleman called William—

Q446 Chair: We just want to concentrate on the present. You spoke about giving a service. Does anybody specify what level of service is required and, for example, whether you can get a cup of tea in Southampton at 10 o'clock on a Sunday night?
Joel Brook: I understand that somebody once didn't get a cup of tea at Southampton at 10 o'clock. I am not sure he wrote the entire report about that.

Q447 Chair: That was the Transport Secretary at the time, so it was all rather unfortunate. Does anybody else specify the standard of service?
Joel Brook: Every single operation we have has minimum trading hours. Every single one is agreed with the landlord. We have agreed product ranges. The answer is that in all our occupations there are in place minimum trading hours. If we are open, you are going to get a cup of tea. I don't quite know the instance of 10 o'clock at Southampton one evening—hopefully, he had only missed it very shortly, but we do have those provisions, yes.

Q448 Iain Stewart: I would like to explore the change in the retail nature of stations. On the one hand you have what might be termed journey-related purchases such as newspapers, coffee and sandwiches. During the summer I was at St Pancras International. The number of shops there that had absolutely nothing to do with your journey was quite amazing. Do you see that there is a long-term trend that stations will become retail centres in their own right rather than facilitating a journey?
Joel Brook: I think stations vary. St Pancras is quite specific because it is international and it is a longer dwell time. You are providing a service to people who are going on holiday and travelling abroad. Therefore, their requirements become larger than a normal station. However, if you go back as far as the original Tie Racks and Sock Shops of this world, they started on stations, so it is nothing new.
There is a trend, if you look at King's Cross, these days to add more varied retail. It is part of the travelling experience to buy products. There is also a slight trend to create upper level catering areas, which lend themselves more to casual dining rather than the grab-and-go catering. I do see a trend. I think it is a good thing. It has increased development and revenue for the railways.

Q449 Iain Stewart: The potential danger is that those opportunities are so lucrative that it starts squeezing out passenger space and booking hall facilities. Is there a danger that that might happen?
Joel Brook: Once again, St Pancras is a very specific example.

Q450 Iain Stewart: I wasn't thinking specifically of St Pancras but generally.
Joel Brook: I don't think so, no. I would take it the other way actually and say that it is time that we freed up some of the space in the ticket offices. If you go back probably even only 10 years ago, anybody buying a ticket would have queued up at the ticket office in the queue. The percentage of tickets bought online now is a great deal. I think it is time for a sensible review of space and a combination of rail and retail facilities to make that work better for the travelling customer. I don't see any concerns from the passenger's point of view.
Simon Rutter: An example is at Waterloo Station, where the high level walkway has gone in there specifically for that purpose. It is to take retail out of the passenger areas and put it somewhere else. What you find is that stations were historically places where people went to to get a train. Now they come to meet people before they get a train. What you find as a trend, say, at King's Cross, is that you meet people because it is a nice place to go and meet somebody. The nature of stations is changing and therefore the passenger offer is changing too.

Q451 Paul Maynard: It was once said that the V& A was "an ace caff with a museum attached". How close are we to the point where Euston is an ace place to go and shop, with a platform accidentally stuck on the end? Isn't that a real danger of where we are heading—that it is overly retail?
Joel Brook: You would have to ask Network Rail that question. I am only an operator of certain units there. Euston is quite well developed and it may be redeveloped in the future. There is plenty of space. The train information is there and the platforms are there. It only becomes an issue when people can't find out where the train is going from and get on those trains. All the development of stations, if that is your point, is something you would have to put to Network Rail.

Q452 Chair: The report in 2009 said that the net value of retailing in catering to the industry was £135 million. Does that sound about right to you?
Joel Brook: It does. Before you ask me the question, I can tell you how much of that we paid. The answer is £45 million. That is probably broadly in line with my 30% of the market.

Q453 Chair: So you think that is about right.
Joel Brook: Yes, that sounds correct.

Q454 Chair: Mr Mook, you have been operating combined ticket and retail facilities on stations. Have there been any difficulties with passengers wanting to buy tickets and finding that they are stuck behind somebody with a complex consumer purchase going on?
Kaj Mook: That is a good question. Indeed, it is one of the complications of our M to Go concept. What we would like to do is provide our customers with everything they need for their journey in a one-stop shop. Of course there are some difficulties in combining a ticket office with a retail facility because you might end up with your sandwich behind someone who wants to buy a difficult long-distance ticket. Overall, especially on our network, with most of the journeys being relatively short with easy ticketing, for most of our customers it is about leaving the store with the sandwich and the ticket within, say, one minute. That is what we try to provide to our customers.

Q455 Chair: Your model has not been copied a great deal, has it? Why do you think that is?
Kaj Mook: No, it has not. There are some specifics about our concession agreement and why we came up with the M to Go concept. First of all, it was because of the fact that we were able to use a lot of the Dutch best practice that was brought to the UK by our owner group Abellio and also the relatively long-term concession agreement, which was 25 years. That

provided us with the opportunity to give it a try and to develop the concept. We have been doing M to Go for about six years now and we are still working on a continuous improvement of the concept.

A third point, which is quite important, is that as part of our concession agreement we have to provide staffed ticketing facilities at all our stations. If you are in a situation like that, we thought that it might be better to make good use of that by not only providing our customers with tickets but with retail items too. Those are the different aspects particular to our concession agreement, and why we decided to come up with M to Go and why others might not have decided to follow us.

Q456 Paul Maynard: Obviously it is an innovative approach that I saw for myself at Liverpool South Parkway. When it was being introduced and you were transferring from the traditional model to this new one, what was the attitude of the trades unions locally?

Kaj Mook: Of course I was not at the company at that time but I do know that there have been plenty of discussions about getting staff from behind the bulletproof glass into a store and having to deal with customers face to face instead of from behind the glass. There were some concerns. It took about one or two years to get over that hurdle. We are now in a situation where our staff prefer to work in an M to Go over a traditional booking office.

Q457 Chair: Mr Brook, could you tell us if ticket barriers have any impact on retail sales at stations?

Joel Brook: The answer is they do. They categorically do. We fully understand why ticket barriers go in; it is not difficult to work that one out. They segment the market. They put people off circulating. People don’t like to try and juggle a cup of coffee through ticket barriers. Whilst fully understanding why they are there, they are not good for retail sales.

Q458 Chair: Can you quantify the impact in any way?

Joel Brook: It will depend on location. If you have one unit rail side and one unit land side, there will be a lesser effect than if you only have a unit that is on one side of the ticket barrier and so it restricts customer purchases, but we understand why they are there.

Chair: Thank you, gentlemen. We have had a very interesting session here. Thank you all for coming and answering our questions.

Monday 10 September 2012

Members present:

Mrs Louise Ellman (Chair)

Julie Hilling
Kwasi Kwarteng
Mr John Leech
Iain Stewart
Julian Sturdy

Examination of Witnesses

Witnesses: **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.

Chair: Good afternoon and welcome to the Transport Select Committee. Before we start the meeting I would like to explain the purpose of today's session.

There has, as you know, been considerable discussion in the media on the issues arising from the outcome of the West Coast Main Line franchise since a decision was announced last month. I thought that these issues should be discussed in Parliament before the contract for the franchise is signed.

Today, we have provided an opportunity for Virgin to explain why they are unhappy at the outcome of the franchise and to answer our questions. After that, FirstGroup will put their side of the story and answer questions from us about their bid. On Wednesday, we will be hearing from the new Secretary of State for Transport on a range of issues, which will include this one.

This hearing is part of our wider Rail 2020 inquiry, which started before this specific issue arose and which is due to conclude next month. As a Committee, we will decide what further action to take in relation to this franchise after hearing from the Secretary of State on Wednesday. We are mindful that judicial review proceedings are active and that not all of the information about the bids for the franchise can be placed in the public domain at the moment.

Do members have any interests to declare?

Iain Stewart: I would draw attention to my entry in the Register of Members' Financial Interests. In September of last year Virgin Atlantic took me on an overseas trip to Africa to view social action projects.

Kwasi Kwarteng: I would like to refer to my entry in the Register of Members' Financial Interests. I was on the same trip as my colleague, Mr Stewart, in September of last year.

Q459 Chair: Thank you very much. I would ask our witnesses to introduce themselves by giving their name and position in their organisation.

Sir Richard Branson: I am Richard Branson. I am Chairman of the Virgin group of companies.

Tony Collins: I am Tony Collins, the Chief Executive of Virgin Trains.

Graham Leech: I am Graham Leech, the Commercial Director of Virgin Trains.

Martin Griffiths: I am Martin Griffiths, the Group Finance Director of Stagecoach Group plc.

Q460 Chair: Sir Richard, could you tell us exactly what your complaint is? Is it to do with the process that you don't like or is it something that has happened in relation specifically to your bid?

Sir Richard Branson: If I may, I would like to take 90 seconds and then we can open it up to questions. First of all, I would like to say thank you very much for inviting Martin, Tony, Graham and myself. I am very pleased that your Committee has decided to look at this. I would like to give a brief summary of our position.

Virgin Trains believes that, if this decision is allowed to stand, it will be bad for the country, bad for passengers on the West Coast Main Line and bad for passengers on other franchises. A successful West Coast franchise is vital for this country. A bad decision will impact the UK. Based on the Department for Transport's analysis of the two bids, Virgin's bid is more deliverable and is financially much more robust, yet because the DfT did not follow its own rules, the most risky bid was accepted.

For many years, and to many Secretaries of State and officials, we have said that the franchising system is flawed and that the rules and regulations should be rewritten. The Government should not run a process which rewards risk at the expense of rail passengers.

Our bid is better for customers than FirstGroup's. It is based on running Britain's most successful train business in the last 15 years. Our overall committed investment is well over twice FirstGroup's at £800 million. There will be twice the number of new trains, a complete fleet of Pendolinos, three times the investment in stations and more routes on offer much sooner.

This is the fourth time that we have lost a competitive tender as the runners-up: twice on the East Coast and once on CrossCountry. On each occasion the winner went bust or they ran into serious financial difficulties. This is the first time we have chosen to contest it and we have not taken that decision lightly. This is why we have called for a judicial review as we believe the time has come for the Department to operate an open and clear franchising process that puts the interests of the customer at the heart of its decision. We are confident that, with better franchise rules, the Government would receive better bids for this and for other franchises.

There is now an opportunity to ensure that there is no repeat of these fiascos. We are convinced that it needs more than a pause in the West Coast process. That is just a sticking plaster. What we recommend is that the current rules and regulations for franchising are completely reviewed and that the West Coast franchise competition is delayed until this has been completed. I therefore hope that your Committee will immediately urge the Transport Secretary to take both of these steps. There is simply too much at stake for rail passengers and the taxpayer to make the wrong decision with the wrong structure. My partners in Stagecoach and I are happy to run the current franchise on a not-for-profit basis until such a process has been completed.

Thank you very much for listening. We would be happy to answer your questions.

Q461 Chair: Thank you, Sir Richard. You have made two important but very different points in those opening remarks. You made a very serious allegation that the Department has not followed its own rules, but you have also made a much more general statement about the franchise system as a whole, which you saw as flawed, and you said the Government should review the regulations. Those are two very different things.

You have said that the Government did not follow its own rules, and that is specific to this. Is that the real point of your objection or is it something much more general?

Sir Richard Branson: In this particular bid, we bid based on the current rules. We believe that the rules were not followed by the Department for Transport. That is why we have gone to the courts to question whether or not those rules were followed. It is very difficult because answers to the questions we have asked of the Department for Transport have not been forthcoming. We can only make these judgments based on the little information we have, but, based on that little information we have, we believe that the rules have not been followed.

Q462 Chair: In what specific way did the Department not follow its own rules?

Martin Griffiths: Just to be clear—and I would echo what Sir Richard has said—we have made a number of representations about the process leading up to this bid. Once the bid was finalised and the invitation to tender was set out, I don't think there is any misunderstanding. The competition was set up that it was very probable that the bidder who bid the most money—the biggest premium payment over the life of the franchise—would win. We understood that at the outset. We didn't necessarily agree with that but we knew that was the process.

However, just by bidding the most money didn't necessarily mean that you would be the winner if there was a proper evaluation of the bid. There were two stages to that. The first stage was that the Department would do due diligence on your revenue and cost assumptions over 15 years and they would risk-adjust the bids. Even after doing that, the highest bidder may still be in a position to win and sign the contract, but at that point in time the Department's rules, as presented and explained to us in a number of meetings, would be such that, if it believed your bid to be extremely aggressive, it would look to use a formula to calculate an amount of risk capital: i.e. what sort of guarantees would it put in place to protect the taxpayer so that, if the bid wasn't to perform financially as was expected, then the taxpayer would be protected? On both of those counts, from what we have heard, we don't believe that either the bid was properly risk-adjusted or that the right amount of capital was asked for from FirstGroup as part of the evaluation process.

Q463 Chair: How do you know that the bid wasn't properly evaluated in relation to risk? What feedback has there been for you to make that statement?

Graham Leech: In answer to that point we are working from the numbers that have been publicly quoted by FirstGroup. We are questioning how the bids were evaluated and, in particular, how the risks in the bids were evaluated. From a common-sense point of view we can't see how those numbers quoted by FirstGroup stack up.

The key number of course is the premium. What drives the premium is how much revenue you can generate. What drives the size of the revenue is how many passengers you can attract. To us, what has been said looks very risky. FirstGroup have said that they will grow the number of passengers using West Coast by 6% per year: i.e. year on year. That would take the number of passengers on the route from 30 million a year today to 66 million in the future. To put that into context, the growth that we have seen in the current franchise has been 5% per year.

What has happened in the current franchise, of course, is a complete transformation of the West Coast. As you all know, it started out in 1997 as a dilapidated railway. Through the investment in the upgrade of the line and the introduction of new trains, the service now offered to passengers is far better. It is a more frequent service with much faster journey times. That has led to this already high growth rate of 5% that we have seen in the past.

There is nothing in the new West Coast franchise that would lead you, from a common-sense point of view, to believe that the growth in the number of passengers could be at a faster rate than it has been in the current franchise because the level of change is not as great. The level of investment is much smaller, but the benefits for passengers are not going to be on the transforming scale that we have seen in the current franchise.

Q464 Chair: What feedback has there been from the Department to enable you to come to the decision that the Department hasn't considered this matter?

Sir Richard Branson: There has been very little feedback from the Department. We have sent a letter to the Department asking a lot of questions and none of those questions have been answered.

Q465 Chair: Does that mean you don't actually know that they haven't done it? You just don't know.

Sir Richard Branson: Obviously one of the reasons we have gone to court is to try to make sure that those questions are answered. Common sense and 15 years' experience of running this railway tells us quite a lot. If you take the last three years of this franchise, where they have suddenly said that they can get in up to £2 billion more and 66 million passengers, physically

you can't get that number of passengers on the trains. They have come up with figures where they just seem to have thrown in this enormous cheque right at the end of the franchise and have somehow managed to get away with Government accepting it.
Graham Leech: There are two factors around passenger numbers that I encourage you to reflect on. The first one is the actual growth being projected, which underpins a premium payment.

Q466 Chair: My question, Mr Leech, is not so much about the substance of who is right and who is wrong. I am merely probing how it is that you know the Department hasn't actually considered the specific point.
Tony Collins: As Graham has said, what we have done is looked at what FirstGroup have said publicly. We have looked at what the DfT has said publicly. We have applied the growth assumptions and so on into our own models and come up with a figure of 66 million passengers. Common sense says that you can't carry those. We have had to use our own experience to say why we think this isn't common sense. The point there is that, if we believed we could carry that many people, we would have bid that many people because we are passionate about this particular railway. We have gone through an awful lot over the 15 years and we were really determined to win this but on a deliverable basis. We were scored more deliverable than FirstGroup. On our ability to accommodate growth—an important point—our scoring was 50% higher than FirstGroup's.

Q467 Mr Leech: In your opinion, how risky did the Department view your bid as?
Tony Collins: We took the Department up at face value. Their only financial goal was to deliver and achieve sustainable value for money. We had a number of discussions with the Department. We talked about things like margins and so on. We risk-tested our bid against economic downturns of various styles and conditions. We built in a bid that was deemed to be financially very stable, whilst still being aggressive on the things we were trying to deliver in passenger benefits. That is why we were investing £800 million in the franchise.
They viewed ours as a stable, financially deliverable bid and rated it more practically deliverable as well. We have applied those same tests in our bid to what we believe FirstGroup have delivered and we have come up with a different answer.

Q468 Mr Leech: In that case where does the £40 million figure come from, which is the money that you had to set aside to combat that risk?
Tony Collins: That is the risk assessment of our bid. They have looked at the margin we built into the bid of, on average, about 7%. They have used that as a risk assessment and said, "Okay, what's the sort of risk in the bid?" They have looked at the deliverability of what we were planning to do with more new trains, new booking engines for passengers, which makes it cheaper for them, better passenger service and so forth. They have rated our deliverability, applied that risk assessment and worked out, through their formula, how much loan facility with bank guarantees we would have to put up, and it was £40 million.

Q469 Mr Leech: On that basis, if FirstGroup have to set aside £200 million, does that mean the Department thinks that their bid is five times more risky than yours?
Tony Collins: Yes, I guess, but, when we applied the same calculation to what we believe FirstGroup's bid is, we came up with a much higher figure. We came up with a figure more like about £600 million.
Martin Griffiths: If I can add to the comments I made at the beginning, we understood or we thought we understood the evaluation process. We could have if we had wanted to—we didn't because we wanted to make a bid that was deliverable and robust—but we ran all of these sensitivities and we knew the impact on loan facility and what it would look like if you made a bid that was extremely risky. Part of this challenge is, "Please could you explain to us how you calculated the loan facility because, based on the numbers that we have available to us, the numbers should be much higher." Had it been much higher, like £500 million or £600 million, would the franchise have been awarded to FirstGroup? It may have been. Maybe FirstGroup would have said they would have put up £500 million or £600 million. I can't answer that question, but that is a big question to answer.

Q470 Mr Leech: Is that figure and the fact that it is way above the £200 million that they are expected to put up part of your case to the court?
Martin Griffiths: It is fundamental to it.
Chair: That's a fundamental part.
Sir Richard Branson: For instance, if you are renting out your house and you don't take the person who offers twice the rent but says they will pay for it in 10 years' time with only a small deposit, particularly when you have been burnt doing that three times previously, it doesn't make sense. What is happening here is very similar. They are saying that they will pay a big cheque in the last three years. If you are willing to accept that in the first place, to protect against that you would need a lot of money. A shareholder of FirstGroup could say, "We know the absolute downside is £245 million of equity and bonds. We will make £600 million or £700 million over the next 10 years, and over the last three years we can choose to lose the deposit and just walk away." They can walk away from the £2 billion that they have suddenly said they can make in the last three years. The money that they can make in the last three years is completely unrealistic, whereas Virgin has put in a realistic bid.
Graham Leech: The risk is to the taxpayer because that £2 billion is the premium payments they are saying they will pay to the taxpayer. The risk is with the taxpayer rather than with FirstGroup.
Chair: Yes; we appreciate that.

Q471 Mr Leech: In your opening statement, Sir Richard, you said that you thought the franchise system was flawed in principle. I would tend to agree with that. As a regular user of the West Coast Main Line, I would like to think that the service on the West Coast Main Line could be a major contributing factor as to whether or not an organisation retained a franchise. How could we have a franchise system that would be fair and open to real competition if you can only take into consideration how well a particular operator has operated that franchise?

Sir Richard Branson: The most important thing is that it should take into account good ideas. Originally, when we bid, we came up with the idea of the Pendolino trains, and that was taken into account. Today, under the current system, if we came up with something radical like that, we would be penalised for it. We are penalised for the fact that we are willing to spend £800 million against FirstGroup's £300 million on new innovations this time. Quality is extremely important and financial deliverability is absolutely critical, having seen what has happened twice on the East Coast Main Line, with First Great Western and CrossCountry. One or two other franchises now seem to be in the same state.

Tony Collins: One of the things that worked well in our view was the OPRAF-style model right at the start of rail privatisation. It allowed varying bids. It allowed bids to be different. It set a base spec and said, "Bid what you want to bid", but they evaluated the bids against each other. In this current process, the bids are not evaluated against each other but against a comparator model created by the Department for Transport. If that model is wrong, it will come out with the wrong answer. From all my experience in procurement over many years, you absolutely look across all of the bids and see what each one is offering and you evaluate across all of those bids.

Q472 Kwasi Kwarteng: I know we don't have much time so I want to focus on this actual process and the fact that you have gone to court. Am I right in saying that this is a profitable business for you?

Sir Richard Branson: It is profitable at the moment, yes.

Q473 Kwasi Kwarteng: Clearly you are an extremely famous and well-regarded businessman, but to the man in the street it might seem that you are taking this badly. You have lost a bid; it's a profitable line, as you suggest. You probably thought that you could get a slightly better return by putting in the bid that you did. It clearly wasn't high enough to win the actual bid, and now, as a consequence of the bid being given to someone else, you are resorting to legal—some would say heavy artillery—tactics to try and get your own way. You are using your prestige and fame to try and force the Government to change their decision. People might well say this. What would you say to someone who made that objection?

Sir Richard Branson: I would simply say that I have created a number of different ventures, from Virgin Atlantic through to Virgin Trains and others, with the principal aim of making a real difference to these sectors and creating something really special. The profit motive is actually not that important to me. I am lucky because I can afford breakfast, lunch and dinner for the rest of my life. What matters to me is the fact that I have just been at Euston station and the staff 100% want to see Virgin carry on running the network. All the passengers are coming up and saying they want us to win this.

We walked away when we lost CrossCountry. The staff have been tweeting me over the last three months saying, "Why didn't you make a stand when you lost CrossCountry?" We lost twice on East Coast Main Line. Our bids were correct on East Coast Main Line. If we had been given it in the proper process on East Coast Main Line, there would be something like 10 million more passengers today. You would have much faster trains and the East Coast would be as good as the West Coast.

We just decided that at some time you have to draw a line in the sand. On this occasion we decided to draw a line in the sand. This particular bid by FirstGroup is absolutely preposterous when you examine it. It is just taking the system for a ride, literally. It is preposterous.

Tony Collins: I would like to add to that. We have not just started to complain about the process. We have had successive meetings with the last three Secretaries of State for Transport.

Chair: You are now going back to before this franchise was being considered. I want to talk about the system and we may well come on to that, but this is about your complaint about this specific franchise.

Q474 Kwasi Kwarteng: Let us say you are going to court. What do you hope to achieve by that? I ask this because you made a distinction between the flawed process. Clearly that is not something for our jurisdiction; it is the court's jurisdiction. The second point you made was that, internally, the Department wasn't following its own rules. What do you hope to show in this court case? Let's say you get what you want and the judge decides in your favour. What do you hope to have achieved through that?

Sir Richard Branson: First of all, we would much rather not go to court. The fact that there are three new Ministers in this Department and that the contracts have been sent back to FirstGroup mean that there are alternatives to us going to court. We have specific issues that we are challenging in the court. One is whether enough security was asked for from FirstGroup for back-ending this enormous payment in the last three years. All our calculations indicate that they should have put up something like £600 million in security. There are some other points like that which we will be asking the court to look at.

Again, we would much rather that the Department for Transport were open and transparent and answered our questions. The fact that they are not answering our questions means that we have to go to court to try and find out more.

Q475 Kwasi Kwarteng: Would anyone else like to comment on that question with regard to the court case and what you hope to achieve?

Martin Griffiths: There are two or three things for me. First of all, the purpose of the judicial review is to ask whether the process and the rules of the process were followed. We have some specific concerns that they weren't and we would like somebody to go back and look at that. Hopefully, they will agree and the rules will then be applied. You have asked us whether we are just sore losers. You win and lose in business from time to time. Had we lost and the rules were applied properly, we would accept that. Right now, we don't have the transparency to understand whether the rules were properly applied or not. The second point for me is for the future. These bids cost millions and millions of pounds.

Q476 Chair: How many millions?
Martin Griffiths: This bid cost £14 million—
Sir Richard Branson:—which would be much better spent on the trains.
Martin Griffiths: Absolutely. There is enormous passenger benefit you could get for that.

Q477 Kwasi Kwarteng: How much is the court case going to cost you?
Martin Griffiths: It is not going to cost £14 million but it will cost a significant amount of money. That is the reason why we are not taking the decision to do it lightly. For the future, particularly from Stagecoach's point of view, understanding the proposition, what we are bidding for and how it is going to be evaluated is going to be fundamental as to whether we would want to bid in the future. For me, I hope that out of this challenge we get greater transparency about the process.
Sir Richard Branson: Virgin would not bid again if the current process exists. We have now spent over £50 million bidding on the two East Coast Main Line bids on which we were runners-up, CrossCountry, on which we were runner-up, and the West Coast Main Line, on which we have come in as runner-up. With the current process, where somebody can effectively get away with murder in the way that they have done this and not worry about quality for the passengers or the staff, we would not bid again.

Q478 Kwasi Kwarteng: Can I sum up? Your position essentially is that you are trying to play a game and you don't think the rules are right, but you play anyway. Then, once you have played the game, you are complaining about the application of the bad rules.
Sir Richard Branson: No. What we are saying is that the rules themselves were not followed on this occasion.

Q479 Kwasi Kwarteng: But you also said that the rules were bad as well.
Sir Richard Branson: They have a process where they can throw out a bid that is completely ridiculous. FirstGroup's bid, by throwing in an extra billion or two in the last three years, was completely ridiculous.

Q480 Chair: This is about your judgment, isn't it? You keep saying that you haven't had feedback. Have you had any debriefings at all?
Sir Richard Branson: We have read what various Ministers have said in the press. We have seen what FirstGroup have said in their presentations to their shareholders. It is based on as much information as we have been given.

Q481 Chair: Have you had any official feedback from the Department?
Tony Collins: We have had a single-page analysis of the deliverability score and a comparison with the premium payments. That is all we have had.
Sir Richard Branson: That showed that our deliverability was much better than this.

Q482 Julian Sturdy: I want to go back a little bit on the process. I want to be absolutely clear in my mind because at the moment I am not 100% clear on what you are saying about this. Are you saying that the DfT haven't followed the proper process, or are you saying that the DfT have followed the proper process but have come to the wrong conclusions? One is obviously about the process and the other is about a judgment. I am not 100% clear which line you are going down at the moment. Are you criticising and going after the DfT over the process they have followed or is it about the DfT's ultimate judgment? You say it should be £600 million on FirstGroup's capital but they have requested £200 million. That could be seen as a judgment.
Tony Collins: In terms of the judicial review, we believe the DfT haven't followed their own rules in the process. We have accepted that the process is what it is. The court case is because we don't believe they have applied the rules of that process correctly.
Martin Griffiths: To take up the point there, in our opinion, based on going through this bid for 18 months and doing all the analysis that we did, there was a set of rules for establishing what the capital structure needed to look like under certain bid assumptions. It wasn't a judgment; it was formulaic. We would like to understand, based on what we have seen and from the numbers and other material that FirstGroup have given publicly, how we can get back to the numbers that have been given.

Q483 Julian Sturdy: What you are saying is that, if the DfT had gone through the process and the calculations properly, they should not have come up with that £200 million figure but with something in the region of £600 million.
Martin Griffiths: Correct.

Q484 Julian Sturdy: You are saying that those figures haven't been properly calculated, so it is not about a judgment on that but about the calculation process that they have gone through.
Martin Griffiths: That is correct.

Q485 Iain Stewart: I would like to probe a little more into why you believe the FirstGroup bid is undeliverable. In the financial year to March of this year, Virgin Trains' passenger turnover increased by 16%. FirstGroup's bid is based on 10.4%. Why do you believe they are not able to achieve this?
Graham Leech: They have justified the 10.4% figure that they have quoted for the new franchise by talking about the 10.2% that has been achieved in the last 10 years as if that would simply continue. The figure for the last 10 years is artificially inflated because it contains a large amount of traffic that came back to the railway after the engineering work for the upgrade.

There were a lot of journeys that would normally have been made in the previous years but could not be because the services weren't running. That then came back into those figures, so it is artificially inflated.
The correct benchmark is to look at the franchise as a whole and put everything that happened into it, which is 7.9%. That is the benchmark that ought to be used and that is what we used in our bid.

Q486 Iain Stewart: But you achieved 16% last year in a very choppy economic circumstance. Why is it unreasonable to assume that they will make 10%?
Tony Collins: Last year's performance was taking the benefit of the very high frequency timetable that we put in at the end of 2008. It is bringing in the benefit of that high frequency timetable. It normally takes about two to three years to get the passenger volumes up when you put in a big investment like this.
To contrast last year's growth, our underlying growth for this current financial year is less than 4%. We have built the timetable benefit up for the very high frequency timetable that was put in at the end of 2008. We have brought the passengers on by bringing them on through price, strategy and so on. Now the franchise is waiting for the next big initiative to keep that growth growing. We have a steady state railway, with no big initiatives this year, and our underlying growth is less than 4%.
Graham Leech: We have great confidence in our forecasting. We are currently in the eight-month extension of the franchise. We did have a much lower revenue forecast for this year, based on the conditions, than the DfT, which turned out to be right. The starkest example is that the DfT were forecasting a £15 million benefit to Virgin Trains from the Olympics when we were negotiating the extension. We always believed that there was going to be a very small net benefit because most people would be put off travelling to London. Spectators would come but normal trips would not take place. As it turned out, the benefit has been £1 million. It comes back to deliverability. The number of passengers that the DfT were forecasting would be carried on Virgin Trains during the Olympics physically could not have been fitted on. It is the same situation that we now have with the FirstGroup bid.

Q487 Iain Stewart: You talk about step changes in capacity of the network and new timetables. I assume that FirstGroup have built those into their forecasts as well. There will be significant population growth in many towns and cities along the route, including my own area of Milton Keynes. There will be new feeder services coming into the West Coast with East West Rail and Northern Hub. It is surely perfectly reasonable to assume that there will still be substantial passenger growth on the network.
Graham Leech: Yes, there will; indeed.

Q488 Iain Stewart: This comes down to a judgment call between what your forecasts say and what FirstGroup's say. FirstGroup are not a newcomer to the game. They are an experienced railway operator. Surely their forecasts will be underpinned by—
Graham Leech: I would like to confirm that we absolutely believe there is massive potential for further growth on West Coast. We are forecasting growth to 50 million by the end of the new franchise. There is a lot of new capacity available, as FirstGroup have correctly said, from the additional Pendolino vehicles. Of course there is growth through the economy.
There is a common-sense element of saying, "How much will come through the economy and how much will come through the initiatives?" You can also look at it empirically. With the way that things are modelled, you know that if you speed up journeys—where it is 20 minutes faster than it used to be from Manchester to London—that will drive a lot of extra demand or if the service is made more frequent. In the past, we have seen that across the whole of the network. The initiatives that are being proposed by FirstGroup for the new franchise are very small compared with what has happened in the current franchise. Therefore, empirical knowledge, but also pure common sense, tells you that you are not going to get the same level of growth driven by that. Of course there will still be growth through the economy but there is a risk around that, and that takes you back to the risk assessment.

Q489 Kwasi Kwarteng: Talking about risk, what do you think are the most outrageous assumptions in the FirstGroup bid? Is it the GDP growth figure that you have a quibble with or this 10.4% annual increase?
Sir Richard Branson: Both.

Q490 Kwasi Kwarteng: On the risk, would you like to outline for the Committee what you think the doomsday scenario is for the British taxpayer?
Chair: What is the worst thing that you think can happen?
Sir Richard Branson: The doomsday scenario is exactly what happened on the East Coast Main Line. It is the awful disruption of them handing back the keys and the Government having to step in and run it for a while. All the investment that has gone in for the last 15 years into building the West Coast Main Line and making it one of the best networks in the world here in Britain could go to waste. The East Coast is the best example of that. It has been dreadful to see what has happened on the East Coast Main Line in the last couple of years.

Q491 Kwasi Kwarteng: I have one tiny little question. You have said that these assumptions of growth are absurd or difficult to see happening. You are a hugely experienced businessman. Why do you think they made those assumptions in this bid?
Sir Richard Branson: I think they saw the way the current franchise system is run. FirstGroup as a plc have some cash issues. They thought, "Let's work backwards and bid a small amount of money for the first 10 years, and that will help our cash flow position if we can persuade the Government to accept our bid. Then in the last three or four years let's put in this enormous figure and hope we get away with it." If you sit down as a Committee and calculate it properly, you will see that they physically can't get the people

on the trains to make that figure. Somehow they have managed to get away with it.

Virgin, who has had 15 years of running this, put in a realistic and sensible bid. We promised to invest far more money than FirstGroup in improvements, infrastructure and new trains. We are going to have a complete Pendolino fleet. FirstGroup are going to have a mixture of fleets and so on. We can take the West Coast Main Line on to the next major stage, with a staff who are committed and excited by the prospects and passengers that like the experience. Obviously we can improve and we have lots of exciting new things to do with it.

Q492 Chair: It is true that in your bid you have made commitments to new services. You have listed Blackpool, Telford, Bolton and Shrewsbury. Are these actual commitments? Would they be in the franchise agreement or are they aspirations?

Sir Richard Branson: Ours are absolute commitments. All our £800 million investments are complete commitments.

Q493 Chair: Legal commitments; franchise commitments.

Sir Richard Branson: I believe legal commitments.

Q494 Chair: It is important that we know, because one of the points you made at the beginning of your comments, Sir Richard, was that Virgin could offer a better service and deliver more for passengers. That is only true if the things that you are saying are going to happen will in fact happen.

Sir Richard Branson: We are making legal commitments.

Q495 Chair: You would be prepared to put these promises into—

Sir Richard Branson: Yes, exactly. One thing that has slightly upset us as the losing bidder—and people have to justify why they have made that decision—is that there has been a lot of talk about FirstGroup adding new this and new that. The truth is that we are going to be adding something like three times what FirstGroup are planning to add in general improvements in different areas.

Q496 Chair: Those would be franchise commitments and not statements.

Sir Richard Branson: Franchise commitments, yes.

Tony Collins: Just to clarify that, on the new services we have to get ORR's approval to run them like any other operator. If we get the ORR approval to run them, it is a commitment that we will run them.

Chair: Thank you very much for coming and answering our questions.

Examination of Witnesses

Witnesses: **Tim O'Toole**, Chief Executive, FirstGroup plc, and **Vernon Barker**, Managing Director, UK Rail Division, FirstGroup plc, gave evidence.

Q497 Chair: Good afternoon, gentlemen. Welcome to the Transport Select Committee. Could we have your name and position, please?

Tim O'Toole: My name is Tim O'Toole. I am the CEO of FirstGroup.

Vernon Barker: My name is Vernon Barker. I am the Managing Director of FirstGroup's rail division.

Q498 Chair: What assumptions does your bid make about growth in passenger numbers and growth in revenue?

Tim O'Toole: Our belief is that the growth that you have seen over the last 10 years can and should be continued if the Government are going to get the advantage of the extraordinary investment they made in this line. We think that, contrary to Virgin's depiction of their stewardship in recent years, since they have been in revenue support they have had very little incentive to drive growth on this line. Yet the growth has just come to them. If you apply real yield management and if you put a fare structure in front of people that attracts the public, we have every reason to believe that you can continue to grow at a rate consistent with the previous 10 years.

Indeed, we believe this because we have experienced it on our own railway, TransPennine Express. It has a user base that is almost identical to the West Coast. We have been able to drive fantastic passenger growth there. It is almost a poster child for a successful train operating company. We think that, by bringing those plans and those skills to the West Coast, we can deliver similar growth.

I would also point out that the Government obviously believe it as well as most of the commentariat. The reason why High Speed 2 has to be built is because everyone believes that that growth is there.

Q499 Chair: What about increasing fare revenue? Is it right that you are proposing to increase average fares by about 22%? That seems to be in your bid.

Tim O'Toole: The commitment we have made in our bid is, first, to create a more sensible fare structure. The first step out of the blocks is that we are going to reduce the Standard Anytime fares by 15% within the first two years.

Q500 Chair: You say you would, but is that going to be a contractual commitment within the franchise?

Tim O'Toole: Absolutely. We say within the first two years but it will happen in about 13 months. We will do it coincident with the regulated fare changes. The assumptions on fare increases over time in the bid simply assume a certain level of RPI and the like. If that isn't there, it is all right with us because our premium is lower. That is just the mathematics of putting together the bid.

Q501 Chair: What about the figure of 22% increase in average fares? That is in your bid, isn't it?
Tim O'Toole: I don't recognise that at all.
Vernon Barker: I don't recognise the number. The reduction in the Standard Anytime fare is 15%. That affects 20% of the fares starting in January 2013. That will be delivered within two years. Thereafter our fare increases will follow very similarly the way they have done previously. Regulated fares, of which there are about 37% in the fare base, will be governed by the regulations—RPI plus 1% or plus whatever. The rest will be subject to market pricing.

Q502 Chair: What does that mean? What is the increase going to be in non-regulated fares?
Vernon Barker: I don't recognise the statistic of 22%. It is not a number we have put in our bid. I think it is a number that someone else has calculated.

Q503 Chair: Is it a wrong calculation?
Vernon Barker: It is not a number that I recognise.

Q504 Chair: What calculation would be a correct one? What number would you recognise?
Vernon Barker: I think our fare increases are going to go up broadly in line with inflation.

Q505 Chair: What about increases for non-regulated fares—fares which are discounted now and advance fares? What plans do you have for those?
Vernon Barker: Our intention is to grow by volume, so I think that is clouding the average fare. The issue isn't so much what an individual fare will increase by because we are going to better space the steps between the lower fare and the higher fare. The higher fares are very expensive at the moment. You will see them moving together so that you get more of a graduated fares increase. I don't think the 22% is a number that can be used.

Q506 Chair: Let me be quite clear. What are you saying about increases in unregulated fares? Are you saying they would only be at inflation?
Tim O'Toole: No. We are saying they would probably follow inflation. That is our assumption. Over the term they would move where other fares had moved. The point that Vernon is trying to make is this. We expect to offer additional options for people. You have heard in some other reports in the press that we have hinted at the fact that we are going to put in another class of fares. We expect to make a compelling enough offer that some people will choose another pricing point. They will pay up for services. They might not, today, be willing to pay to go up to first class, but they might go to an intermediate class. Say they wanted to do work but they didn't care so much about some other element of the trip; they just wanted space. We have made certain assumptions about the effectiveness of putting in those kinds of offers. For your purposes that would look like a fare increase, but in fact it will be a choice people make. We will have to make it attractive enough for them to make that choice.

Q507 Chair: So what looks like a fare increase might actually be an attractive—
Tim O'Toole: It is another option.

Q508 Kwasi Kwarteng: What do you say to the accusation that your bid relied heavily on future growth rates that, at the present time, seem very optimistic? The accusation is that for the first eight years you are not really offering that much more than the other competitor, but you have back-ended a lot of the fruit, if you like, on slightly inflated projections. On that basis it is said that you won the bid. What do you say to that?
Tim O'Toole: That allegation—made by Virgin, I understand, and not by you—is flat out wrong. It is just another bad guess they have made about our bid because they actually haven't seen our bid. If this bid were back-end loaded, you would have a bid with much higher growth rates at the end so that we can justify some giant premium. That hasn't happened. In fact it is very different from that. It is a much smoother line with lower growth rates at the back end. The only reason the numbers are larger at the back end is because of compounding. The growth rates are lower at the back end, of course, which is the sensible thing anyone would assume.

Q509 Kwasi Kwarteng: What about the risk in this scenario? Clearly you have quite aggressive projected growth figures. The last 10 years, until about four years ago, were very prosperous. We were growing at between 2% and 3% a year as a GDP in the economy. The next 10 years will perhaps not be as economically favourable. There is some downside in your predictions. Are you going to be covered on the downside?
Tim O'Toole: By definition, the Government have assessed that. They have assessed the deliverability. As you have pointed out, they have put this £200 million subordinated loan guarantee requirement in for us where it doesn't exist for the others. That is the handicapping difference they see.
The description that some people are making about our bid would lead one to believe that we have these crazy numbers and everyone else's are at some sober level. In fact, as you have put it, ours and Virgin's bid in the absolute number of pounds involved are very similar through almost all of the term. The difference is that at the back end they assume it just flatlines, shuts down and can't grow any more. The last three years are dead time to them. We assume that with continued investment you could continue to grow. The reason why we would make that assumption is that, even in a railway that hasn't been rebuilt and that is stuffed to the gills like First Great Western, we are seeing growth rates at 8% in the past year. If you continue to provide a good service, you will continue to grow. We think we can continue to grow right into High Speed 2.

Q510 Kwasi Kwarteng: A lot of the debate has surrounded this £200 million figure as an insurance cushion. The suggestion has been made that this £200 million is too small given the risks involved in your bid. What would you say to that? We heard earlier that a figure of £600 million might be more appropriate.

Tim O'Toole: We think we understand how Virgin tried to back-engineer and get to the £600 million. We understand the formula. We believe they have used the wrong inputs because, when we do it, we get to the same number that the Department got to. I think the problem is simply that they don't understand our model because they haven't seen it.

Q511 Chair: Is it true that you have a cash problem and you might indeed decide to walk away when you get to 2020 or 2021? It is a long time ahead, isn't it? You may not even be in the company then.
Tim O'Toole: No CEO who sits in front of you could make a representation that they would be here 15 years hence. That is not peculiar to FirstGroup—that is the first point to make. Secondly, we are long-time players in this business. We have been in the rail business for a long time. I would like to think we are very good at it and it is part of our business. No business that cares about their reputation, where this is a core part of it, would so cynically manipulate the process such that they would throw away their prospects of continuing to be in the business longer term. Our board would never have done that.

Q512 Chair: Do you have a cash problem? You didn't answer that question.
Tim O'Toole: No, we don't have a cash problem. We have steadily paid down our debt ever since the Laidlaw acquisition. This year we have pointed out that cash would be flat, but we believe that, as our bus businesses in the US and here continue their positive turnaround, cash flows will return to what they were.

Q513 Mr Leech: You said to Mr Kwarteng that you don't accept Virgin's analysis that it should be £600 million rather than £200 million but you calculated the same amount as the Department. Does that mean you accept that your bid is five times riskier than Virgin's bid?
Tim O'Toole: I can just tell you that we are offering to do more, provide more services and to pay the Government more money. It stands to reason that, in any kind of adjustment mechanism where you are trying to cover the Government's risks, you would attach a higher figure to us. It is common sense.

Q514 Mr Leech: With respect, that is the sort of answer I would have expected from a politician rather than a chief executive officer. I actually asked whether you accepted that your bid was five times more risky than Virgin's.
Chair: Mr Barker, is it five times more risky?
Vernon Barker: No, not at all.

Q515 Chair: Then why are you being asked for five times as much?
Vernon Barker: We are only being asked for five times the amount on a subordinated loan facility. The intention of a subordinated loan facility backed by a bank guarantee is to maintain a solvency requirement during the course of the full 13 years. It is the top-up or a maximum exposure that either of the two bids may experience at any one point during that 13-year life. It is not that it is five times more risky at all; it is just the amount you need to maintain and achieve the Department's test to pass the solvency requirement.

Q516 Mr Leech: Do you accept that your bid is riskier than Virgin's?
Vernon Barker: Not when we have presented a subordinated loan facility and the risk premium—if you want to call it that—or the bonding to achieve the higher premium; not at all.
Tim O'Toole: Just to be straight—

Q517 Chair: Before that, the purpose of that requirement for you is because the Department are assessing a higher risk. Is their assessment right? I am not talking now about what would be appropriate for you to meet that risk. It is about whether you have a five times higher risk than Virgin. Do you accept that that is the case?
Tim O'Toole: We have not seen Virgin's model. We have not seen the Department's calculation. We can't be an apologist for that calculation and then compare it to ours. Let me say this. I would concede that, since we are committing to continue to grow the railway throughout its life and they are committing to just flatline for three years, we are taking on more. If you are taking on more and it is taking on risk, then it is more risk.

Q518 Kwasi Kwarteng: As a matter of common sense, if someone asks for a guarantee in terms of insurance, if you like, of £200 million of one customer, and for pretty much the same services asks £40 million of the other, as a businessman you would probably appreciate that one risk was appreciably greater in the first instance than for the second. Just from a common-sense point of view, why would the Department ask you for a £200 million subordinated loan, as you put it, and only £40 million from Virgin?
Tim O'Toole: If they were here I am confident they would say they did view more risk in this bid, but in choosing the bid they have to opine that it is deliverable. Contrary to all the things you heard from Virgin about their advantage on deliverability, the deliverability scores on these two bids was very close. We saw very little difference. It was 64 to 60.

Q519 Mr Leech: What do you see as the percentage chance of you handing the keys back before the end of the franchise?
Tim O'Toole: I don't see any chance of our handing them back because it would destroy our ability to continue to run a rail business in this country.

Q520 Mr Leech: When the East Coast was returned to the Government, a lot of arguments were made that they should lose all their franchises and shouldn't get any franchises in the future. Would you agree with that assessment? Would you say that, if you handed the keys back, it would be appropriate that FirstGroup didn't get future franchises and lost the ones that they currently have?
Tim O'Toole: As a practical matter that would be what you would face. I personally didn't agree with those views of National Express. They are obviously

doing a very good job on c2c, so why would you want to disturb that operation just to spite the other?

Q521 Mr Leech: But, if there is no chance whatsoever that you are going to return the keys, you could make the commitment, couldn't you, that you would return all your franchises to the Government if you were unable to deliver on this one?
Tim O'Toole: But that is Government policy that imposes a cost on the businesses. You would price them accordingly, wouldn't you? It would be up to the Government to decide if that was a requirement.

Q522 Mr Leech: If you don't accept that you could make that commitment, even though there is no chance of returning a franchise, would it be conceivable that someone in your position as a chief executive officer, if you were still in charge at the end of the franchise, or someone who was head of your rail business would stay in their job if they returned the keys before the end of the franchise?
Tim O'Toole: I am sorry; I am not sure I am following this. Do you mean should the shareholders get rid of a CEO who returned the keys?

Q523 Chair: If a chief executive did that, would they stay in their job?
Tim O'Toole: Assuming the reason for doing it was a failure on the chief executive's part, no.

Q524 Mr Leech: I am just trying to assess what the real risk is to your franchise. If there is effectively no risk to your franchise and there is no chance that you are not going to deliver on the whole of the franchise, why are you so coy about whether or not you would keep your other rail franchises or your job, or your successor would keep their job, if there is no risk to your bid?
Tim O'Toole: I don't mean to be coy. I also don't mean to be giving the impression that our view is that this is simple, in the bag and that there is nothing for us to do here. This will require a lot of hard work. It is the kind of hard work we have delivered in other places such as TPE.

Q525 Mr Leech: You do a good job there.
Tim O'Toole: There is always risk involved with that. We just think that we are going to be able to handle that risk.

Q526 Chair: It is a long franchise, isn't it? That is the nature of it. It could be 13 years or it could be 15 years. It is really quite easy to make commitments for the future that might be a long way off, isn't it?
Tim O'Toole: We have no choice. That is the structure. We have to make commitments over 15 years if we are bidding for it

Q527 Chair: If there is that risk there and it may be five times the risk of Virgin—it may be—perhaps it doesn't trouble you too much to say that there isn't really any risk.
Tim O'Toole: Whether it is more risk than Virgin's or more risk than the other two bidders, who aren't even mentioned in here, doesn't matter to me. All that matters to me is: does my bid work, have we have put the study and analysis behind it that gives us confidence that we can deliver it.

Q528 Kwasi Kwarteng: You will appreciate the fact that we are a Committee of the House of Commons and we have some responsibility for taxpayers' money. It might not matter to you in terms of the risk, but it certainly matters to the Government, the taxpayers and our constituents. That is why we want to bear down and understand this element of risk. From what you have said, your bid is riskier than Virgin's bid. You can deal with those risks and you might have provision with things like the £200 million bond for those risks, but what you are saying is that there is more inherent risk in your bid than in the Virgin bid.
Tim O'Toole: When the Government do any of these procurements they obviously assess what return they can get at what level of risk. The easiest thing to do would be for a Government, if all they cared about was risk, to take the lowest bid. Then we, the private operators, could put our feet up, do nothing and get paid.

Q529 Chair: But this isn't the question being put to you. We are asking you to accept clearly that there is a risk here and the risk is higher—
Tim O'Toole: Absolutely there is a risk. There is a risk in any business venture of this kind.

Q530 Julian Sturdy: I want to continue on the risk side of things. As a number of members of the Committee have made clear, this process we are going through today is very important to us. The DfT explained that your bid should be supported by £10 million of shareholder capital, a £45 million performance bond and this £190 million subordinated loan, which we have already discussed. Within the process, is it correct that that £190 million subordinated loan is only guaranteed for three years at the moment?
Tim O'Toole: It is underwritten for three years by the bank because that is the term the banks will write for.

Q531 Julian Sturdy: Can you talk me through the process after those three years? Are you confident that you will be able to secure that £190 million right the way through?
Tim O'Toole: Six months before the expiration of that we have to have renewed it. If we don't, then the Government can call on their guarantee. If we are unable to renew it because of some banking crisis—

Q532 Kwasi Kwarteng: It is a revolving credit.
Tim O'Toole: Yes. We would have to put in cash of that amount.

Q533 Julian Sturdy: So you don't feel that that is a risk then. Whenever that is reviewed, there is no concern from you about there being a risk at that point.
Tim O'Toole: No, because we have over £800 million of headroom as it is. If for some reason in the banking industry that I don't understand those facilities

weren't available, we would obviously just draw down on our headroom and put cash in until such time as those kinds of bank guarantees were available.

Q534 Julian Sturdy: Do you think the risk assessment process has been fair?
Tim O'Toole: From our perspective, yes. We have no reason to suspect otherwise.

Q535 Chair: What kind of debriefing have you had from the Department?
Vernon Barker: Like Virgin, we get a letter from the Department for Transport that gives some very brief details. In respect of bidders that don't win, they will get a comparison of their premium against our premium—the scores on the 10 deliverability plans against ours—whereas we will just get a win letter. They will get a comparison on the funding as well. They will see all those three areas. We will not have a comparison of our scores with those of other bidders but we will obviously just get a very short letter saying, "You have won; your funding requirement is X and your deliverability scores were these 10 numbers."

Q536 Chair: Was there a point during the assessment process where you were called in to discuss the nature of the risk and before the decision was made about what financial provision you would be required to make?
Vernon Barker: If I understand the question correctly, we respond to the invitation to tender and we present our bid. We put in a certain level of funding requirement at our own behest in terms of the risk that we see within the bid to meet the Department for Transport's solvency tests. The Department for Transport would then come back to us, as they did after we had submitted our bid, to say that they felt the solvency requirements should be "Y'" and would we put that amount of money in, hence the reason it was £200 million. We say yes and then we move on to the chosen bidder—

Q537 Chair: What kind of discussion took place at that point and when did that happen?
Vernon Barker: That would have happened a few weeks before the award. The discussion was that their assessment of risk differed from ours, which probably isn't surprising. We have a very confident view of all of the different delivery plans that we are intending to do. They have a slightly more cautious one, which you would perhaps expect them to take. They sought some higher level of funding. They moved it up to the £200 million, past where we had already predicted it was required. We feel that it doesn't need the £200 million but we were prepared to move there. There was a very short discussion, "Will you present further insurance"—I think that was the term used earlier—to cover our concerns?" We said yes and then we moved on to the next stage.

Q538 Chair: Was there a negotiation before you reached that figure?
Vernon Barker: Not with the Department, no. It was, "Will you meet this figure?"

Q539 Chair: It was yes or no, or was there some discussion about it?
Tim O'Toole: There can be a negotiation.

Q540 Chair: But was there?
Tim O'Toole: In this case, the negotiation was primarily internal. It was our deciding.
Vernon Barker: There wasn't so much negotiation as clarification of the requirement and the level needed. Once we had helped them understand our numbers better, their level of funding actually came down.

Q541 Chair: So in the course of your discussion at this point the requirement from the Department was reduced; is that right?
Tim O'Toole: Just marginally. It was a very small amount.

Q542 Chair: It was reduced by how much?
Vernon Barker: Only £15 million, I think; a very small amount.

Q543 Chair: It was reduced by £15 million as a result of your discussion with them.
Vernon Barker: Yes.

Q544 Kwasi Kwarteng: I want to ask something quickly in terms of what happened to the East Coast Main Line. A key element of Virgin's case is that this has happened before in that we had bidders who had made quite outrageous and extravagant claims. They won bids and then they failed to deliver. I just want to know your comments about those particular instances where the keys were handed back.
Tim O'Toole: I think the most outrageous thing is the history that Virgin is presenting to you. What happened in East Coast the second time with National Express was that they put in a bid that obviously failed when they were hit by the recession and, most importantly, there was no cap and collar to come in for the first five years so they got caught in that trap. If the Government, for whatever reason, had chosen not to take National Express's bid and had given it to the second place bidder, which in this case was Virgin, they would have got crushed; they would have defaulted exactly like National Express did. When you look at the growth rate numbers and you look at what happened in the economy in the next four years, there is no way they could have done anything otherwise. This kind of depiction that they are the voice of sobriety through this history just doesn't square with the facts.

Q545 Iain Stewart: In the criticism of the deliverability of your bid, Virgin claimed that you will require unprecedented seat occupancy levels. They go as far as to say that, towards the end of the franchise, every seat on every train every day needs to be filled, otherwise the franchise goes bust. Is that true?
Tim O'Toole: No; it isn't true. What our bid does require is that we move the modal share on this railway to a level that is comparable to other main corridors. Quite oddly, it is a modal share that is low in rail for the West Coast Main Line. It also requires that the seat occupancy percentages are moved up

closer to what we have on our other railways. It is another 10 points higher than they have and which we enjoy on Great Western, and up to 50% on TPE.

Q546 Chair: What percentage?
Tim O'Toole: They are around 35%. We are in the mid-40% on Great Western and we are at 50% on TPE.

Q547 Chair: What are you assuming for West Coast Main Line?
Tim O'Toole: We are assuming that with West Coast we will drive those occupancy rates up into that territory of between 45% and 50%. The way you do that is by attracting people to the off-peak services. That is what Vernon has been so successful in at TPE. Towards the end of the franchise, as these plans are successful, if we need to add capacity, we are committed to doing just that. We have not made any kind of silly assumption that every seat on every train at all times of day has to be filled.

Q548 Iain Stewart: Can I just probe you when you say you will add capacity if necessary? What capacity do you mean, because that line is pretty much full? There is not much else you can do by way of lengthening trains or adding in additional services. That is the whole rationale for High Speed 2. If you get to the last four years or so and you have been very successful in growing the business, are we going to see trains that are completely packed and severely overcrowded?
Vernon Barker: I can help with that. The situation in terms of rolling stock and seats with which Virgin have tried to make the comparison is the Pendolino fleet that they talk about. Our bid includes us introducing an extra 11 six-car trains, which is incremental to the position that they would be at today. We are doing just that. We are lengthening five-car trains that run to Scotland to six-car trains and we are introducing more of them. There will be 66 extra vehicles, so there is a step-up on capacity to keep pace with our ambition to drive ridership.
We have more costs continuing through the franchise to support initiatives like yield management, marketing and customer service. As Virgin haven't seen our bid, I think they have drawn you to the suggestion that there is only £350 million-worth of investment. If they read the detail correctly, that is £350 million in the first five years. Our investment in customer service continues throughout the life of the franchise to do just that—to support growth which is at the same rate throughout the franchise.

Q549 Iain Stewart: Forgive me; I still come back to the capacity increase at the end of it. The new trains and the cascade effect will happen towards the front of the franchise. What happens if you have been successful and you have hit your targets? Are we still going to get to a point towards the end where there is nothing else you can do in terms of increasing capacity?
Tim O'Toole: We could do a couple of things. We could add some trains. Depending on what the demands of the public were, we could convert first class to a different class. There are many different things you can do, but if you are asking whether the line in the last two years or so will be crowded compared with what it is today, the answer is almost certainly yes. That is why High Speed 2 will have to be built.

Q550 Chair: In your bid, and again repeated, you talk about additional trains and services, but will they be part of the franchise part of the contractual agreement or just something that you say you will do?
Tim O'Toole: Yes. The only caveat is the same one that Tony gave you. With some of these new services you do need ORR's approval, but we certainly think there is a compelling case and we are confident we could get it.

Q551 Chair: So you are saying that your intention is that all of the new services that you have spoken about as desirable will be part of a contractual agreement in the franchise. Is that what you are saying?
Vernon Barker: Yes.
Tim O'Toole: Yes.

Q552 Chair: You are quite clear on that; with the years that they would be introduced written into the contract.
Vernon Barker: Yes. They are a commitment that we have offered and given, and we are waiting to see them accepted and signed.

Q553 Chair: Is your understanding that the Department makes its assessment by comparing the base specification—what it has asked for—and then looks at what is desirable and the additions that you are offering separately? Is that your understanding of the process?
Vernon Barker: The base timetable specification was presented to us. We have offered these additional services, as I understand other bidders have done. They are included in our base bid.

Q554 Chair: So everything that has been stated as coming from you in terms of new services and new rolling stock would be a contractual commitment and not an aspiration. Is that correct?
Tim O'Toole: That is correct.
Vernon Barker: Yes, it is.

Q555 Julie Hilling: I want to carry on with the passenger experience bit that is going to come out at the end of this in terms of space. You talk about refurbishing the Pendolinos and the Voyagers. Are you going to be putting more seats on those current trains? We have additional carriages that are being inserted as we speak anyhow, so we know that the lengthening of the trains is happening in terms of catering and so on. What are the changes going to be that allow more people to get on those trains now?
Tim O'Toole: We are not adding more seats in the carriages. If you are wondering if we are going to make everybody cramped, then no. The way more people will get on those trains will be because there are two more carriages, so nine-car trains become 11. That is what will drive it. We just want to refresh

the interiors. Though the trains are relatively new and beautiful, the interiors are worn.

The other thing we are going to do is try to provide the amenities that we think really matter to people these days. For example, wi-fi will be free for everyone and not restricted in the way it is now. We are going to have improved reception for mobiles on the trains. We are going to have an improved catering offer. In addition to the stores that are there, we are adding in-seat catering because our studies have shown that a lot of people prefer that. They don't want to leave their luggage and have to get food somewhere, because they are uncomfortable with that situation.

Over the longer term, the most meaningful thing we will be doing is using new means of communicating with people so that they can understand what the best offers are for them and can take advantage of them. That will also help us put in targeted offers to people to help drive these volume increases. We want the whole experience for the passenger to be one that they feel they own and dictate. They tell us what amenities they want, which is one of the reasons why we want to offer more classes of service so that they have an election to make.

Q556 Julie Hilling: Coming back to the classes of service, I got a bit confused when you were answering the Chair's questions about what fares would be going forward. Will the anytime-except-peak ticket still cost £73?

Tim O'Toole: Absolutely.

Q557 Julie Hilling: This is for the off-peak walk-on. Is that going to be the same price going forward and is it going to be available at the same time periods?

Tim O'Toole: Yes. What we are talking about is adding more pricing points. As I have said to some people who ask, "What does that mean?", think of what Eurostar has done. By adding a class in between first class and standard, they have given people an opportunity to buy up because they are looking for those amenities but they don't want to pay the whole fare of first class. That is what we are talking about. We are talking about adding more pricing points to help drive volume.

Q558 Julie Hilling: Will the current fare structures be the same in terms of when it is peak, when it is off-peak and the ability to buy those tickets?

Vernon Barker: The fare structures remain the same in terms of Anytime products, off-peak products and the advance purchase products. The structure of fares stays the same.

Q559 Julie Hilling: I have another question on staffing because clearly great concern has been raised that you will be denuding the West Coast of its staff. What is your commitment in terms of staffing levels as they exist now—on-board and station staff?

Tim O'Toole: As we have said, our bid and our model assumes that staffing levels are probably the same for at least the first five years.

Q560 Chair: And after five years.

Tim O'Toole: It is very difficult to predict exactly how you are going to deploy everyone in a time frame longer than that. We have to see, for example, how revenue collection goes and how people buy their tickets over time. The world changes and we will be adapting.

Our plan is based on growth. The only way you can grow is if you have the people out there doing the things that people want to see, otherwise they are not going to come to you. It isn't an option for us to cut, cut and cut. There is no way that things that the head of Virgin said we are going to do could possibly work or could ever be part of our plan. This is all about growing revenue, so we need the employees if we are ever going to do that.

Q561 Mr Leech: I am intrigued by something you said before. I think you said that one of the ways in which you were going to grow passenger numbers was by managing demand and getting extra customers on the quieter trains. Is that right? That seems to be completely at odds with your plans to reduce Standard Anytime ticket prices because that does completely the opposite. Surely if you want to manage demand and you want to fill the less busy trains, you should be reducing your advance purchase ticket costs rather than your Standard Anytime costs. Why particularly do you want to do that and increase costs for advance purchase ones?

Vernon Barker: There are two reasons for doing that. The first is that the Anytime product can be used in the peak. There are certain peak trains that are not as full as trains available immediately after the peak. We would wish to encourage more people that wait for the services immediately after to travel within the peak. The other thing that is probably more presentational is when you do the research—and we have commissioned independent research—on the price perception of fares in the UK and price perception on the West Coast Main Line, because some of the fares for the Standard Anytime products are relatively expensive at just short of £300 for a standard return fare to Manchester; it is the one that most commonly gets quoted. Most non-users of rail—and this goes back to the story of growth—recognise or believe that the price is anywhere between 40% and 80% higher than it really is. There is a value in reducing that so that you stimulate more awareness and more people to your railway.

Q562 Mr Leech: I don't want to put words into your mouth, but are you saying that this is in fact just a headline-grabbing figure? You are going to reduce Standard Anytime prices by 15%, but actually most people will see an increase because all those people that currently get the £39.50 first-class advance ticket from Manchester to London won't be able to get that any more?

Vernon Barker: No; quite the reverse. It is so that people can, when they choose to walk up to the station, get a more affordable fare.

Q563 Mr Leech: How many people do that, though? How many people physically go to the train station

and buy the full-price ticket? What proportion of passengers does that?
Vernon Barker: It is about 21%.

Q564 Chair: Will the cheaper tickets still be available?
Tim O'Toole: Yes.

Q565 Chair: Categorically yes?
Tim O'Toole: Yes. The person who wants to buy the ticket you were referring to could still buy that ticket.

Q566 Mr Leech: And those prices aren't going to be affected by—
Tim O'Toole: Those prices, as we said about prices generally, will—

Q567 Mr Leech: They will just go up by inflation.
Tim O'Toole: Right.

Q568 Chair: And that is a commitment.
Tim O'Toole: That is an assumption.

Q569 Chair: It is an assumption.
Tim O'Toole: Well, there aren't any commitments on absolute price increases in future years.

Q570 Chair: Let me just clarify this. What are you saying about price increases in future years? You are assuming; you are not making a commitment.
Tim O'Toole: We can't just move prices any way we want because there is an elasticity of price and you pay for that. In order to support this level of growth, we assume that prices will increase at about the rate of inflation.

Q571 Chair: You assume.
Tim O'Toole: Yes; that is what we think will be required. We don't think that the market would take much more than that.

Q572 Mr Leech: Have you had any discussions with the Department about changing what the peak hours are?
Vernon Barker: No.

Q573 Mr Leech: So you wouldn't be looking to change what the peak hours are.
Vernon Barker: We have not had any discussions. It is not part of our plans, no.

Q574 Chair: But you could have thoughts about that.
Vernon Barker: We might do now.

Q575 Chair: You do have.
Vernon Barker: No; we don't.

Q576 Chair: What are your thoughts about changing the peak hours?
Vernon Barker: Our thoughts on the peak hour service, if it is the services immediately after the peak where they are quite busy coming out of Euston, are making them more affordable advance purchase fares in the peak to encourage people to move into that, as much as the Standard Anytime fare reduction.

Q577 Chair: Are you thinking of changing the definition of what constitutes peak hours?
Vernon Barker: No.

Q578 Chair: Virgin say they are going to launch regular daily flights between Manchester and Heathrow from March. How will that affect your growth figures?
Tim O'Toole: I don't think it will. If you provide a good train service on distances of that length, the studies prove all over the world that rail will trump air every time.
Vernon Barker: I could perhaps add to that. In 2007, FirstGroup with TransPennine took over services that were already operated by Virgin north of Manchester to Glasgow and Edinburgh. In the four years following on from that, when we started with air competition at 50 flights a day, we managed to grow the income from that service by 236%. That was on a railway that was already up and running and we competed head-to-head with air services. We still managed to grow rail along the route.
Chair: Thank you very much for coming and answering our questions.

Wednesday 31 October 2012

Members present:

Mrs Louise Ellman (Chair)

Steve Baker	Mr John Leech
Julie Hilling	Iain Stewart
Kwasi Kwarteng	Graham Stringer

Examination of Witnesses

Witnesses: **Rt Hon Patrick McLoughlin MP**, Secretary of State, and **Philip Rutnam**, Permanent Secretary, gave evidence.

Q579 Chair: Good afternoon and welcome to the Transport Select Committee. Could we have your name and position? We do know who you are but we would just like it recorded, please.
Mr McLoughlin: Absolutely. Patrick McLoughlin, Secretary of State for Transport and Philip Rutnam, Permanent Secretary, Department for Transport.

Q580 Chair: Thank you very much. Secretary of State, I think you wanted to make some introductory remarks.
Mr McLoughlin: Just a very brief opening comment, if I may, Chair. I fully understand why the Transport Committee today has called this evidence session. The mistakes that were made on the InterCity West Coast franchise should not have been made, are very regrettable and, indeed, very serious for the Department. We have already apologised to the bidders involved and to the taxpayers, who have a right to expect better, and I do so again today.
I fully realise that a lot has changed since I last gave evidence to the Committee about this matter on 12 September. Thanks to the rapid work that has been done initially by the Laidlaw inquiry, we have an interim report. That is very much an interim report, but we will get the full report hopefully by the end of November, which I know that everybody will await with interest.
It was on 2 October I was advised that technical flaws in the conduct of the West Coast competition were so serious that the competition would have to be cancelled and I announced that as soon as I could after I received that advice. I will leave it at that and await the questions of the rest of the Committee, Madam Chair.

Q581 Chair: Thank you very much. Indeed on 12 September, when both of you came in front of the Committee, you both said that you were content with the way the Department had acted. Since then we have had the interim Laidlaw report, which can only be described as a damning indictment of the Department. The report found that the Department knew the process was flawed and lacked transparency, that it changed the rules at the last minute without telling the bidders, acted unfairly and was aware it was open to legal challenge. In view of all of that, Secretary of State, do you wish that you could have asked more questions within the Department before you came to the conclusion that you were content with the way things were being dealt with?
Mr McLoughlin: I would just like to go back on one point. The Laidlaw inquiry is a damning inquiry; I certainly accept that. I don't think it is a damning inquiry into the Department; it is into one section of the Department. I am very keen to say that there are a lot of people who work incredibly hard in the Department who have nothing to do with this particular West Coast franchise and I wouldn't like them all to be condemned in the way that certain people are blanketing the Department. I, as Secretary of State, certainly would like to qualify the nature of the Laidlaw report to one section where the Department went wrong, as opposed to everybody who works in the Department, some of whom work incredibly hard and work well for the Department.
Do I wish I had asked more questions? Well, I did ask questions and I was assured when I came here, in the little time that I had—it was fairly shortly after my appointment, within a week, that I was here and for various reasons I wasn't in the Department for the whole week—that the award of the franchise was technically safe. But do I regret not asking more questions? Although there were some small issues that had come to light, I was assured that that would have no change on the overall awarding of the franchise.

Q582 Chair: What were these small issues that you have been told about now?
Mr McLoughlin: I wasn't given specific details. There was work being done. I was not given the specific details of where they thought the problems were.

Q583 Chair: Didn't you feel, in the light of the furore and the gathering storm that there was around this franchise, that you should have asked what those issues were? If you were told that there were small issues, there was a public storm brewing, there were allegations being made, documents had been disclosed, Virgin had already published to this Committee and generally statements and allegations about unfair treatment and miscalculations—in view of all of that—don't you think you should have asked what the small problems were that they described to you as small?
Mr McLoughlin: I was told that there was a lot of work going on as a result of the judicial review and I was told, as I say, that they would not have had an impact on the overall outcome of the franchise. Now, could I have asked more questions? Perhaps I could have asked more questions, but I probably would still

have got the same answer, because at that stage that is what the Department believed.

Q584 Chair: One of the most serious findings in the Laidlaw report, and I accept it is an interim report but nevertheless there are some very serious findings there, is that the Department or the relevant section of the Department—I accept your comment on that, Secretary of State—decided to proceed with the franchise competition when it was known that it was open to legal challenge. Who took that decision? Can you answer it or, Mr Rutnam, can you tell us? That is a very serious charge. The Department knew it was open to legal challenge yet decided to proceed with the franchise. Who took that decision?
Philip Rutnam: Let me say, first of all, that I would just like to echo the Secretary of State's comments about the seriousness of the Laidlaw conclusions—the initial findings that he has made. These are indeed damning in relation to certain decisions made by the Department and these have very significant implications for us as an organisation. However, I would also like to point out one thing, which is that, as Mr Laidlaw has observed, he has not sought in this report to identify the level at which decisions were made within the Department. He refers to this in paragraph 1.6.

Q585 Chair: I am asking you the question, Mr Rutnam. If he had stated in his interim report who it was, it would be a different discussion. I am now asking you here who took that decision in the knowledge that the Department was open to challenge?
Philip Rutnam: I am afraid I am not going to be able to answer that question because, in parallel with the Laidlaw inquiry, we have an HR investigation into the conduct of individuals within the Department, the purpose of which is to establish the facts in relation to which individuals did what, so that on the basis of establishing those facts then decisions can be made as to whether disciplinary action is appropriate. That investigation is continuing, it has not yet completed and it would be wrong to pre-empt that investigation by my saying now who I believe made decisions in relation to each of the initial findings that Mr Laidlaw has made.

Q586 Chair: If you don't wish to name or are unable to name any individuals, and I am not seeking the names, could you then tell me, on process, once that decision had been made, was that then signed off by a Minister?
Philip Rutnam: That decision, I have to say, relates to a period before I was in the Department, so I can't give you personal testimony in relation to that decision. I have to say I am not aware that it was a matter that Ministers were consulted on, but I cannot give you an authoritative answer now because the investigation process is continuing.

Q587 Chair: We would like an answer on not just who took the initial decision but was that reported to a Minister? Was it signed off by a Minister? It is a very crucial point, isn't it?
Philip Rutnam: I completely understand that. Just to reassure you, the Department is seeking to proceed on this matter with absolute vigour, determination and speed. The fact that we now have a set of initial findings from Laidlaw, produced before the end of the month in which we had to make the decision to withdraw this award, is evidence of the speed with which we are trying to progress. But I completely take the point that you would like to know who was responsible for what.

Q588 Chair: Yes, I want to know who took the decision and who signed it off. Would you expect a Minister to be aware of a decision of this sort?
Philip Rutnam: I would like to make a slightly broader point. On matters such as the points identified in the initial findings where major decisions are being made in relation to risks that the Department is running, where major issues around process are being identified, where there is the risk that something is going awry, I would expect those issues to be escalated to the top of the Department.

Q589 Chair: Does that mean a Minister?
Philip Rutnam: If a decision requires ministerial involvement then, yes, it would. I would expect that, but that is what would be my expectation in terms of the professional standards to which we would work. Laidlaw has clearly made a general finding that we have not worked to the professional standards expected on this matter. The question of who knew what and when is something that will come out when these investigations, including the HR investigation, are complete.

Q590 Chair: You have referred to the HR investigation—the ongoing one being undertaken by the Department. Mr Laidlaw makes reference to that in his report in the context of saying that he hasn't been able to see all the documents or interview all the people he wanted to because of this parallel investigation going on. Is there any suggestion here that he has been denied access to individuals or to information?
Philip Rutnam: I am not aware that there is an issue in relation to access—the ability of Mr Laidlaw to interview any individuals in the Department. I am not aware of that as an issue at all. Issues I am aware of have been in relation to his access to information that is not in fact the Department's but third parties' information, which is commercially confidential. We have to go through due process before releasing that. That is something which is well under way. Also, there is an issue about access in relation to legal advice, which is covered by general issues in relation to legal and professional privilege, which is also being actively addressed.
Mr Laidlaw has, I believe, made clear that he feels he has benefited from the full co-operation of the Department, and in the very short time that this inquiry has been under way he has received an immense amount of information. I don't think he has actually been able to process all the information yet received. He also refers to that in the report.

Q591 Chair: But you are actively seeking to deal with the requests he has made.
Philip Rutnam: Absolutely.

Q592 Chair: Is that what you say?
Philip Rutnam: Indeed; of course.
Mr McLoughlin: He issued a statement to that effect this morning, bearing in mind some of the comments that are being made. He actually said that he had not been held up from the information that he needs.

Q593 Mr Leech: Secretary of State, it is easy with hindsight to say, "Yes, I could have asked more questions of my officials." Is it not the case that those officials should have been telling you the facts rather than waiting for you to ask questions?
Mr McLoughlin: You are saying "with hindsight". With hindsight, I could say a lot of things, but that is on the background of the information we have given. What becomes obvious in reading so far the interim report of Laidlaw is that decisions were taken and probably not referenced far enough up the seniority of the service; discussions were taken. Information was given to different bidders in different ways, which meant that they would have put in different figures because of the information they actually received. So what we are seeing is, I am afraid, a very big breakdown in the way in which the process was conducted.

Q594 Mr Leech: What concerns me is that it would appear on the face of it that officials were withholding information from Ministers and from you as the Secretary of State for which ultimately you have to take responsibility. Would that be a fair assessment?
Mr McLoughlin: I am not sure, Mr Leech, that that is a fair assessment in that it was a deliberate process. It is rather difficult to be absolutely clear on this until we have the final report from Mr Laidlaw, but the implication behind what you are saying is that it was deliberately concealed. I am not prepared at this stage to say it was deliberately concealed, either from Ministers or more senior up the Department. Time will be needed to see, when we get the full report, whether that's the case or not.

Q595 Mr Leech: Finally, is there any question about whether any of the previous franchises that have been awarded may have had similar problems where things were withheld from Ministers, either deliberately or otherwise, that could ultimately have finished up with the same outcome, only for the fact that no one has actually done a legal challenge?
Mr McLoughlin: I don't think so because the truth is that this is a new process. Moving to the longer franchises, in the main, was a new policy process. Don't forget, the Department, irrespective of Government, was always trying to learn lessons from when things went wrong. In the exchange that I had with the former Secretary of State in the House of Commons on Monday, when he talked about the longest of franchises, he thought that that was a problem. That is the former Chancellor, Mr Darling; I can't remember his seat. When he talked about longer franchises it was drawn to my attention, I must admit, after I got that question, that Chiltern Railways, for instance, was actually a 20-year franchise, which was actually concluded just before Mr Darling arrived at the Department. So we have examples of very long franchises, and people who use that line will say that there has been a remarkable improvement since that long franchise has been given.
But we have the experience of the collapse of the East Coast franchise, so obviously we always look to develop and improve the franchising system, both for the benefit of the passenger and also the taxpayer. When we come to the West Coast Main Line, as you, Mr Leech, know, who use it—in fact several members of the Committee use it quite a lot—there has been a huge amount of investment on that line.

Q596 Chair: In this case the application for the judicial review prompted the work that led to you discovering the major problem. So would you say you owe a debt of gratitude to Richard Branson?
Mr McLoughlin: The country owes a debt of gratitude to Richard Branson for all he has achieved in the rail and the aviation industry. Look, I don't make light of what has gone wrong, because what has gone wrong has been very serious and it's very serious as well for the train operating companies to have confidence in the way in which future franchises are going to be conducted. That is why we have two—well, actually three—inquiries. As we say, there is the HR inquiry going on, but there is the Sam Laidlaw inquiry and the Richard Brown inquiry, which I hope will report by the end of the year.

Q597 Iain Stewart: I would like to ask a couple of supplementaries on the response that Mr Rutnam gave to your initial questions. Mr Rutnam, you became permanent secretary in April. The interim Laidlaw report finds that it was in the first three months of 2012—before your appointment—that concerns about the transparency of the SLF process were known to the Department. Were you personally briefed by your predecessor or any other official that this was an issue?
Philip Rutnam: No, I was not briefed that there was an issue.

Q598 Iain Stewart: Thank you; I just wanted to clarify that. The other supplementary I had relates to the information that the Laidlaw review will be considering. In his interim report, in paragraph 2.4.5, he says: "I considered that there was insufficient time to conduct an e-mail capture and review in advance of preparing this report and have not instructed that to be done." You will be aware that there are serious concerns in the press that there were e-mails circulating in the Department on an "anyone but Branson" campaign. Do you not think that there should be a review of e-mails sent between officials?
Philip Rutnam: First of all, yes, you are right; there have been comments in the press that there is somehow some set of e-mails within the Department. I can tell you that, from all I have seen, I have seen no evidence of such e-mails. As to whether or not an e-mail capture process should be undertaken, we have regarded that as a matter in the first instance for the

external investigations—both the HR investigation and the Laidlaw investigation. We have taken the view that if they ask us to do one we absolutely will do one, and they have now asked us to do one.

Q599 Iain Stewart: In your opinion should there be one to clear up this matter, to prove or disprove that such e-mails existed?
Philip Rutnam: Let me put it this way. I was rather expecting that they might ask for one to be done.
Mr McLoughlin: I am just giving clarification because Mr Stewart missed it. They have asked for it to be done, and therefore it will be done. That was missed in Philip's answer.
Philip Rutnam: I did say that. We have now received a request.

Q600 Steve Baker: Mr Rutnam, you mentioned earlier that a significant event was before your time at the Department. That prompted me to check that you joined the Department in April. We know the history of Secretaries of State; we are on our third Secretary of State in two years. How deep into the organisation do we have to go before we find one or more senior members of staff who have been around the Department for Transport for, say, five years?
Philip Rutnam: How deep into the organisation do you have to go for—

Q601 Steve Baker: At what point do we start finding senior members of staff who have been involved with these processes for any significant length of time, and I would suggest, say, five years?
Philip Rutnam: Do you mean this process or do you mean in the Department?

Q602 Steve Baker: In the Department. Where do we start finding people with significant numbers of years of experience?
Philip Rutnam: Immediately at the level below me. I have a director general who has been in the Department for many, many years. There are, at the level below that, directors. We have a good many directors who have been in the Department for many, many years. We have a good, broad blend of experience—people who have, if you like, grown up in the Department for Transport; people who have, like me, external experience, both private sector and public sector; people who have spent time in other Whitehall Departments facing not transport issues but issues that are not wholly dissimilar. We have a good, broad blend of experience and backgrounds.

Q603 Steve Baker: So are you satisfied that there is sufficient stability at senior levels of the Department for Transport to ensure quality processes within the Department?
Philip Rutnam: Mr Laidlaw makes some comments in fact in section 6 of his report about changes in continuity of leadership and the desirability of more stability in leadership. I will await with great interest to see what he concludes on those points and other matters in his final report. If you would like my personal view, there is much to be said for having strong and stable leadership in a large and complex organisation, while none the less also having the right approach to performance management, to make sure that people are, even if they have been in an organisation a long time, continuing to perform to the very high levels we expect.

Q604 Chair: Do you have a director of procurement in the Department now?
Philip Rutnam: Do we have a director of procurement?
Chair: A director of procurement.
Philip Rutnam: Yes, we have a group director of procurement.

Q605 Chair: How long has this person been there?
Philip Rutnam: I can only speak from my knowledge. As you know, I have been the permanent secretary in the Department only since April. The group director of procurement arrived in the summer. It may have been May or June—that sort of time.

Q606 Chair: May or June of this year.
Philip Rutnam: From recollection. It may have been July but before the summer break. I think it was May or June.

Q607 Chair: Do you have financial advisers—
Philip Rutnam: Financial advisers?

Q608 Chair:—to help to assess the bids?
Philip Rutnam: On what—on the West Coast franchise?

Q609 Chair: Working on that bid.
Philip Rutnam: We did not have external financial advisers, no.

Q610 Chair: Why was that?
Philip Rutnam: Well, again, that is a decision that was taken long before my time. I expect, given the comments Mr Laidlaw has made in section 6 of his report, that that may be something that he will come back to in his final report. I'm afraid I can't give you now, authoritatively, the reason for that, but I would expect that it was a judgment that the Department had sufficient internal capability to make the financial assessments required.

Q611 Kwasi Kwarteng: I have a couple of questions to Mr Rutnam. You have said three or four times already that you have only been in post since April, but members of the public would be interested in the mentality of someone coming into a new job. It's a big job and you have a very high profile case. The suspicion would be that you would spend more time trying to get a grip on what was going on, given that you were new in the post, and you would probably feel that you were trying to prove yourself; you were in a new job and this was a big, high profile case. To what extent did you actually take ownership of this particular process and how familiar were you with the actual numbers that were being generated by the various models used in the Department?
Philip Rutnam: There are a number of different elements in answering that. The first is that in fact—

this may surprise the Committee—under the confidentiality arrangements that were in place for dealing with major procurements, the commercially confidential information in the bids does not come to the permanent secretary or other senior officials until the end of the process. In terms of my involvement in the project, there was, first, a phase from my arrival in April until the latter part of July in which I did not receive any commercially confidential information about the process. There was then a phase when I saw letters from Virgin that were making representations about it. The other consequence of the rules that the Department has adopted in relation to procurement is that, having had sight of that material, I was thereafter debarred from taking part in the decision-making process.

Q612 Kwasi Kwarteng: So, even though you were heading the Department, you weren't actually allowed to be involved in those decisions.
Philip Rutnam: I agree that it seems surprising. However, these were the rules under which the Department was running this procurement and rules on which it had in fact given undertakings or commitments to the bidders. Of course, as you say, I arrived in my new job, and I had a whole array of different things to seek to understand and a whole array of different people to meet and to understand their relationship to the Department or the agencies to understand the Department. It is a large and complicated organisation. What I did receive during those early months were assurances that the process in relation to the West Coast franchise was going well. So, if you like, with regard to the level of assurance in relation to the process, the information that I received was positive.

Q613 Kwasi Kwarteng: So what you have just said is that you were new to the job, this was arguably one of the most high profile processes that your Department has been involved in and that you were somehow kept at arm's length from the process for four months.
Philip Rutnam: I wouldn't use the phrase "at arm's length". I am just describing the situation where, because of the rules in relation to the conduct of procurements, I did not receive commercially confidential information in relation to this procurement, even though I was permanent secretary. I did receive assurances that the process of conducting the procurement was going well. Again, if you read section 6 of Mr Laidlaw's report, he is rather surprised, in retrospect, that these seem to be the processes we have adopted and is suggesting that these might be among the many matters to which he will come back in his final report.

Q614 Kwasi Kwarteng: Just as a follow-up, when the doubts were first raised about the actual calculations, did you personally check these figures and assumptions?
Philip Rutnam: When you say "when the doubts were first raised", in terms of my personal experience the first time that doubts were raised was when we received external representations from Virgin very late in the process, towards the back end of July. At that point both Ministers and I asked the team responsible for it a whole range of questions—quite searching and challenging questions—and got back assurances that the process was, to use the word, robust.

Q615 Kwasi Kwarteng: Forgive me. You are a man of great experience. You have worked in the private sector. You are very aware of the processes that are involved in this sort of calculation, one would have thought.
Philip Rutnam: Yes.

Q616 Kwasi Kwarteng: So I am going to repeat my question. Did you personally check the—
Philip Rutnam: No, at that time I did not personally check the process. The issue that has subsequently become the centre of all of this, which is the calculation of the subordinated loan facility, did not feature in those representations then. The issues that were being raised were much more around the deliverability of First's bid and whether the risk assessment process was robust. In fact, in the whole process since, as we have gone through layer after layer of analysis of what actually went on in the decision-making process within the Department, those issues have not been the centre of attention; it has been the subordinated loan facility. Since the subordinated loan facility has become the centre of attention, which is in the period since the beginning of September, I certainly have looked at the spreadsheet. I have looked at how the spreadsheet works.

Q617 Kwasi Kwarteng: Do you see where the mistake was made?
Philip Rutnam: Yes.

Q618 Kwasi Kwarteng: What do you think of that error?
Philip Rutnam: Laidlaw puts it rather well, actually. First of all, the model was not developed for this purpose. The model, which is known as the GDP Resilience Model, was developed for another purpose, which was in order to calibrate another element of the financial mechanism, which is the way in which the Government adjust payments to and from franchisees according to variances in GDP. It was developed for that purpose. It was not developed for the purpose of working out a subordinated loan facility. So, that's the first thing I thought. This is taking a very significant risk, using a model developed for another purpose effectively to back-solve the calculation of the subordinated loan facility.
Secondly, I thought that it was a—how can I put it?—textbook error, if you like, to make the confusion between real and nominal. That is the sort of confusion which—I have built models myself. I will confess I have built models that have included errors. The critical thing then, in my experience of models, is the quality assurance process, which takes out the errors and reduces the errors so that you end up with a tool that is robust. So my other personal observation was: what was the quality assurance process?

Q619 Kwasi Kwarteng: There was one, was there?
Philip Rutnam: I don't want to speak about that, to be honest, because, really, we need to let Mr Laidlaw finish his inquiry and I need in particular to let the HR investigation finish its process of establishing who did what, because there will then be a report to me. On the basis of that I will need to make decisions and I will need to approach those decisions with a clean mind and in an unbiased way as to whether disciplinary action is needed.

Q620 Chair: You have referred to Virgin's representations, and I assume you mean the Europa report. Did they refer to the issue of the size of the bond required from FirstGroup?
Philip Rutnam: In fact, there were other representations from Virgin before the Europa report. The early representations, as I recall, focused very much on the question of deliverability, whether the bid that we had was actually deliverable or whether effectively the Government were taking—they didn't use this word—a naive view and accepting a bid that overpromised. That was the focus. As I recall the Europa report, it was getting closer to the issues around the subordinated loan facility but it still did not focus on them. Instead, it focused on whether the risk assessment process was robust. The risk assessment process, in this complicated sequence of events, is actually an earlier stage in the procurement process, which comes before you determine the SLF.

Q621 Chair: Who actually took the decision on the subordinated loan fund requirement in June—the decision at that point?
Philip Rutnam: Who took the decision?

Q622 Chair: Who took it?
Philip Rutnam: I am sorry, but, again, I have to decline to say who took the decision because the question of who did what is something that has to be looked at by the HR investigation, which is under way.

Q623 Chair: Would you have expected a decision of that sort to be signed off by a Minister or reported to a Minister?
Philip Rutnam: Going back to my earlier answer about what sort of professional standards we should work to as opposed to what happened in this case, if you want my view in relation to what sort of professional standards we should work to on a complex procurement such as this, which has a number of component parts, I would expect the professional standards we should work to to include involving Ministers in decisions like that, but that is not making any comment on what happened in this particular case. Can I be clear about that?

Q624 Chair: Would it be normal for a Minister to inquire about a decision of that sort, given the disquiet that had already been expressed?
Philip Rutnam: I have to say I think that is too broad a question really. It depends very much on the context.

Q625 Chair: The context is that concerns had been raised and, indeed, according to the *Financial Times*, in May 2011, two of the shortlisted bidders discovered flaws and reported them.
Mr McLoughlin: That was before the—
Philip Rutnam: Shall I comment?
Mr McLoughlin: Go on.
Philip Rutnam: The reference to May 2011 is, to be frank, another aspect altogether. During 2011, the Department went through a process of consulting on the bid evaluation process, on a draft invitation to tender, and received back from the bidders a whole range of comments on that, which may well have included the comment that was cited in the *Financial Times*. I am afraid I wasn't there at the time, but that was not about the subordinated loan facility. I repeat: the concerns around the subordinated loan facility and its central significance in the quality of the process that we ran, or, rather, the lack of quality of the process that we ran, really came into view after the judicial review application from Virgin, as we went through layer upon layer of the complex process.

Q626 Kwasi Kwarteng: You have had experience of financial institutions and banking and you will know the phrase "a ballpark figure", which is a horrible bit of English but it means something. Generally, if you are a managing director or in charge of an organisation and people have come up with a figure, speaking directly in connection with the SLF, did that make sense to you? The fact that Richard Branson came in, in front of this Committee, and said that the SLF should have been three times the amount that the Department required suggests that there was an order of magnitude issue here and that the £245 million or £200 million, whatever the figure was, just wasn't plausible. Did that not ring any alarm bells to anybody in the Department?
Philip Rutnam: After the judicial review application came in there was, first of all, a great deal of press comment, but, also, we began a forensic process—an extremely detailed process—of going through every step that the Department took in its conduct of this procurement and its evaluation of those bids. We did not conclude that process until, as the Secretary of State has said, 2 October. In particular, it was indeed only in the latter part of that process, in the very last few days, that the defects in the model that we had used and the scale of the potential errors in relation to the subordinated loan facility became clear.
Can I put it this way? These are cash flows going out a very long way, with very large amounts of money going through them in terms of both revenue and cost. You then have a line that is in relation to the prospective profit margin of the bidder and it is only when you get into understanding the level of that profit margin against a whole range—about 500 different simulations of economic outturns—that you can generate a figure for the subordinated loan facility.

Q627 Kwasi Kwarteng: If it was so complicated, why was it that Virgin had the figure two months before you did?
Philip Rutnam: With great respect for Virgin, I don't think they actually got the figure.

Q628 Kwasi Kwarteng: They got a more plausible figure.
Philip Rutnam: I am not going to go into more detail, but there is still a wide range of potential figures for what the subordinated loan facility might be, because it depends on a number of other things.

Q629 Kwasi Kwarteng: The broad point is that their figure was more accurate and your figure was wrong.
Philip Rutnam: Let me try putting the point another way. Should we have realised earlier that the model was turning out an output that was in 2010 prices in real terms and not nominal and that that makes a huge difference over a 13-year contract? Yes, we should.

Q630 Graham Stringer: Just following that ballpark question—it is the same question—it has been said that a back-of-an-envelope calculation would have shown that for FirstGroup to achieve those figures they would have had to fill every seat. Was there nobody in the Department capable of doing that simple calculation and saying this is just simply unrealistic?
Philip Rutnam: I have heard that claim. I have to say I have not seen that verified at all.

Q631 Graham Stringer: Have you tried it?
Philip Rutnam: I haven't tried it personally, no.

Q632 Graham Stringer: That is a bit surprising, isn't it?
Philip Rutnam: No. I cannot do all the calculations in the Department. What I can do is make sure that we are seeking to address the issues in front of us, in support of Ministers—

Q633 Kwasi Kwarteng: It's not all the calculations; it's one calculation.
Philip Rutnam: I have not done that one calculation. I have looked personally at the way in which the subordinated loan facility—which has been the centre of this issue for us since the beginning of September—was calculated or, rather, wrongly calculated. I have looked at that personally. I have not tried to do every one, including that one, of the other calculations that could be done. I think this issue was raised at my previous appearance at the Transport Select Committee. I said then that I would be very surprised if that claim were true.

Q634 Graham Stringer: Just going back to the question of who took the critical decisions to carry on with the process when they knew it to be flawed, I understand you are telling us that that is being dealt with by a separate review. Whilst I may not be happy with that process, I understand it, but, if that process is going on to establish the facts of this matter, why does it take four weeks and not 48 hours to find out who was responsible for something like that? If you have decided on that process to find out who is responsible there, on what basis have you managed to suspend three staff?
Philip Rutnam: Shall I comment on the suspensions first? Let me be clear. In accordance with the Department for Transport staff handbook and the civil service procedures, the suspensions—on which I personally decided—are precautionary only. They do not imply any judgment as to conclusions that the Department will reach in relation to an individual's conduct. The staff handbook and civil service procedures provide that in exceptional circumstances—and I regarded this as an exceptional circumstance—it may be appropriate for the permanent secretary to suspend staff in order to open the way for a full investigation of the facts. That is the position on the suspensions and I am not going to say more about the suspensions.
You asked why it takes four weeks to find out who did what. The reason why it takes some time to find out who did what is that this was, in truth, a large, complicated, long-lived project, which involved a wide range of people from within the Department. This was not a small isolated thing. This involved a wide range of different professional disciplines, it involved a large number of people having different roles in the project and it was a project that in fact began, in practice, at the very end of 2010 and beginning of 2011. In order to provide an authoritative report to me on who did what, I have been very clear to the people conducting that investigation; I want them to do it thoroughly, I do not want them to rush it and I want them to give me a report that is one that I can rely on. The result of that is that it will take some time, but I can assure you that they are engaged in it very actively.

Q635 Chair: Secretary of State, when did you first have any inkling that the suspension of those three staff was being thought about?
Mr McLoughlin: I think I was informed by the permanent secretary that he would suspend staff after—
Philip Rutnam: It was the evening of 2 October.
Mr McLoughlin: Either the evening of 2 October or the day after that. 2 October was quite a frenetic and a busy day when I received the report in the afternoon. Then I was making arrangements as a consequence, speaking to all the bidders—some of them were out of the country or two of them were out of the country—and then making the announcement that we made. Part of the way in which that was all formulated was based on the stock market having to close because it was a stock market sensitive announcement and being able to talk to both Tim O'Toole and Richard Branson—who were both out of the country—and then putting it into the public domain before the stock market opened the following morning. I was informed, as I say, during that afternoon or the next day. Yes, because I was told that the suspension had actually taken place between two interviews.

Q636 Chair: So there was no consultation or awareness of the suspension.
Mr McLoughlin: No, nor would I expect there to be so. I have never mentioned the names of any members of staff, although one member of staff has subsequently publicly issued a public statement. I have not mentioned the names of any members of staff, and it is right not to do so until the investigation is concluded.

Q637 Chair: Did the Prime Minister or the heads of the civil service here intimate that they thought somebody should be suspended or that heads should roll in some way, to either of you?
Philip Rutnam: This was my decision. Let me clear about it. This was my decision. I informed the head of the civil service and the Cabinet Secretary that it was a decision I was planning to take and I took the decision. I came under no pressure from anybody, political or otherwise, to make this decision. I took this decision because I thought it was the right and necessary decision in the interests of the fair treatment of staff and the interests of the Department.

Q638 Chair: Mr McLoughlin, did the Prime Minister communicate with you in any way that he would like to see heads roll?
Mr McLoughlin: No, certainly not. The Prime Minister wants to know what went wrong and he certainly wants to make sure that such an incident like this doesn't happen again. It is certainly unacceptable. That is not only the Prime Minister's view but that is my view as Secretary of State and a member of the Government.

Q639 Steve Baker: As we were discussing the various investigations going on, Secretary of State, I was just thinking that the taxpayers are picking up the bill here for the franchising process, the investigation of how the franchising process has gone wrong and then presumably redoing the franchising process. I understand the extra cost has been estimated at £40 million. Is that right?
Mr McLoughlin: What I have said there, to be absolutely honest and to be absolutely open, is that the £40 million I have talked about is the bidders' costs, which it is right to refund. There will be other costs as well. There will be the cost of commissioning DOR in the early stages, when I initially thought that it might be DOR that would have to take over the service if we were continuing with the judicial review. But, bearing in mind the fact that the judicial review was not going to be continued with, I thought that it was right to conduct negotiations direct with Virgin, and that was the substance of my first statement to the House of Commons. So there are some other costs. At the moment it is not possible to put figures on all those costs, and when I can put figures on those costs I will of course inform the House in the proper way. But when we come to the new bidding process—depending obviously on what Richard Brown says—it will be up to those companies if they wish to bid to run this particular franchise. But I have to say that we have not seen a lack of interest on behalf of the train operating companies in wanting to run franchises, so I don't see that being a particular problem.

Q640 Steve Baker: In the course of wrestling with how to avoid all of this happening again, have you considered structural reforms that would move the commercial risk and the process risks out into the private sector?
Mr McLoughlin: I am not sure you could move it totally out into the private sector because at the end of the day you are dealing with a public sector asset—a very big public sector asset and an asset/liability as well, because we are actually still putting a lot of money into the railways. So I am not sure you can completely remove that risk. What I am very keen to see is that, since the privatisation of the railways, we have seen huge advances in the way in which the rail operating companies have competed with each other, yes, but also enhanced services and grown the market. If I can just say, you are slightly asking me to prejudge what the Brown inquiry would do and I am awaiting the Brown inquiry.

Q641 Steve Baker: Perhaps I'll put my question much more directly. You mentioned that it is a matter of public sector asset. Have you considered privatising the railways?
Mr McLoughlin: Well, I think we have privatised the railways to a degree, but perhaps you would like us to be even more radical, Mr Baker, and no doubt we'll hear your views in due course on that subject.

Q642 Chair: We will be looking at that in due time.
Mr McLoughlin: I am trying to answer the question, Chair.

Q643 Iain Stewart: I just want to ask another question about the HR issues. I appreciate the inquiry is ongoing and you can't talk about it. While it is going on, there is a vitally important issue of securing and improving rail services after 9 December. What assurances can you give the Committee that the HR inquiry is not inhibiting that work? Are you bringing in fresh staff from other parts of the Department?
Mr McLoughlin: Look, I said in the statement to the House on Monday that we are in negotiations at the moment with Virgin. That is for a shortened contract, an initial eight or nine months, and then, depending on what happens in that time—part of that decision will be taken on the back of what the Brown inquiry comes forward with—we will go out to possibly a two-year contract just for the West Coast Main Line, not for all the franchises but possibly just for the West Coast Main Line, although I'm looking at that at the moment. As I said on Monday in the statement to the House, we have already secured some improvements on what is being offered by Virgin—better compensation for passengers and an enhanced timetable. So that is actually going on. In fairness, we have about five weeks—probably less than that—to conclude those particular negotiations, but in five weeks' time the new term actually starts.

Q644 Iain Stewart: I appreciate all that work is going on and I very much welcome it, but it's a staffing issue and I am asking the permanent secretary. Have you had to bring in staff from elsewhere in the Department so that they can approach this important decision with a clear, unaffected mind?
Philip Rutnam: In relation to the negotiations going on with Virgin, we have a very energised, effective team, which is focused on this, and they are fully engaged in bringing this matter to, I hope, a successful conclusion. More generally, I have of course been moving staff around the Department to the extent needed, to make sure that new priorities that have

emerged, indeed, as we were going through the latter part of September and certainly following the announcement on 3 October, have been addressed. So, for example, supporting our input into the Brown review, dealing with HR process and others, yes, I have been moving staff around the Department, making sure that we are using our resources with maximum flexibility and indeed, I should say, also receiving some help from colleagues in other Departments in Whitehall.

Q645 Chair: Mr Rutnam, before we proceed, I just want to clarify something that you said earlier, and that was about this all-important point of the calculation of the subordinated loan fund—the SLF requirement—to deal with the risk factor on this franchise. You spoke about it as if the sole error was to do with the methods of calculation, yet the Laidlaw report says something rather different. It does talk about errors of calculation, yes, but more significantly it says: "the final SLF requirements were not determined in accordance with the SLF guidance"—that is either sets of guidance. "Rather, it appears that the SLF levels reflected a view taken by the" Department "as to appropriate numbers." That implies, doesn't it, that some figure was perhaps plucked out of the air or certainly wasn't part of a calculation? It would leave open the possibility that the Department at that stage was trying to either eliminate one bidder or keep another bidder who might have been eliminated in the running. What actually happened?
Philip Rutnam: Perhaps I could just clarify two points.

Q646 Chair: That is what the Laidlaw report found. We'll take the point about the wrong calculations—the arithmetical errors. We understand that, but this is a rather more fundamental point, isn't it, that the Department didn't use a formula at all; it just found a figure?
Philip Rutnam: Perhaps I could clarify a couple of points. First, when I said the heart of the matter was the calculation of the SLF, perhaps the heart of the matter—the heart of the problem, the heart of the flaws that we have uncovered in all of this—is the determination of the SLF, which was meant to be determined on the basis of the model that I was talking about earlier but, ultimately, as Laidlaw says, was not determined on the basis of that model. Just to be clear, the heart of the failings in the Department that have caused us to cancel this competition is around the process for determining the subordinated loan facility. As to your point about the fact—it's Laidlaw's finding in 3.1.3 and 3.1.4—that the Department did not ultimately use its published guidance in determining the SLF and, secondly, that when it did determine the levels of the SLF it did so inconsistently, I agree with you. Those are very serious findings. They are also findings that I recognise from my own review of the documentary trail. So you are quite right.

Q647 Chair: What about this reference? I am looking at 5.9 here. It says: "… it appears that the SLF levels reflected a view taken by the DfT as to appropriate numbers." Could that lead somebody to believe that a view was taken possibly to keep one bidder in the process who might have otherwise had to exit?
Philip Rutnam: I would not use the phrase "plucked out of the air". What I would refer you to is what Laidlaw says in paragraph 5.13. He talks about extraneous factors having been taken into account, not a phrase that I find at all comforting. If you look at 5.11, he describes what he thinks the evidence suggests those factors included. One is a view that there should be a minimum positive level of SLF—that it shouldn't be possible to have an SLF presumably of zero—and, secondly, there is a risk that the imposition of too high a level of SLF on a bidder might knock that bidder out of the competition. So I would refer you to what Laidlaw has said, I am sure in very carefully considered language, in paragraph 5.11.
Chair: I think there are question marks there.

Q648 Kwasi Kwarteng: Can I press you on this point? What you have said is that there was an error in the calculation, which we understand. The Chair was suggesting that, actually, the figures might have been massaged—that's the word I use—in order to eliminate particular bidders or to bolster other bidders. Those are two very different scenarios. We can understand someone getting a calculation wrong, but, if there is a suspicion that people were actually trying to manipulate the figures to pursue their own ends, if you like, in terms of the bidding process, that's very, very serious indeed. What do you think happened? Do you I think that we are wrong to suggest that these figures may have been massaged in the way I have described?
Philip Rutnam: Just in terms of the language, I would not use the word "massaged".

Q649 Kwasi Kwarteng: I'm using it.
Philip Rutnam: But I would refer you to Laidlaw's initial findings, which I agree are very serious. They are not mutually exclusive, by the way. The fact that there was a flaw in the model and the fact that the guidance that we had issued, which included a reference to the model, was not then followed are not mutually exclusive propositions, and he has described quite carefully what factors he thinks were taken into account that should not have been taken into account.

Q650 Kwasi Kwarteng: Sure, but what is your view on it? Are you going to say you are going to wait until—
Mr McLoughlin: We are waiting for the final inquiry. 5.12 and 5.13 are actually quite clear in what Laidlaw is saying in this. It would be wrong of us to put an interpretation on it yet until we get the final inquiry. What I am saying is—

Q651 Kwasi Kwarteng: So what you are saying is that you are not going to comment on anything that you have read.
Mr McLoughlin: No, no. I think we have commented extensively on things we have read. What we are saying is that we are not drawing a conclusion until we get the final report.

Q652 Chair: It is also the case that at our last session Vernon Barker, from FirstGroup, told us that he had been called into the Department to discuss this particular issue and that as a result of the discussion the requirement for SLF was reduced. He couldn't remember exactly by how much—he thought about £15 million. Who would have authorised that kind of conversation/negotiation? He told us it was a clarification rather than a negotiation.
Philip Rutnam: I'm afraid that question goes back into who did what, on which I can't comment at the moment because of the HR investigation.

Q653 Kwasi Kwarteng: So far as I understand, you are not willing to comment on the Laidlaw interim report. You can't comment on—
Mr McLoughlin: We are not giving you the answers you want, but—

Q654 Kwasi Kwarteng: No, but you haven't expressed a view.
Mr McLoughlin: But we are commenting quite a bit.

Q655 Kwasi Kwarteng: You haven't expressed a view.
Mr McLoughlin: We are commenting quite a bit.

Q656 Kwasi Kwarteng: You haven't expressed a view on who did what because you are waiting for—
Mr McLoughlin: No, because those inquiries are still going on.

Q657 Kwasi Kwarteng: Can I just get clarification on this point? Will there come a time when you can come in front of the Committee and actually give us a bit more clarification on some of the questions that we have asked you today?
Mr McLoughlin: I very much hope that when we get the final report—if you read Mr Laidlaw's covering letter, he says in his final paragraph that you can't read conclusions into this. "Firm judgments should not be made based upon what are provisional findings or wider conclusions drawn at this stage."

Q658 Chair: Mr Kwarteng is making an important point and there will be opportunities where we will revisit this issue.
Kwasi Kwarteng: Absolutely.
Philip Rutnam: Can I just add one comment, which is that it is not just the final report of the Laidlaw inquiry? But, to the extent that your questions are around who did what, we will also need to have concluded the HR process.

Q659 Graham Stringer: Can I ask the opposite question to Steve Baker's question, really. What consideration did you give, after this bidding process collapsed, to using the model for the East Coast Main Line for consideration, rather than allowing Virgin to carry on on their own?
Mr McLoughlin: When I appeared before the Committee last time, what I said then was that I was giving consideration to using DOR at that particular stage.

Q660 Graham Stringer: I am asking for the details about why—
Mr McLoughlin: I am trying to—

Q661 Graham Stringer: I am asking for the details about why—
Mr McLoughlin: I am sorry, Mr Stringer, but I am trying to put the background to it, as opposed to—so that was considered. That was at a time when we were robustly defending against Virgin because we believed we had a strong case. It then became apparent that we would be unsuccessful in the courts on the judicial review. I thought therefore it was right at that stage to look at the Virgin option, partly because time had moved on and with other information that I had, which I don't think I'm in a position to be able to disclose. But I thought therefore the best way to go forward, the safest way, ensuring the continuation of service, was to use Virgin as a result of the fact that they were already operating the trains. I went to have meetings with two commissioners in the European Union to talk about the competition rules, and that's when I took the sort of view that that was the right way to go forward.

Q662 Graham Stringer: That is a particularly intriguing statement—"other information". Can you expand on that a little, otherwise I might—I don't know about other members of the Committee—be tempted to interpret it as if you were doing that under duress from Virgin.
Mr McLoughlin: No, that's not the case, Mr Stringer. The case I was looking for was the best way to keep the operation—which a lot of colleagues in the House of Commons have praised as a very good and high service—as to the way in which that was going to be extended for a short period until we probably go to a two-year franchise. There were certain concerns as to whether DOR would be ready on time. But we are still doing work with DOR in case it becomes necessary, if we can't conclude the negotiations with Virgin, but I very much hope that we can conclude those negotiations.

Q663 Graham Stringer: Have you made estimates of the profits that Virgin will make over the period of the short contract?
Mr McLoughlin: That is what is being worked out at the moment in the extension of the contract and the arrangements we are coming to with Virgin. Of course, Virgin did make an offer to run the service on a not-for-profit basis, but we are at the moment discussing that with them.

Q664 Graham Stringer: Just on a very general point, I know there is the Brown review and we all want more information, but doesn't it strike you, as a common-sense politician, that there is something much too complicated about this bidding process, whether there has been bias in the Department or just a cock-up? With something that costs £40 million to put on and that requires a stack of paper *that* high to deal with, from a Government that have boasted about reducing planning regulations from *that* size to *that* size, doesn't it strike you that this process was an accident waiting to happen?

Mr McLoughlin: I am not sure I would say it was an accident waiting to happen, on the basis that we are dealing with very big companies. We are dealing with a huge amount of public investment that has gone into these railway lines—£9 billion as far as the West Coast Main Line is concerned. There is a lot of upgrading, a lot of refurbishment, a lot that is going to be done, and new signalling work, which will be done over this Christmas period. There is huge investment going into that. What we have seen is more people using trains as a result of the competition that is being brought in by the train operating companies.

All of that has led us to try to learn. Laidlaw talks about it in his initial report; he was saying we are trying to build on things that we have learned in the past as far as franchising is concerned—things that were learned as a result of the East Coast Main Line not wanting to continue with its franchise because it didn't feel it could live up to it. So we are trying to build in safety valves for that and it became, perhaps, a lot more complicated.

But these are big organisations; they are used to running and projecting numbers over many years. So I don't think that that was a problem. Obviously things went wrong as far as the initial calculations were concerned, but I think what we are going to find—until we get the full report we will not know—is that there were some mistakes. Indeed, Mr Laidlaw does talk about it in his interim inquiry, so I'm very happy to comment on it, where he actually says that different information was given to different bidders. Obviously that is completely unacceptable.

Q665 Mr Leech: How much of this problem is based on the desire to get as much money from this franchise as humanly possible, because I like to believe that there was no reason to try and deliberately exclude Virgin, and I would certainly hope that that wasn't the case? So it would appear to me, on the face of it, that the desire to get as much money out of this franchise, and therefore the desire not to effectively exclude First from the process by making the bond that they had to pay too high, has resulted in the Department reducing that bond simply to keep First in the field and providing more money than Virgin would?

Mr McLoughlin: Mr Leech, you are making it sound as if we are just trying to get as much money as possible. What we are trying to do is get a return back to the taxpayer on what it has already paid. We would have been criticised if we hadn't been trying to get as much money out of these franchise operators. They do make a profit out of running these lines—not a huge profit, it has to be said. The profit is usually around 3% for the train operating companies on the lines that they run, so it is not a huge profit. But were we trying to get the best deal for the taxpayer? I hope so. I would have had more questions for the permanent secretary if we weren't.

Sitting suspended for a Division in the House.

On resuming—

Q666 Mr Leech: You were saying, before the division bell went off, that it is important to get good value for the taxpayer, which we would all accept. However, the implication from the report from Laidlaw appears to be saying that the SLF was kept artificially low, and the only reason that I can see for that is to keep the highest bidder in the competition. If the highest bidder had been frightened off by too high an SLF figure, the contract would have been awarded to Virgin. I am assuming again that there wasn't any anti-Virgin position that officials were taking in DfT, so the only reason for getting the SLF figure wrong appears to be to ensure that the highest bidder remained in the competition. That is why I am assuming that, by trying to get as much money out of the train operating company, that has been fundamental in why we are now where we are.

Mr McLoughlin: I don't think so because your questionnaire almost lies behind the assumption that somebody was trying to rig the outcome of the competition. I would very much hope that it was not the case of somebody actually deliberately trying to rig the outcome of the franchise competition. If I followed your logic, it would be that things were being done deliberately to help one or include another. Don't forget that there were originally four bidders and then we went down to two bidders. So I would hope that that was not the case, but we will see what the final report says when it comes.

Q667 Mr Leech: On that basis then, if there was no deliberate attempt to keep the First bid on the table, what other reason could there be for not following the albeit flawed way of projecting the SLF? What justification would there have been for not following the procedures that should have been followed?

Mr McLoughlin: I don't think there would have been any justification. The point is that, if you look at what Sam Laidlaw says, again, I come back to what he says at paragraph 5.13, where he says: "the level of SLF required in respect of the bids of First and Virgin was influenced by extraneous factors". There was inconsistent treatment between the two. My understanding of the way the process works is that there was anonymisation of the process up until quite late in the process, so I would be worried about—

Q668 Mr Leech: That would justify and hopefully ensure that there weren't any anti-Virgin feelings within the Department, but it doesn't then deal with the issue about just simply keeping the highest bidder in the process. It's either incompetence or there has been some level of impropriety, as far as I can see.

Mr McLoughlin: Well, Mr Leech, that's one of the things we are waiting to see. As I say, I seriously hope that that was not the case, but the truth is that things went very badly wrong as far as this process is concerned and there is no question about that.

Q669 Chair: So you can't rule that out.

Mr McLoughlin: I don't want to rule anything out while the inquiry is still going on. It would be wrong of me and us to do so. What I am saying is that I hope that has not been the case, but when we get the final

report hopefully that will become a bit clearer. I don't know if you want to say anything.
Philip Rutnam: Can I perhaps just add to that? From all that we have seen so far, I have not seen any evidence of bias entering into this process. The key considerations you need to look at in terms of why those figures were adjusted, as it were, or why the final levels of the SLF reflected a view taken within the Department as to appropriate numbers, are those in paragraph 5.11 of the report. If I could add an interpretation to this, which I accept is risky, the key questions revolved around the application of what you might describe as commercial judgment, which was absolutely not within the guidance that we had published. But I had not seen any evidence of bias or of impropriety. I have seen evidence that, while officials may have acted wrongly, they seem to have been seeking to do so with good intentions.

Q670 Chair: Who actually signed off the SLF that was determined in June?
Philip Rutnam: I am afraid that goes back to the "who did what" question.

Q671 Chair: But who signed it off? It must be a matter of record who signed it off.
Philip Rutnam: The decisions went through a process within the Department, from the discussions in June referred to in Laidlaw, then to final decision making in the Department at the end of July and early August.

Q672 Chair: But who signed it off?
Philip Rutnam: Ultimately, the decision to award the franchise was made by the Minister of State. I am afraid I can't tell you whether, as part of that decision-making process, she specifically signed off the level of the SLF.

Q673 Chair: We want to know that.
Philip Rutnam: We will do our best and we will find out, but, just to be clear, the decision-making process was in relation to the award of the franchise, which involved a whole range of different considerations.

Q674 Chair: But I am asking you a specific question and I want to know who signed off the decision on the subordinated loan facility in June. You can't tell us now but we want to know, so you will find the information for us.
Philip Rutnam: Indeed, but I just repeat that we have an inquiry that is still under way, and, to the extent that the question you have raised is a matter that needs to be addressed as part of the HR investigation, I'm afraid it will have to come under the same caveats in relation to my other responses in relation to who did what.

Q675 Chair: We will be pursuing that. The other area is where the Laidlaw report refers to new Government policy in the decision to have a minimum SLF requirement. Again, if something is a new Government policy, shouldn't that be agreed by a Minister? Who is that?
Philip Rutnam: Is that 6.3.1?

Q676 Chair: It is paragraph 6.3. He is talking now about the decision to have a minimum subordinated loan facility requirement, and he says: "This suggests that a departure from the rules was decided by Ministers, probably including Treasury Ministers." Who was it? Which Minister decided?
Mr McLoughlin: That will become apparent when we get the full report.
Chair: Again, that is something that we will be pursuing and I am surprised there is no answer on that.
Kwasi Kwarteng: Am I to believe that we will have another such inquiry, because it seems to me that a lot of the answers that we are receiving are that we will find out once such and such a report has been published? I was just hoping that we could get a date and put it on record to say that the Secretary of State and the permanent secretary will come back to the Committee once the relevant reports have been completed.

Q677 Chair: At the end of this session I will set out how the Committee is intending to proceed and we will include that request, so there will be more—
Mr McLoughlin: I would have been surprised if there wasn't.

Q678 Chair: We wouldn't like to disappoint you. When was the Pricewaterhouse report commissioned by the Department and can we see the report, because it is still not very clear to me which Ministers knew about problems at what stage?
Philip Rutnam: From memory, the work by PricewaterhouseCoopers began on 24 September and the report was received—yes, they started work on the project on 24 September and we received their final report on 2 October.

Q679 Chair: Can we see a copy of that report?
Philip Rutnam: I will have to take that under advice because at the moment the report is regarded as commercially confidential, but whether there is a redacted version of it that we could release I will investigate.

Q680 Chair: That is a request. We would like to see a copy of the report. I think it is material to our considerations of what information about problems was available, to whom and at what point. It is very material to our considerations, so we request a copy of that report.
It has been reported that the previous Secretary of State was very concerned about flaws in the evaluation process as early at 3 September. Does that sound right, Mr Rutnam?
Philip Rutnam: The previous Secretary of State—let me take a step back. Once the judicial review challenge came in we began the forensic process, which I described, of starting to investigate the way in which the Department had handled the matter, layer upon layer.
On 3 September we briefed the then Secretary of State that there had been one area of concern that had emerged in the work that had by then gone on, which was probably effectively about seven to 10 working days of effort. One area of concern had emerged and

we drew that to her attention. She was understandably concerned that, in a process that hitherto she thought might be essentially free of any concerns, we had identified one area of concern. We told her—this was the best advice that we had at the time—that there was no evidence that the area of concern we had unearthed would have affected the outcome of the competition. None the less she instructed us, quite rightly, to continue our investigations, continue testing that proposition, and continue our forensic process of examining how the Department handled this matter, which of course we did, all as part of preparing for handling the judicial review challenge.

Q681 Chair: We will look further when we see that report. Ed Smith is also party to the Laidlaw report. He is in fact, as Mr Laidlaw is, a non-executive director of the Department for Transport board. Mr Smith contributed to the Department's Capability Review Action Plan, published on 19 March this year. Among the conclusions of that plan, which was an assessment by the Department itself of its capabilities, was a conclusion of, and I quote: "Our strong track record on delivery, generating ideas and providing value for money; our ability to deliver large infrastructure projects to time and budget; our careful management of the organisational downsizing." In view of what happened a very short time after that, don't you feel that is a rather complacent conclusion, and will it suggest that Mr Smith is a credible person?
Mr McLoughlin: Sorry, I missed your last—

Q682 Chair: Is Mr Smith a credible person, being party to such a conclusion?
Mr McLoughlin: The fact is that Mr Laidlaw, in his report at 2.1, deals with the whole point as to the attendance of Mr Smith at the BICC meeting as an observer. We are indebted to the people who are non-execs of the board to be an oversight and to bring into a Government Department lessons and expertise of management of large industries too. So I think the answer to that is yes.

Q683 Chair: Inevitably, questions have been raised about the ability of the Department overall because of this catastrophe that has happened. Does the failure to conclude the Thameslink project have any bearing on the Department's capabilities?
Mr McLoughlin: No. There are a couple of points I would make about the Thameslink project, if I can find the sheet of paper just so that I am accurate in my views on this. The Thameslink project goes over—presumably here we are talking about the rolling stock project as opposed to Thameslink overall, in general.
Chair: Yes.
Mr McLoughlin: You may say that we have had a number of permanent secretaries in the Department, but the truth is that we have had a number of Secretaries of State too. The first person to deal with that, the pre-qualification and notice issues beginning the process, was actually Ruth Kelly in April 2008. So the rolling stock programme of that—well, it has not concluded yet—goes over six Secretaries of State: Ruth Kelly, Geoff Hoon, Andrew Adonis, Philip Hammond, Justine and myself.
It is a very large contract. The rolling stock procurement was done. It is a different kind of procurement because it's not the same as a franchise; it's actually for equipment. Those are areas, as we have announced, where we expect to finish the complete sign-off in the early part of next year.
But before we talk about the failings of the Department, and we have failed on this particular aspect, there have been a lot of areas where we have been very successful too. The work the Department did in preparation for the Olympics was outstanding, pulling together the transport structure for London. Crossrail is again outstanding. There are a lot of areas where the Department has delivered. There has been a breakdown in one part of the Department and it has been a very expensive breakdown as well; it has had a very expensive consequence. It has also had a consequence for confidence in the franchising system, and for that, as I have said earlier on, I hold myself responsible as the Secretary of State and we are going to find out what went wrong.

Q684 Iain Stewart: Just to follow on from that, a number of people have used the West Coast Main Line issue to question the Department's capability in analysing High Speed 2 and other projects. Can you give the Committee an assurance that there is nothing in the reviews going on that has any bearing on the calculations and the forecasting for High Speed 2?
Mr McLoughlin: Yes, basically. A lot of read across has been done by certain people, usually people who are against HS2, who will use, understandably, any chink to attack the Department. The fact about High Speed 2 is that there is still a lot of work going on on that. I certainly hope to be able to make further announcements about the links to Manchester and Leeds in the not too distant future. That is being done by a separate company, and of course we will have a Bill before Parliament where this issue will be fully aired and discussed over that time. But it is being done by HS2 Limited, which is a separate organisation from the Department, and, as I say, there will be a lot more attention given to that once we announce the next two links.

Q685 Iain Stewart: Mr Rutnam, earlier on you said that one of the issues that has arisen from this is of quality control in the Department. From your perspective, on other issues like HS2—other big procurement decisions—will you be looking to put in additional checks to safeguard future big decisions?
Philip Rutnam: Obviously there are a number of lessons for the Department to learn from this episode, and having very strong quality assurance processes is one of them. In relation to HS2, having checked quite specifically and in some detail what the quality assurance processes are in relation to, for example, the economic models used for HS2, I have to say they are very thorough and detailed. You will have heard my answer earlier in relation to the lack of clarity around quality assurance for the economic model that went awry here.

Q686 Julie Hilling: I want to push you just a little bit more around staff levels in the Department and the staff cuts and whether they've had any effect, because the DfT shed 20% of its staff in 2011. It had High Speed Rail, half of the rail franchises to be re-let, a new aviations policy, and private finance for roads—a huge agenda for the Department, much of which we have looked at here so I do know how big it is. Are you saying categorically that had no effect? Were there people involved in this franchise who have gone through downsizing as opposed to being moved?
Mr McLoughlin: There were plans to reduce the size of the Department before the last general election. Whichever Government had formed the Government after 2010 would have seen a reduction in budgets and the head counts. That work had already been progressed, so I'm told, actually before 2010. It is still a big Department; we still have a lot of staff.
Yes, we are asking them to do a great deal of work, and, as I have said earlier on, in a lot of areas they have done that more than adequately; in fact, they've come through with flying colours. Yes, there are pressures, and there are pressures on the public sector as there are pressures on the private sector, but that doesn't allow, from what we have seen, some fairly basic mistakes early in the stage, which led to some catastrophic failures as far as the whole process was concerned.

Q687 Julie Hilling: Was there a change of personnel of those people directly working on this project?
Philip Rutnam: In fact, Mr Laidlaw refers to the fact that there were three successive senior responsible owners for the project over its life, so, yes, there were changes in personnel. That is one example of them. He makes a number of other comments about the importance of continuity, leadership and clarity of responsibility for big projects like this.

Q688 Julie Hilling: Is that something that you are currently looking at in terms of projects going forward within the Department?
Mr McLoughlin: You don't have something happen like this and then not hopefully learn the lessons. They won't only be learned by the Department for Transport; they will be learned across the civil service. This experience may well become a textbook chapter for future civil servant colleges of how things can go wrong if mistakes are made.

Q689 Julie Hilling: Just taking you back to another point, you said that the previous Secretary of State expressed concern sometime before clearly this all blew up, but I don't believe you said what her area of concern was.
Philip Rutnam: We brought to her attention that during the forensic process we had been going through we had identified one area of concern, one thing that surprised us, and we brought that to her attention.

Q690 Julie Hilling: What was that area of concern?
Philip Rutnam: I would rather not go into that detail at the moment, to be honest, because that is a matter really for that—

Q691 Chair: Can you tell us something about it? We should know the nature of the concern.
Philip Rutnam: Let me put it this way. It was essentially to do with the fact that we had thought that at all stages the team responsible for the procurement would have followed the rules set out for the procurement that had been set out in the public domain. We saw that they, at least on one occasion, had not. That raised a significant flag in our minds, but, as I said earlier, at that stage there was no evidence for us that that would have led to a change in the outcome of the competition. But, of course, it led to even more vigour in the forensic process of reviewing what had happened.

Q692 Julie Hilling: But you came to this Committee previously, before all of this absolutely blew up, and you said there were no problems whatsoever with the process; it was totally robust. "We can stand by it." But, clearly, you are now saying there was already an issue that had been brought to your attention that indicated that wasn't the case. Am I correct in that analysis?
Philip Rutnam: To be clear, it is not unusual, in a very large and very complicated process that Government have been running to find, when you go through the hundreds or thousands of documents that have accumulated during the process, that all is not exactly as you would like it. We were clear with the Secretary of State at that stage that we had no evidence that what we had found would have changed the outcome of the competition. None the less, was this a desirable feature? It was not, no, so we were going to do further investigations. She rightly asked us to do further investigations.

Q693 Chair: "Not exactly as you would like it" is somewhat of an understatement about what happened.
Philip Rutnam: You are right; it is somewhat of an understatement. As you will understand, this has been a testing process.
Mr McLoughlin: Indeed I wrote to you, Chair, on 21 September, even at that stage, as I wrote to Maria Eagle and to Margaret Hodge too, saying that we would be robustly defending the legal position. That was up until 21 September. I did not have any thoughts of conceding the point or changing my view until I got the advice I got on 2 October.
Julie Hilling: Secretary of State, what you are saying there is fine, but it would appear that within the Department there were already some questions raised, and that really does raise some real questions that clearly will be answered through this process.
Chair: We will be pursuing that, which I will set out later.

Q694 Kwasi Kwarteng: I want to raise an issue about the consultants. There is a view that I have read in the papers—and you can comment on any part of this story, if you like; it's a short story—that people somewhere in the Department, probably at the political level, took a position that the Department

wouldn't need to refer the calculations to external financial consultants, saving some money in that process, as a consequence of which we have landed in the mess that we are in. It was sort of penny wise, pound foolish, if you like, given the liability to the taxpayer after this debacle. What would you say to that? Is there any truth in any of that?
Mr McLoughlin: What I would say to that is that we did use some outside consultants for works and I have answered—

Q695 Kwasi Kwarteng: Were they legal?
Mr McLoughlin: Yes, both Eversheds for some legal work and Atkins for some other work during the course of the competition. I have answered some parliamentary questions on that and given some figures as far as how much was spent.

Q696 Kwasi Kwarteng: The issue was the financial consultants. With respect, those consultants you mentioned weren't looking at the financial data and financial calculations. There is a difference.
Mr McLoughlin: No. What I am saying is that there isn't a bar, but we don't always have to go out for consultants when we don't think there is a necessity to do so.

Q697 Kwasi Kwarteng: Forgive me, the charge that one reads in the press is that, in order to save money on consultants, specifically financial consultants—I am talking about Ernst & Young and KPMG; I am not talking about lawyers—were not used in order to save money, and because they were not used some pretty grievous mistakes in calculation or arithmetic were made, which have cost the taxpayer far more money than would have been the case if these consultants had been used. That's the charge.
Mr McLoughlin: It's a charge and it's a charge that can be made. I am not sure there is much evidence for it, but you can always make that accusation.

Q698 Kwasi Kwarteng: You don't think that's true.
Mr McLoughlin: I don't know because I am not sure if people had been used. It depends what stage they came in; it depends what stage the changes to the SLF were made as to whether they would have gone back and checked that particular change. It is one of these things that could be written and it is actually very hard to disprove. What I can tell you is this. Is there a desire in Government to try and cut back on outside use of consultants and to use the civil service, which I believe to be good in providing service to Government? Yes, there is that desire, because in the past there have been complaints that we have used consultants too much.

Q699 Chair: Have you used financial consultants in other franchises?
Mr McLoughlin: We have not pursued any other franchises yet, so I'm not sure—
Philip Rutnam: This was the first—
Mr McLoughlin: This was the first of the new model.

Q700 Kwasi Kwarteng: What would you say to the charge?
Philip Rutnam: I have seen the comment and the charge, but I have to say I just cannot speak to the reasons why the Department didn't use financial advisers or the reasoning underlying that because, I'm afraid, it was before my period in the Department.

Q701 Kwasi Kwarteng: As a former banker do you think it not odd that they didn't?
Philip Rutnam: I think it certainly raises some questions, yes. Mr Laidlaw identifies some questions about that in his interim report and he may say more about that—we will see—in his final report. But these are very large contracts, with very large cash flows going through them, significant NPVs running into billions of pounds, and some quite complex financial structures that have been put in place.

Q702 Kwasi Kwarteng: So you are saying that to pay KPMG £1 million represented value for money because they wouldn't have made the miscalculations.
Philip Rutnam: It depends on the capability within the Department. That there is a need for financial analysis is clear, but where that financial analysis comes from is another matter. That this raises questions I would have thought is something that obviously we will consider.

Q703 Chair: Would you like to give any assessment to us of the cost to the public purse of what has happened, putting together reimbursing costs, loss of premiums, possible claims against the Department? Do you have any figure in mind?
Mr McLoughlin: I have given figures for what we are paying the bidders.

Q704 Chair: That is stage 1, isn't it?
Mr McLoughlin: There is DOR; there is the money that we are spending on DOR, there is a possible reimbursement for the amount of money that First spent in preparing once they were told that they were the successful bidder. I will update the House and the Committee and write to you directly on that when other figures become available. At the moment I am saying £40 million and there is a lot more than that.

Q705 Chair: That is just the beginning.
Mr McLoughlin: That is the bidders.

Q706 Chair: Can you tell us when the human resources inquiry that you are undertaking will be completed?
Mr McLoughlin: I did ask a question on that. Human resources inquiries can take a bit of time. We want to get it concluded as quickly as possible, but it has to be done through the right process and I am sure you understand that. We need the Laidlaw final inquiry as that could have bearings on certain bits of investigations that have to take place.

Q707 Chair: But it seems to have implications for the way the Laidlaw inquiry is proceeding with access to individuals.
Philip Rutnam: It does have implications, essentially because it is important that Laidlaw and indeed things that we say here today are not seen to pre-empt the HR investigation in the question of culpability. Who did what? What did individuals do that was wrong? So it does have implications. Can I just add one other caveat, which is that we have the HR investigation under way at the moment? I would expect it to be concluded in a matter of, I hope, a relatively small number of weeks. However, what that will then provide is a report to me, on the basis of which I will then need to make decisions about disciplinary action. If there are disciplinary proceedings, those themselves will take a further period. I am afraid I can't tell you how long that period will be, but I just want to say that there is a caveat there about our ability to talk about individuals while all of those processes are going on.

Q708 Chair: But you accept that it has implications for the Laidlaw inquiry.
Philip Rutnam: It has implications essentially in that it is important not to say things that pre-empt the conduct of the HR investigation. It just means that there is a certain constraint on what can be said, either by inference or expressly, which implies guilt or feelings by particular individuals.

Q709 Chair: This Committee will be pursuing what happened and who indeed was responsible. This is a major catastrophe; there is a large amount of public money involved; confidence is shaken and it may have an impact on the whole of the rail system. We are going to keep pursuing this, so I would hope that your inquiry would not impede the Laidlaw findings in any way because we will continue to pursue this.
Philip Rutnam: May I say I completely understand that, and of course we would like to conclude these processes as quickly as possible, but I do just need to be frank with you about the constraint that exists as attached to explaining the conduct of individuals when we have an HR investigation under way?
Chair: I understand that, but it is because of that that it is important that inquiry is concluded so that we can see a full picture, as we will pursue it until we do.

Q710 Mr Leech: I have one very quick question. Has there been any discussion about the potential for legal action by First for having been awarded the contract and then it being snatched away from them without them having done anything wrong and as a direct result of problems created by the Department for Transport?

Q711 Chair: This is one of the issues—
Mr McLoughlin: At the moment that has not happened. We didn't sign the contract with First, so we will have to wait and see what happens as far as that is concerned.

Q712 Chair: But is that part of your thinking?
Mr McLoughlin: One of the things I have learned to do is not to prejudge legal inquiries since I have taken this job.

Q713 Chair: I thought you might say that, but it is a very important issue.
Mr McLoughlin: It is a very important point.

Q714 Kwasi Kwarteng: Their share price went down 20% as a consequence of this, so their investors, their stakeholders, have been materially affected through no fault of their own. Is that something that you are cognisant of?
Mr McLoughlin: I am cognisant of the fact their share price went down. It has gone slightly back up over the past few days.

Q715 Julie Hilling: Are there any liabilities to other train operating companies or bidders for other franchises who will have already commenced to do an amount of work on some of those franchises, who may well then want to make a claim if they have to go back to square one?
Mr McLoughlin: I am hoping that they don't have to go back to square one. The only bid that we are going back to square one on is the West Coast Main Line, but we need to wait and see what the Brown inquiry comes forward with as to whether they would have to go back to square one. I am very much hoping that that will not be the case.

Q716 Julie Hilling: Surely there has to be a fundamental review on the franchise bidding process within this.
Mr McLoughlin: You are asking me to prejudge two inquiries, but one particular one that relates to the franchises, which I'd rather not do at this stage. We are quite some way off on a number of the franchises. There are some that are more relevant. There are three that would come to termination during the course of next year, those being First Great Western, c2c—the National Express Group, and First Capital Connect. But that does take us to September 2013, so there is some time.

Q717 Chair: Before we conclude this session I would like to make an announcement about the remainder of our rail inquiry. We will hear oral evidence from the Rail Minister and the Office of Rail Regulation on 12 November. We have also called Sam Laidlaw and Ed Smith, non-executive directors at the DfT, to appear in front of us on 4 December. We will be asking them further questions. Other oral evidence may be arranged as the Committee considers appropriate. That could include calling the Secretary of State back and the permanent secretary. The Committee will decide in the light of what it hears from those sessions.
Our aim is to report to the House on general rail issues around Christmas, but we also intend to return to look at rail franchising specifically after the Brown review has reported in the new year. That is our current plan. This could be changed by events, but this is how we intend to proceed at the moment. I just wanted to make that clear.

Mr McLoughlin: Thank you.

Chair: I thank both of you for coming here this afternoon. This is a serious matter and we have heard some things of concern and importance this afternoon. We will be pursuing things in the context of the further inquiries and our own investigations. Thank you very much.

Monday 12 November 2012

Members present:

Mrs Louise Ellman (Chair)

Jim Dobbin
Julie Hilling
Kwasi Kwarteng
Mr John Leech
Karen Lumley
Karl McCartney
Iain Stewart
Graham Stringer

Examination of Witnesses

Witnesses: **Anna Walker,** Chair, and **Richard Price**, Chief Executive, Office of Rail Regulation, gave evidence.

Q718 Chair: Good afternoon and welcome to the Transport Select Committee. Could we have your names and positions, please, for our records?
Anna Walker: I am Anna Walker, chair of the Office of Rail Regulation.
Richard Price: I am Richard Price, the chief executive of the Office of Rail Regulation.

Q719 Chair: I understand that you want to make an opening statement.
Anna Walker: I would like to make a brief opening statement, first, to say how much we welcome the opportunity to come and give evidence to this Committee and this review. It is very timely from our perspective because we are just embarking on a series of decisions that will lead to the new price control for 2014 to 2019 and a draft determination in June of next year. 2014 to 2019 are the dates that you are looking at, so we felt it was particularly apposite to be talking at this point in time.
Overall, our work has three key objectives: improving value for money for the taxpayer and passengers; improving the passenger experience; and ensuring that safety on our railways continues to improve.
There are just three points I wanted to make and I hope that we might have an opportunity to discuss them more fully in the coming session. First, a lot of ORR's effort goes into improving efficiency. As you know, McNulty said that 70% of the efficiency savings that have been identified need to come from Network Rail. We are on the case with that as part of the price control review, but that leaves 30%. One of the things that is important to be discussed is making sure that 30% is delivered as well.
The second point I want to highlight is that both McNulty and the Government's March paper highlight the importance of whole industry working. Clearly, there are issues about the West Coast Main Line, which I know your Committee has been looking at, but one real opportunity from Richard Brown's review is to look at how franchising might encourage rather than prevent whole industry working, and that is an issue we would like to talk to you a bit about further as well.
Thirdly, the Government's March paper stressed the importance of ORR's role in transparency, information on the sector and improving the passenger experience. We are already doing a great deal in that area at the moment and we stand ready to do more, if that is in the best interests of the sector.

Q720 Chair: Thank you very much, Ms Walker. You say that you are on the case to make Network Rail more efficient, but last year you were criticised by the Public Accounts Committee, who said you weren't doing enough to get efficiency from Network Rail. What exactly are you doing, and what changes have you made since that report was published?
Richard Price: If I may speak to that, ORR's record on getting efficiency out of Network Rail is a good one. As a result of our last two price controls we have reduced Network Rail's costs by 40% over the last decade. We have been focusing on the McNulty savings, which we worked with him on to identify. McNulty identified that between £1.8 billion and £2.3 billion ought to be able to come out of Network Rail in efficiency savings by 2019. In our current price review we have identified with Network Rail where about half of that will come from. That leaves us in the current periodic review with the other half to identify.
We have worked with Network Rail to make sure that, through their initial industry plan, they identify savings that deliver the vast bulk of that; in other words, they will, on their own reckoning, be able to achieve 17% cost reductions through the next price control period. Therefore, what we are now focusing on is the remaining, essentially, £500 million a year, which would take Network Rail to the ambitious end of the McNulty savings. What we are doing is looking carefully at comparators for Network Rail, both international and in other sectors; we are looking at the way they organise and plan their work, including the basis of their understanding of their infrastructure and assets; and we are making sure that they are in preparation for the strategic business plan, which we will get from them in January. We will then spend three months reviewing that plan against what we expect them to deliver on our own assessment of their efficiency.

Q721 Chair: But what are you doing that is different from what you did before? Again, the Public Accounts Committee said you had a very cosy relationship with Network Rail. Do you agree with that?
Richard Price: No, not at all. The work that we have been doing has been to get a range of independent views of what Network Rail ought to be costing if it were efficient. We have looked at a range of comparators in other infrastructure providers; we have used a certain amount of international evidence; and we have been employing a range of experts to look at

different components of Network Rail's planning to see how much more efficient it can get.

Q722 Chair: Do you consider that they have enough funds to deliver the high-level output statement?

Richard Price: We will be reviewing that in the remainder of our price control. We are about halfway through the periodic review process at the moment. We will look at what they propose in terms of their account of how they will deliver the high level output statement when we receive their business plan in January. We then have a few months to assess that and see whether what they are asking for is what they actually need to deliver the high level output statement, and we will compare that with the funds available from Government.

Q723 Iain Stewart: In your opening statement you referred to the opportunities for whole industry working. That obviously flags up the example of the alliance between South West Trains and Network Rail. Are you in a position yet to judge if that has been a success, or is it too early for that?

Richard Price: It is too early for that. The alliance is still within its first year, so we don't have estimates of the efficiencies and performance improvements that we, Network Rail and South West Trains believe it has the potential to deliver. I have visited the alliance. What we are already seeing is that it is possible for different conversations to take place within the alliance, which is essentially trying to take a bottom line approach to the whole system for the first time in many years.

The kinds of things they are identifying are: different approaches to maintenance; areas where the train operator can give flexibility to Network Rail to give it better access to the track so that it can carry out its renewals and maintenance work at lower cost and more efficiently; and also identify areas where that work can be reprioritised so that, overall, there is a better train service, because that's in the interests of growing revenue, which previously Network Rail wasn't particularly responsive to. The discussion on prioritisation—what's done in the interests of customers and how you grow revenue by making the whole system more reliable—is now going on.

Q724 Iain Stewart: How quickly do you think we will be able to make a judgment on the efficiency savings that are realised so that a discussion can be had on how the alliance system could be rolled out in other parts of the network?

Richard Price: I think we will have a first sense of how it is working at the end of this financial year, so we will start to learn something at that point. The full scale of what is possible will pan out over a number of years, because that's the time it takes for the planning of maintenance and renewals to improve for the full flexibilities that the train operator can provide to come through. We will see a part of it this year, but it will take a little longer to feed through fully.

Anna Walker: Could I add a couple of points to that? We don't need to wait to see the results of the alliance between Network Rail and South West Trains before other alliances come into being. From a regulatory point of view, our job is to ensure that those alliances are transparent and non-discriminatory; otherwise, against a backdrop of the devolution of Network Rail's routes, what we would expect to see are alliances developing of different sorts potentially in different parts of the country.

There is one other very important point to back up alliances. One of the issues that we have been consulting on in relation to the price control review is a regional efficiency benefit-sharing mechanism. I am sorry that these terms are very complicated, but actually they are very important in terms of changing attitudes within the sector. There is an efficiency benefit-sharing mechanism at the moment, which is national, and the franchising arrangements don't allow most of the franchise operators to participate in it.

For the next price control we would like to have regional mechanisms that the franchisees are allowed to participate in, because we believe that the coming together of Network Rail and the train operating companies to really identify savings is where some of the biggest savings are going to be made. We don't think they should be allowed to keep all of those savings because some of them have to flow back to Government and the taxpayer, but to kick-start some of it they should be allowed to keep some.

Q725 Chair: Is that something that would require a change in the franchises?

Anna Walker: Yes, it would.

Q726 Chair: How far advanced is that?

Anna Walker: We have been talking to the Department for Transport for some time about the importance of them permitting sharing in these regional efficiency benefit-sharing mechanisms. The new franchises, of course, haven't yet materialised because of what has happened on the West Coast Main Line. I think the Department for Transport was willing to put that into the franchises, but one of the points we have been making to Richard Brown is that it is very important it does go into the new franchises. It is a good example of encouraging whole industry—whole sector—working.

Q727 Chair: So that is something you are discussing with Richard Brown for the future rather than something that has been agreed now.

Richard Price: The Department has shown every interest in making sure that the train companies are allowed to keep some of the gains from efficiency that they achieved jointly with Network Rail and also to expose the train companies to changes in the access charges to Network Rail so that, in a sense, they have got more skin in the game in helping Network Rail to drive through efficiencies.

Q728 Chair: I am just trying to work out where that is up to. Was this a change that was going to be incorporated into the West Coast Main Line franchise that has now been halted?

Anna Walker: Yes.

Richard Price: Yes, it was.

Q729 Chair: So it is something that has been left out.

Anna Walker: Yes.

Q730 Iain Stewart: I have one more question about alliancing. The South West Trains example is particularly relevant because it is one operator in that section of the network. Do you foresee any issues for an alliance where on other parts of the network there will be more than one TOC operating, particularly if one TOC takes the majority of the access but there is a smaller operator and they may be disadvantaged?
Richard Price: Where that kind of alliance is proposed we would watch hawkishly—indeed, we do already in the South West case—to make sure there is no undue discrimination. It is interesting, though, it's not an alliance, but if you look at the East Coast Main Line at the moment, where there have been problems about the punctuality of long-distance train services for a while, the Network Rail route for the East Coast and East Coast trains have run a trial of essentially giving signalling preference to long-distance trains to make sure they stay on time. Obviously, we have watched that very carefully to make sure that no third-party operators are being discriminated against. The experience has been that for long distance it has made a significant difference to punctuality, for others it has made some improvement to punctuality, and then for other groups it has made no difference. So there is a closer relationship which leaves everyone better off. In the South West case, for example, we are part of the stakeholder group of all the companies who run across that part of the network, and we have very good links with all those who, if there were concerns, would express them to us.

Q731 Graham Stringer: The last time we took evidence, not in this report, we heard evidence that freight access charges in this country were about twice the industry's best worldwide. Is that still the case?
Anna Walker: I'm not sure what the statistics are for international comparisons.

Q732 Graham Stringer: You did mention before that you had taken evidence on international comparisons, didn't you?
Anna Walker: Not for freight companies; it was for train operating companies. No, no, the evidence you are referring to is for passengers.

Q733 Graham Stringer: You've not got international comparisons for freight.
Anna Walker: No. That doesn't mean to say they don't exist, but we haven't actually got them.

Q734 Graham Stringer: Isn't that a bit surprising?
Anna Walker: We can look at that. The position on freight at the moment is that the freight companies only pay the costs of the train using the network. They pay the marginal costs only; they don't pay any of the overheads of using the network.

Q735 Graham Stringer: Is that what lies behind what seems strange? You dropped the access charges by a third, did you, in the last control period, and you have put them up by 400% for things like coal and iron ore in this period? Is that correct?
Anna Walker: No, that's not correct. The access charges did come down last time.

Q736 Graham Stringer: Was it by about a third?
Anna Walker: Yes, it was about that. There are two elements to it actually. We put some element of the freight charge up, but, by the time we've dealt with Network Rail's efficiency and required that to come down as part of the process that Richard was talking about earlier, that was the net result. The 400% that you are referring to is a figure that was in our consultation document that went out in May.

Q737 Graham Stringer: Can I quote the source? It is from the Freight Transport Association, which represent 90% of freight users of the rail system. They are saying they have gone up by 400%.
Anna Walker: I absolutely recognise the 400% figure. It was a figure in a consultation document for how much the prices could go up in an extreme case. It was absolutely only a consultation document. It was designed to ensure that those affected understood the range of the possibilities. So the 400% relates to putting up the charges by £10 a tonne, and there was a range of options put there. The really important point is that we have taken no decisions on that consultation document; we are in the process of doing so.

Q738 Graham Stringer: If you were to go to the extreme case, have you looked at the implications of putting up charges by that much on modal shift? Would that be part of the criteria you would use before you came to a decision?
Anna Walker: Absolutely. Indeed, the reason that we wanted those figures in the document was precisely to enable people to think through what it could mean in terms of the freight company, the freight customer and the sector at the end of that supply chain, if you like. That was precisely why we put that amount of information into the document. We have been receiving a lot of representations back on this issue.

Q739 Graham Stringer: In your proposed system of charging is it likely to be simpler or more complicated than the current one?
Anna Walker: As I say, a complex set of decisions needs to come from that document; there was quite a wide range of them. We are in the process of working through those all together. The concerns about complexity that we have had representations on have largely been in relation to the disaggregation of charging by route and so we have heard loud and clear the concerns on issues about complexity. There are two issues, as I understand it, from the sectors that have been giving us views, because it is more than one sector that has been giving us views. One is complexity of understanding what the prices would be in relation to rail, and the other is a question about a comparison of complexity between rail and road, because at some level there is clearly competition between rail and road.

Q740 Chair: When do you expect to reach a decision on charges for freight?

12 November 2012 Anna Walker and Richard Price

Anna Walker: Within the next month or so, certainly this side of Christmas.

Q741 Chair: Are you aware that the industry believes that you have changed your policy and you are not supporting freight on rail?

Anna Walker: We knew that these proposals were going to be controversial. We have put a very great deal of effort into talking to all concerned. We have made the point to them that our support for the freight sector remains absolutely there and consistent. These proposals are about whether it is right to move towards the freight sector paying some more of the costs it incurs to put trains over the network. At the moment freight only generates 1% of the revenues for Network Rail for the use of the infrastructure, compared with 25% for passenger traffic, and covers none of its fixed overheads. So there really is a question about what the freight sector is paying at the moment. But we have absolutely understood how important it is that we listen to the representations about the impact of any increase on freight companies, freight customers and the sectors that are supplying the goods as well.

Richard Price: If you look at what the Government has proposed in their high level output statements, and therefore what we are determined to deliver through the spending control, there is a whole raft of measures in there that ought to improve the lot of rail freight, including enhancements to the strategic freight network, improving the paths for freight and making sure there is better gauge clearance and of course the electric spine for freight, all of which ought to contribute to freight's reliability across the network improving. If the reliability improves, that ought to help the industry to reduce its costs even further than it already has, because freight is one of the most productive parts of the sector.

Q742 Karl McCartney: Richard, I want to pick up what you said about the 17% reduction in Network Rail's budget. I worry that that might be savings versus safety as an issue. The reason I say that is that one of the ways any big organisation such as Network Rail might be able to make savings would be in infrastructure projects being cut. As for some of those infrastructure projects, you can think maybe of Newcastle with its recent unfortunate fatality and Network Rail being found culpable. That leads me on to Lincoln. We have five level crossings in the suburbs and in the centre of our city.

The first part of my question is: would you envisage projects being cut by Network Rail to make those savings? The second part of my question is that the other costs that big organisations carry are using staff. I want to make the distinction with internal staff, but do you think there are far too many consultants in the rail industry?

Richard Price: That is a fair question. First, I don't accept that the efficiency improvements in Network Rail have any conflict with safety. The context of this is that Britain's railways are safer than they ever have been. That is true for the national network; it is true for the underground. That's not to say that we can in any way be complacent, because incidents that are of some risk still happen across the network, and we are continuing to apply pressure on Network Rail, the train companies and others on the network to manage those risks properly.

Of course, when we look at efficiency savings, we will always make sure that the industry is funded in a way that makes sure it can operate safely. In this control period Network Rail is adequately funded for safety, and that will also be true in the next control period. I think it's worth saying that we have found that the effective management of safety risks really goes hand in hand with the aspects of management capability, which are also the right ones just for running a good business and for running businesses effectively.

We apply across the industry something called our risk management maturity model, which looks across a whole range of aspects of the effectiveness of management across businesses and its relationship with safety risk. We find a strong correlation between high performance on that model and compliance and effective management of safety risk. We focus on that and that guides a lot of our safety work across the rail industry. It is not surprising that a number of the things that you pick up about effective management, consistency, effective leadership and engaging staff competence are very much the same things that push towards safety.

The second part of the question was on—

Q743 Karl McCartney: Let me remind you. In a nutshell, are there too many consultants in the rail industry? I am thinking about staff costs.

Richard Price: There are different sorts of external contractors in the industry. There are contractors who are employed on the maintenance and renewals of the network. There are then consultants who advise on strategy, regulation and so on. To be honest, I couldn't comment on the second part of that. I have not met a great number of them, although there are a number of them around advising on things like franchise bids and so on.

If you look at the contractors used in Network Rail, it is quite interesting. One of the reasons that Network Rail have to use so many contractors is that they find it difficult to get adequate access to their network to maintain and renew it effectively. If you look at the time the last train and the first train run, they have a very short window in which to get access to the track. That means that they have to have a peak work force ready to come on to the track for just a few hours to get as much out of that time as possible. That means that, for a typical project turnout, they have about twice as many people on the track working at any time as you find on a typical European railway. Inevitably, at the moment, that means they make some use of contractors in order to meet those peaks. We think that, if that time was managed better and they got better collaboration from the train companies to give them better access, it would mean that they would be less reliant on them.

Q744 Karl McCartney: Do you think we will ever get back to having a 24-hour railway system like we used to have back in the day?

Richard Price: I'm not sure which day that was.

Q745 Karl McCartney: When we had steam maybe, and we certainly had trains running a lot longer and maybe more frequently between the hours of, say, 10 and six in the morning than we do now. I am sure maintenance took place then as it does today.
Richard Price: That is true to a degree, although the level of renewals on the network is much higher now than it ever was under British Rail. One of the things the industry has been coping with over the last decades is dealing with those decades' worth of backlog. There is a difficult balance to weigh here between the interests of customers who want those services to run through the night and making sure that the system is maintained in a way which means it is reliable so that the vast majority of passengers who use the network during the day are getting there on time and can rely on the railway.

Q746 Chair: On safety issues, is anybody looking at the safety of the system and the interrelationship between Network Rail and the train operating companies?
Richard Price: Yes, we look at that, and there are a number of interfaces that are really fundamental to safety, one of which, for example, is the point at which people board trains and dispatch, which is one of the areas that we are concerned about.
Anna Walker: Of course there is a responsibility on every company—the duty-holder—to be aware of their part in system safety, as well as the risks in their own company.

Q747 Chair: You say that you are looking at the system as a whole. Although the accident rates are satisfactory and we don't want them to get worse, the precursors to accidents, like going through red lights, haven't actually changed, have they? There are still underlying problems, although we haven't had accidents.
Richard Price: It is true to say that the precursor risks have flatlined over the last five or six years or so. That is why we are focusing not just on the precursor risks but the underlying risk management in each of those businesses. Part of that risk management is the system as a whole and the interfaces between, say, the train companies and Network Rail.

Q748 Chair: Who is responsible for that? Who is responsible for the bigger system that cuts across?
Richard Price: Each of the duty-holders has responsibility for the bits of the system that it interacts with. We monitor and make sure that they have that fully gripped.

Q749 Chair: But that's not good enough, is it? That is about the individual parts of the system. I am asking who is responsible for looking at the system as a whole and making sure that it is as safe as possible.
Richard Price: As I say, it is our responsibility to make sure that each of the duty-holders across the system is playing its full part in that system-wide safety. Each of the entities across the network has to take its part of the responsibility for the way it feeds across to each of the others that it interacts with.

Q750 Chair: But you as the ORR are responsible for the whole system working properly in relation to safety.
Richard Price: We are responsible for making sure that each of those duty-holders takes its responsibilities and complies with what we—

Q751 Chair: You are not exactly answering the question I am putting to you. I understand that different parts of the system have responsibilities. You say that you are monitoring that they do that, but there is a wider question, which is looking at the way the system as a whole is operating. Are you looking at the whole, not just the parts, so that you may come to a decision that you need to change the responsibility of individual parts or change the way certain things operate? Are you looking at the system as a whole?
Richard Price: We look at the system of risks across the whole system; that's correct. The industry also has the Rail Safety and Standards Board, which effectively advises the industry on its own management of risks and each of the duty-holders across the system how they can best take their responsibility, both for their own components of the system and the way they interact with the others. So, yes, both we and RSSB are always looking at the way that can be improved.

Q752 Chair: Have they ever made representations to you about the lack of a safety system looking at it overall rather than just as individual parts?
Richard Price: The RSSB have certainly pointed to areas in which the whole system approach can be strengthened. They have pointed, for example, to the complexity in the industry's rule book where, in a sense, there are so many rules that it is very hard for any individual to hold all those in their head. This is an industry that has grown up with a complex set of rules by accretion, and both we and RSSB are very keen to make sure that the management of risk shifts to being much more competence-based than paper-based. We have discussed that with RSSB and others in the industry.

Q753 Kwasi Kwarteng: With regard to safety, what undertakings have you made should my colleagues' fears actually be realised and there is some compromise on safety? What would be the redress? What would you want to see?
Richard Price: There are a few areas that we have identified where we remain concerned. Remember, this is in the context of a railway that is still safer than it has ever been. The areas we have identified that are of concern to us, although the sector is making some progress on them, are the monitoring of civil assets and structures. In the case of structures such as bridges, we have served an enforcement notice on Network Rail to make sure they are carrying out the inspections of those structures that they ought to so that they understand their condition well. We remain focused on level crossings, which are one of the highest areas of risk across the railway. We have

looked at on-track and off-track maintenance where recently we have seen a minor increase, but an increase nevertheless, in harm to workers, and we are very concerned about that. The process of dispatching trains and getting on and off trains is another area where we would like to see some improvements. One thing that is particularly striking is the industry's management of occupational health where, in our assessment, it lags significantly behind other sectors.

Q754 Karen Lumley: Can I move on to fares and ticketing? For those of us who use the trains, we know how difficult and complex it all is. How do you think fares and ticketing could be improved to make it more user-friendly for people?
Anna Walker: I think that comes in at a number of different levels. The very first point I need to make is that ORR are not responsible for setting fares. We have no formal role over fares and ticketing. What we do have are consumer protection powers. Where we think something is not working in the consumer's or passenger's interests, then we have the ability to intervene. The area that we have intervened on is in relation to ticketing complexity because there are some real issues for passengers in understanding what sort of ticket is the best one for them; what an advanced ticket does for you; what is peak and off-peak; and what the differences are between a return or single in terms of the payment. We have sought, first, to do some research into that area and are now talking to the train operating companies on the back of that research about what they can do to make these issues clearer to try to avoid, in other words, the kind of complexity that has clearly overtaken the energy sector in terms of consumers understanding those prices. At the moment we believe that the train operating companies recognise those issues and are willing to work on them. There is some real sign of that happening. If those issues don't become clearer, then we will consider using our powers to intervene.
On the question of looking forward, we understand why it is that the Government set the fares, because in the railway sector a lot of the financing of it is through the taxpayer, and the Government act on their behalf. In the longer run we think the regulator could actually set fares. We have made that point to the Government as part of their fares and ticketing review. We stand ready to do that. If we were to do that, we would expect to work under guidance from the Government about what they wanted at the highest level and interpret that into the right sort of arrangements. We have also been saying to the Government that we think a lot of the issues which they deal with on ticketing—what ticket offices should or should not be open—and the handling of issues in relation to ticket machines aren't things that Government in the 21st century should be deeply involved in, and we would be prepared to play our role in those too. Again, we understand the Government are looking at that as part of their fares and ticketing review.

Q755 Karen Lumley: Do you think there is a case for deregulating more fares so that firms could choose how much to charge?
Anna Walker: Because we don't actually do this area, we have not looked at it in detail. I suspect that over time the answer to that would be that, yes, you could look at greater deregulation, and I suspect you could also look more closely at those areas that still need to be regulated and the interaction of one against the other.
Richard Price: It depends partly on the kind of market you are talking about. Where you don't have competition, deregulation can result in all sorts of monopolistic behaviour. On the other hand, if you look at the East Coast, where you have open access competition, it is clear that consumers appreciate having a real choice about which train they get, which operator they use for some destinations and some choice around which fare they pay. Where it exists, that kind of choice appears to be beneficial to consumers; you have to be careful, though, about deregulation where there is no real choice.

Q756 Julie Hilling: Can I take you back to safety? You were saying that one of the issues you were concerned about was station safety and access on trains. I want to ask two specific questions, one about the self-dispatch of trains. What is the ORR's opinion, particularly if it is driver-only self-dispatch?
Richard Price: It is perfectly possible to manage that safely provided the driver has a clear view of the whole of the train. There is usually a degree of investment that needs to go in to make sure there are proper monitors and a clear line of sight, but in principle there is no reason why that should not be safely managed within a proper safety management system.

Q757 Julie Hilling: What about the issues that have been raised in terms of people still being able to access the platform? The driver may well have said that the train is safe, but people are still accessing the platform if you don't have platform staff. What is your view of that?
Richard Price: That particular issue isn't something I have looked at but I can get advice on what those risks are. It is obviously less of an issue where there are staff on the platform dispatching the train, but certain things can be done to make sure that the driver has some sight of when people are approaching the platform or not. Again, I am not clear that that necessarily means those things can't be managed safely.

Q758 Julie Hilling: The other question is about the proposal that the only person on a train would be the driver. Do you have any concerns about passenger safety? I guess it is not about the mechanics of the train but more about the passengers and the sense of that journey, if the only person on that train is the driver in their cab.
Richard Price: Many trains now have systems where passengers can communicate with the driver if there is any concern about their personal security as much as their safety. For example, on the underground, on most trains there are good communications between where the passengers are sitting and the driver. It is also possible for drivers to communicate with other

staff at stations ahead, or with the British Transport Police, if there are concerns. I am also conscious that in some places, such as on the London Overground, staff have been deliberately added back to create an environment that is attractive to passengers, so in a sense it is also a commercial decision for businesses who want to make sure that they have an inviting environment for their customers.

Q759 Julie Hilling: What about long-distance trains that are travelling at 100 mph or whatever, which is a bit different from talking to somebody who is driving an underground train?
Richard Price: This is true.

Q760 Julie Hilling: A train maybe going another hour before it hits a station at 100 mph or whatever.
Richard Price: Those bigger trains typically have more staff on them, so I am not aware that there are particular concerns about that.

Q761 Julie Hilling: I thought McNulty was suggesting that the ideal was that there would only be a driver on the train.
Richard Price: On a long distance in particular, it really is a commercial driver for the company. If there aren't enough staff on a train to make the environment attractive for customers, to make sure they are getting the right sort of customer service on a long journey, then there is a trade-off between revenue and the attractiveness of that service for customers.

Q762 Chair: From a safety point of view, would you be concerned if there was a reduction in staff?
Richard Price: I am not sure there is necessarily a safety issue there.

Q763 Chair: But if there was a reduction would you be concerned?
Richard Price: If there was a reduction we would need to see the way it was managed. It is hard to deal with that in abstract. We would need to be convinced that the duty-holder—in this case the train operator—had a safety case that allowed that train to be managed efficiently and with access to staff when it was needed.

Q764 Chair: Would you accept that the major increase in Government subsidy since privatisation is due to the costs of paying Network Rail a return on its regulatory asset base?
Richard Price: That is part of it. In a sense that is an indicator of other things that are going on.

Q765 Chair: Is it a major reason for the increase?
Richard Price: Is it a major reason for the cost of Network Rail? It is certainly a component of what the subsidy covers, but what it symbolises is a huge amount of investment that has gone on, financed by borrowing against the regulated asset base, which is not necessarily a bad thing. What has been going on since privatisation is that a lot of investment has gone into renewing the system to bring it up to standard and on enhancements to meet the growth in demand that we have seen. A chunk of that has been financed by Network Rail taking on more debt, and that has been set against the regulated asset base. What it shows is that more investment has gone in and you've got a better railway for it.
As to remunerating the RAB, you have a choice about how to pay for that. You can either borrow and pay for it over time, reflecting the life of the assets you have invested in, or you can pay as you go, in which case there is a danger that you are susceptible to stop-start investment, it being conditional on last year's financial performance of the railway rather than the needs of the future.

Q766 Chair: Do you have a view about which is the better way to pay for improvements?
Richard Price: It really is a choice.

Q767 Chair: Whose choice should it be? Is it something that the ORR should have a view on?
Richard Price: Yes. We have a view on the level of borrowing that is consistent with the financial sustainability of the railway. Indeed, that is also set out in Network Rail's licence. This year, for example, Network Rail can borrow no more than 72.5% of their regulated asset base. At the moment they are well short of that number, but we are always watching to make sure that this is financially sustainable. It is also a choice for Government, because Government and other funders can either pay as they go for enhancements to the network or decide to spread the cost over the lifetime of the investment.

Q768 Chair: Do the ORR have a view on how this should be done?
Richard Price: In a sense, we are neutral about the way people want to fund the railway. There are clear advantages in using the RAB as a part of the means of funding enhancements and renewals.

Q769 Chair: You have been doing some work, haven't you, about financing of the rail industry and where the subsidies go? Have you reached any conclusions in that work?
Richard Price: We can see a significant chunk of direct Government funding going into Network Rail, which is partly to fund enhancements and renewals, and it is partly as a way of financing the services that the Government are buying. By financing Network Rail in that way, the train operators have to contribute less through access charges. Our view is that, over time, we want to make the system much more transparent so that charges are more reflective of the actual costs that the train companies are imposing on the infrastructure so that anyone using the network has an incentive to collaborate with Network Rail to help manage those costs down.

Q770 Chair: You are seeking more involvement in the letting and monitoring of franchises. Why is that? What will you change?
Anna Walker: The issue is not the letting of franchises; it is the monitoring of performance under the franchises. This issue was the subject of the joint consultation document—there were a number of issues in there, but this was one of them—put out by

us and the Department for Transport in April/May time. The proposition was that ORR should have a role in monitoring the performance of the franchises, not so much the specific conditions that the Government write into the franchises but how a train operating company is delivering its services.

Our reason for wanting to do this is that the simple problems of performance on the network by Network Rail are getting better. There is no doubt that Network Rail's performance at the moment is getting better. We have a crowded system. We find that, when there are delays, they are caused both by Network Rail and the train operating companies. We think it important that both Network Rail and the train operating companies are jointly held to account so that, when something goes wrong, we can tease through what both have got to do to put it right. That was why we proposed in that document that we had a formal monitoring role. That remains on the table, and there has been no response from the Department to that document.

What is happening on the ground is that we and the Department for Transport, whatever happens, are getting on with looking together at problems. Take London and the south-east where at the moment there is a deteriorating performance. We are looking jointly at what's causing that and what can be done to remedy it.

Q771 Chair: Are the Government's assumptions of a reduction in costs of £3.5 billion by 2019 realistic? Is it going to happen?

Richard Price: We are confident that the low end of the McNulty savings from Network Rail is deliverable; indeed, Network Rail have confirmed that. What we are looking at is the additional £500 million a year from Network Rail.

In terms of the rest of the sector, for which we are not the economic regulator, the answer lies in the incentives that the TOCs have got to manage their own efficiency and work with Network Rail to manage down the costs that they currently impose on the network, and also the extent to which the franchises give the train companies the flexibility they need to tailor their provision of the services to make sure they are providing those that are franchised. One of the things we would encourage Richard Brown to look at in his review is the extent to which the train companies have that flexibility. We are about to publish some work benchmarking the costs across the different train companies. One of the things that that brings out is the extent to which their costs are to a fair degree locked in by the terms of their franchise.

Chair: Thank you very much for coming.

Examination of Witnesses

Witnesses: **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, gave evidence.

Q772 Chair: Good afternoon and welcome to the Transport Select Committee. Welcome to you, Minister, and congratulations on your appointment.

Mr Burns: Thank you very much.

Q773 Chair: Could you introduce yourself and your team for our records?

Steve Gooding: I am Steve Gooding. I am one of the directors general at the Department for Transport and I cover domestic travel within the country.

Paul Collins: I am Paul Collins, and I lead the rail network strategy team in the DFT.

Q774 Chair: Minister, I understand you want to make a statement.

Mr Burns: If the Committee doesn't mind, I thought I would spend just two or three minutes giving a general overview from the Department's point of view of what is going on in the railways. I will hop through it very quickly. I want to give some opening thoughts on the rail industry, the rail service in this country, our reform agenda and the impacts on recent events.

I found the Sir Roy McNulty report and the evidence given to this Committee by him and others illuminating. I don't want to underplay the reform challenges we face, but if one thing has struck me consistently it is that in rail we are in very many aspects dealing with a remarkable success story.

In recovering from the shock of Hatfield, the industry has delivered year-on-year improvements in safety and performance. In the years since privatisation in 1994–95 there have been considerable successes, to be fair, under both Administrations—the previous Government and then this one. To give you a few statistics, passenger miles since 1994–95 have doubled from 17.8 billion to 35.4 billion in 2011–12; the number of passenger journeys has also almost doubled from 735 million in 1994–95 to 1.6 billion in 2011–12; and rail freight has expanded by over 60% from 13 billion tonne kilometres to 21.1 billion tonne kilometres.

Successive Governments have recognised the central contribution that rail can make to growth, society and meeting our environmental goals. This means that what was once a cash-starved industry living from hand to mouth and sweating assets has been sustained and seen sustainable capital investment in infrastructure and operations. The Government announced in July, as I am sure the Committee will be aware, further capital investment in the railways in the period up to 2016, which makes the investment currently being put into railways the largest amount since the Victorian era, which is no mean achievement.

It is on that basis that we have a rail system that has significantly improved in the delivery of services both to passengers and freight, but I think all of us in this room today will accept that further strides, further improvements and greater efficiencies still have to be made to improve passenger experience but also to ensure that we get more freight off our roads and on to the tracks so as to deal with road congestion and environmental considerations. Thank you very much.

Q775 Chair: Thank you for that, Minister. You are certainly correct in identifying the great increase in the use of rail. That certainly is true and it is correct that that is stated at every opportunity. At the moment about £4 billion a year of investment goes into the railways. The Government have said that they wish to reduce and eliminate the subsidy. Can you give us any indication of how and when you would want to reduce that figure?
Mr Burns: You are absolutely right. In recent years we have seen a reduction in the amount of money that the Government put into the railways in England and Wales. Off the top of my head, it is down from about £4 billion to £3.2 billion at the moment. We would like to see that go further. The key to this, as Sir Roy McNulty identified in his report, is to secure greater efficiencies. Sadly, we are playing catch-up with regard to investment in the infrastructure. We have been able to change the fare increases for last year and the next two years from RPI plus 3% to RPI plus 1%, which will certainly help fare-paying passengers, but we have to ensure that we upgrade the infrastructure—the track, electrification, rolling stock and stations—so that it is a first-class service, and then we can seek to maximise over and above the efficiencies we have already achieved. That is the challenge.

Q776 Chair: You have said that you want to go further in reducing subsidies, but how much further? What reduction do you want to see in the subsidies to rail, and when do you want to see it?
Mr Burns: I 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. We have to ensure that, once and for all, the investment continues to be made in the infrastructure to achieve a world-class modernised rail system. That is the challenge we are facing at the moment and we are achieving from year to year. I can't give you an exact time scale, though on savings, which is a slightly different issue, I would like to meet Sir Roy McNulty's target of between £2.5 billion and £3.5 billion by 2019.

Q777 Chair: So you haven't got a time scale to do that.
Mr Burns: Not a definitive one where I can say that, on 1 January, X, there will be no subsidies and everything will have been accomplished, because I don't think it works like that. You will always have an element of subsidy. As you know, some of the subsidies are for social services, which it is important to continue to provide for communities particularly, but not exclusively, in rural areas. There are also environmental commitments. You are not going to see a situation—or I don't suspect you will—where there will be nil subsidy, but we need to drive down the subsidies and get greater efficiency from the delivery of the service to protect the taxpayer and fare payers.

Q778 Mr Leech: Can I add my welcome to your new post, Minister?
Mr Burns: Thank you.

Q779 Mr Leech: Ministers have taken the view that the East Coast Main Line should be refranchised and go back into private hands. They have also resisted calls for scrapping the refranchising of the West Coast Main Line and running that as a public railway. What are the reasons for that?
Mr Burns: The reason is that we do not believe in renationalisation, to put it very crudely. We believe, and the record of the railways since privatisation backs it up, that there have been significant improvements and advances, not only in the number of people using the railways, the number of passenger journeys and the increase in freight, but—and this is the crucial thing—in investment in the infrastructure, where successive Governments of all political persuasions in the past failed to meet their commitments. I philosophically believe that in the private sector the system works better. I take comfort from the fact that this view was obviously shared by the last Labour Government. They were in power for 13 years from 1997 to 2010, and they made no attempt whatsoever to reverse the privatisation process; in fact they moved forward in involving the private sector and seeking investment.

Q780 Mr Leech: How is the East Coast Main Line doing in public ownership in comparison with the previous private ownership?
Mr Burns: The service that the East Coast Main Line provides currently is a perfectly acceptable one, but there will be improvements to it in due course because of the commitments we have made to the purchase of new trains and rolling stock, investment in track and improving and enhancing the electrification process. If you are asking also about what the progress will be on the franchise, how long it will remain in effect under DOR management and when and if it will be returned to the private sector, it is premature to answer that question.

Q781 Mr Leech: I was really thinking about how much money the East Coast Main Line was currently making or whether or not it was making a loss, and how that compared with the previous ownership under a private train operating company.
Steve Gooding: I don't have the turnover figures for the East Coast Main Line. One of the things that is quite tricky in saying whether it is making a profit or loss is that it depends on both the investment it is making and the track access charges it is paying. For the business plan we set for the East Coast Main Line currently, it is running slightly behind the projections we were hoping for, but, as the Minister said, it is reasonable and covers its costs.

Q782 Mr Leech: How does that compare with when it was in private ownership? How is it doing in performance terms relative to the private operator?
Steve Gooding: The great difficulty I have in answering that is that, if you think of the three lives of the East Coast Main Line through the different

owners it had, it was doing pretty well under one; it ran into, frankly, catastrophic failure under another; and it has been in recovery under the current company. It is on a recovery trajectory. A key part of that, as the Minister has alluded to, is the replacement of the frankly rather aged rolling stock it now has, but in those circumstances it isn't doing badly given the equipment it has to work with.

Q783 Mr Leech: Minister, would you accept that, until we can see how well the East Coast Main Line is performing in public ownership, it is difficult to be absolutely certain that returning it to private ownership will provide a better service to passengers and a better return to taxpayers?
Mr Burns: No, not altogether, I don't, because it is difficult to compare the current provision of the service with the experience of the companies that ran it in the private sector because of the record of those two companies that provided the service. If you wanted to compare it with how the West Coast Main Line has performed, you can't make a direct comparison but the West Coast Main Line has performed far better.

Q784 Mr Leech: The West Coast Main Line has had billions of investment.
Mr Burns: Yes, and the East Coast Main Line will also get hundreds of millions-plus investment in its line in the relatively near future. You can't compare the current situation accurately with what happened in the past. Even if you could per se, I do not think that is an argument either for renationalisation of the railways or keeping the East Coast in public ownership if and when there is a viable private alternative.

Q785 Karl McCartney: Maybe I can help out the Minister and my colleague a little. Answering in a different way, how many expressions of interest have you had from private companies for running the East Coast franchise, which I know has been put in abeyance for now, as my constituency is served by the East Coast?
Steve Gooding: We haven't actually triggered the start of the formal East Coast competition, but all of the owner groups that we have been in touch with have expressed an interest at one time or another, and certainly we would expect all of the ones who bid for intercity services to show strong interest in bidding.

Q786 Mr Leech: I understand the Government's reluctance to maintain at least one of the lines in public ownership, but do they have a view on passenger transport authorities working in collaboration to run regional and local services, which is being proposed as a possible future option by Transport for Greater Manchester?
Mr Burns: Yes. There is a lot of work going on here at the moment, as you well know. The north of England is a particularly interesting case. We will see how that pans out and in due course we will respond to the processes and consultation on it. It is not something that we are per se against; we are watching it and seeing how it can develop in a positive and meaningful way.

Q787 Julie Hilling: To follow up Mr Leech's questioning but perhaps in a different way, how much money did East Coast return to the Treasury in the last 12 months? How much was returned to the Treasury in the previous period before it went belly up? How much money is the publicly-run railway now returning to the Treasury?
Mr Burns: To give you the specifics and accurate figures, it would be sensible for me to write to you and the rest of the Committee.

Q788 Julie Hilling: You are happy to put it into the public domain.
Mr Burns: Yes, absolutely.

Q789 Chair: Perhaps you would write to the Committee and that can be circulated.
Mr Burns: Yes. I will write through the Chair and to all members.

Q790 Graham Stringer: I have one follow-up before I put the questions I want to ask. I respect the ideological purity of your wanting everything in the private sector.
Mr Burns: No; that is a slight reinterpretation.

Q791 Chair: I think you said "philosophical"—
Mr Burns: I was saying it was not for the sake of it. It's just that I think the record has shown since privatisation that the performance of the railways and the record amount of money being invested in upgrading the infrastructure and rolling stock far exceeded what the public sector was able to do prior to that. I am not confident that the public sector would be able to continue to meet what the private sector is doing.

Q792 Graham Stringer: I think I understood the point. It led me to two questions. One is that you seem to have missed the fact that Network Rail is not in the private sector.
Mr Burns: It is not in the public sector either.

Q793 Graham Stringer: It is in a funny place.
Mr Burns: Yes, it is. That is what your Government created.

Q794 Graham Stringer: Quite. That was really the question I was going to come to. It is certainly not in the private sector. Given the position you stated, the large debt it carries and the criticism in the McNulty report, do you have any proposals to change it? The other side of the question about assessing what the railways have done is that there has certainly been a huge increase in passengers and investment. But, if you go back about 15 or 16 years, with those increases in passengers and some of the investment that has taken place, it is difficult to imagine that the railways would still need the subsidy they do now. First, I would like your comment on Network Rail and its future and, secondly, for you to take a step back and look at the increase in passengers and the large

subsidy going in. I would be grateful for your comments.
Mr Burns: On the question of Network Rail, it is in an unusual position because of the way in which Stephen Byers was involved at the time. The reason is that there were special circumstances and it is a special case. It is not in the public sector, but, as you rightly say, it is not fully a private company like any household name that is a private company.
Having said that, it has a significant and important role to play, and I personally would not like to see it renationalised. I don't see the reason for making a change to an organisation that is working at the moment, that helps to deliver efficiency savings and makes sure that the investment is going into the rail network that we all believe should be there.
What was your second question?

Q795 Graham Stringer: There are lots more passengers on the railway at the present time and I was asking you to take a step back 15 or 16 years. If you saw that extra revenue coming in, would you have imagined that having such a large subsidy really represented an efficient system?
Mr Burns: I think it does in so far as part of the importance of the subsidy is to improve the infrastructure. What we are seeking to do—it has been going on for some years, and McNulty has reinforced it—is to drive down that subsidy. So it is now down to £3.2 billion from £7 billion a few years ago. It is going down. There will always be an element of subsidy, simply because there is a recognition by everybody that a social rail service needs to be provided and you have to have a subsidy to ensure that it is provided. If one were looking at a very narrow profit and loss system, those services would not be profitable but the social need for them warrants a subsidy to ensure they continue.

Q796 Graham Stringer: Those were follow-up questions. If I can ask the question I wanted to ask, before you came in we had the Office of Rail Regulation here. We talked about freight charges. You said you wanted as much freight off the road as possible, but the Office of Rail Regulation is consulting on the basis of potentially putting up the access charges for freight by 400%, particularly for coal and iron ore. I would be interested in what you thought about that and whether you would intend in any sense to intervene.
Mr Burns: Yes, I am aware of it. As you have said in your question, they have put that out to consultation and are listening extremely carefully to the responses, of which there have been many, from a variety of sources. It would be wrong of me—in fact I have no role—to interfere in their consultation process. I think we should wait until they have concluded their consultations and announced what their final decision is going to be. I can't anticipate what that will be, but I do know they are very well aware of the case that, in effect, you have made in your question and that many other organisations have made to them during this consultation process.

Q797 Graham Stringer: Can I take it from that that you would be very concerned if they went to the extremity and put up charges by 400%, because it would make a nonsense of the statement that you made at the beginning that you wanted freight off our roads, wouldn't it?
Mr Burns: No. You can take from my answer that I am fully conversant with the fact that they have had many representations on the very point you are making, that it is not for me to prejudge what their final decision will be, and we should wait and see what they finally decide in the light of their consultation process and the consultations they have received.

Q798 Kwasi Kwarteng: I want to ask you about the structure. You will be relieved to know that I am not going to ask you when you propose to renationalise the railways, but I am interested in this business with Network Rail. You have been in the Department now for two months. Do you have a personal view as to how you want to see Network Rail develop? We have said that it is neither fish nor fowl. What do you think is its future?
Mr Burns: If you are talking about the structure and the position it finds itself in at the moment between the private and public sectors, from what I have seen I am content, for the reasons it was set up in that way, that there is no need to tinker or mess around with the fundamental structure in that respect. I want to see it continuing to work but working more with the Office of Rail Regulation and the rail companies to continue with the investment in improving the infrastructure, but also working with the rail companies to ensure greater efficiencies in the delivery of the service so that we can see a continuing reduction in the subsidies being paid by the taxpayer, and also to make the savings that McNulty has identified.

Q799 Kwasi Kwarteng: On the particular issue of reducing the level of subsidy, what is the Department's strategy to do that? Do you see most of the costs coming from efficiency, or do you expect the taxpayer to pay more, as it were, when he or she is using the trains at source? How do you see this reduction in subsidy transpiring? Where will it come from?
Mr Burns: To my mind, there is a balance. At the moment the ratio is probably about 30% taxpayer and 70% fare payer. I would like to see a completion of the investment in the infrastructure—the catch-up for the ageing and not-fit-for-purpose infrastructure—so that we have a first-rate modernised railway system. I would then like to see greater efficiency savings in the delivery of that service and a situation where we can then see far more modest passenger fare rises than they have been while we have been getting the money for investing in the future.

Q800 Chair: Is RPI plus 3% now dead as a fares policy?
Mr Burns: RPI plus 3% has been replaced for this year, next year and up to 2014 by RPI plus 1%. If my memory serves me well, that was always where the policy went up to, because there hasn't been an

announcement for what happened in the years after 2014.

Q801 Chair: So does that mean it's dead—it's gone?
Paul Collins: No; there is a long-term planning assumption around RPI plus 1% but it is just that. It is a planning assumption against which the forward budgets are set.

Q802 Chair: The planning assumption is RPI plus 1%. Does that mean that RPI plus 3% has now gone away?
Mr Burns: In effect, yes.

Q803 Iain Stewart: I would like to return to rail freight. Long-term growth of rail freight is going to derive from large-scale infrastructure projects, such as the electric spines, capacity and the classic lines that would be released by High Speed 2. Those projects are some way off from being delivered. What do you envisage in the interim period can be done to boost freight and rail?
Mr Burns: We will have to wait until the end of the consultations on future pricing policy and see what happens when the final decisions have been taken there. We will also see ongoing work being done around both England and Wales to upgrade the track and service, which will help with freight—for example, the electrification programme. In particular, if you take south Wales, electrification is going not simply from Cardiff to Bridgend but now on to Swansea. You will see that all the valleys are going to be electrified and there will be improvements elsewhere in the country. You have the cross-Pennine rail service as well. Although all those things won't happen overnight, they will happen gradually and one will see improvements.
Also, although this is more in the longer term rather than in the context of your question for the shorter term, HS2 has a significant role to play in this. A lot of people have said that HS2 is marvellous because it is going to cut the journey time from London to Birmingham, London to Manchester and London to Leeds by x minutes. That is true, but they are missing an equally, if not more, important issue. That is a spine that will help considerably to improve the situation with regard to capacity, particularly on the West Coast Line. There will be passengers using the capacity of HS2; so it will allow more capacity on the existing tracks in that part of the country for both passengers and also for freight.
Also, in the longer term, this is a spine where one can have spurs to improve and enhance the rail network in getting goods and passengers from A to B. If the case is made, you can have spurs into south Wales, the south-west of England or wherever. At the beginning of this month, the Secretary of State in his speech in Birmingham announced that we are looking at the feasibility of moving beyond Leeds and Manchester to Glasgow and Edinburgh, but I accept that is longer term.

Q804 Iain Stewart: I agree that it is in the long term that we will see that step change in rail freight capacity. You have been in the Department for a couple of months now. Are you content with the level of engagement that the Department has with business about how they might want to use that increased capacity? The reason I ask is that my constituency is home to many large national distribution centres: John Lewis, River Island and people that. Their business model is changing; their distribution chain is changing because of the advent of online shopping and all the rest. In planning their growth, they are not really thinking about using rail. Do we need to have more integration between business and your planners to make the best use of that capacity?
Mr Burns: The obvious answer is always yes. You can always do more if you want to increase the use of the service. We can help in practical terms. For example, there are schemes to enhance freight capacity between Felixstowe port and Nuneaton, and there is a further £20 million funding pot for enhancements to the strategic freight network. Those are positive things where one is putting one's money where one's mouth is to help, but, on the engagement side, am I content? No, because one can always do better and get more exchange of ideas, information and available knowledge as to how the private sector or business and industry can work to switch from using road transport, if that is what they are using, to rail transport, explaining to them the attractions and that it may be financially viable for them to do that at a time when they may not have thought about it because they have always resorted to using road haulage.

Q805 Iain Stewart: Who should be taking the lead on that? Is it the DFT, BIS or industry?
Mr Burns: The short answer is all of us, but the DFT has a role to play and is playing a role at present. Should we be doing more? Yes, of course we should; we always should be doing more.

Q806 Jim Dobbin: Just to get some clarity on the issue of decentralisation, I think there is cross-party support for the decentralised provision of services. Considering that the Committee has been to Europe a couple of times to have a look at rail networks over there, have the Government totally discounted the possibility of having a system similar to that in some parts of Europe—for example, having a regional aspect to the control of the railways?
Mr Burns: No, certainly not. We have consulted on the opportunity to devolve responsibility for local services to PTEs and local authorities. Given where your constituency is, I am sure you are aware of the interesting and exciting concept in the work going on in the north. As a result of our consulting, we have also received firm expressions of interest from a wide range of different bodies, including Centro, Transport for London and a consortium of northern PTEs and local authorities, which I already alluded to. We are continuing to work very closely with the local bodies on their proposals, and in due course we will publish our consultation response to the work that is going on and the proposals that emerge.

Q807 Jim Dobbin: Has thinking gone into how this is going to be funded and whether that funding will be devolved?
Mr Burns: Yes.

Q808 Chair: Could I get a bit more precision there? I am pleased to hear you say, Minister, yes, the funding will be devolved, but how much funding will be devolved and how are you going to work that out?
Mr Burns: In part, it will be subject to consultation.
Steve Gooding: Indeed. The longer answer is that we are in active discussion with the northern cities and the various bodies that the Minister mentioned. Part of that is working through with them the sort of model that would work for them, which would be different for the devolved Administrations in Scotland and Wales, and again different in London, from what would work across the northern cities. The principle that if they are going to specify the services we ought to devolve the budget is firmly in the Government's thinking. The precise mechanics and the numbers that will go with that are necessarily part of the ongoing work that we are doing with them through to the end of the year.

Q809 Chair: That is the principle you are working to.
Mr Burns: Yes.

Q810 Chair: You are in discussion with them on that.
Mr Burns: For the nuts and bolts of the detail, one will have to wait until we have concluded the consultations and reported our responses.

Q811 Jim Dobbin: That is an important issue for local government and decentralised models. On another point, is there any benefit in combining the franchising of rail and bus?
Mr Burns: I hesitate to answer that question directly for one overriding reason. As you know, as a result of the West Coast Main Line fiasco, the Secretary of State has asked Richard Brown to look into the issue of franchising. He will be producing a report by the end of December. To try to prejudge that, or throw ideas at ministerial level into the pot at this stage, is not a very clever thing to do. I think we should wait until he produces his report, which I accept will be on franchising and the railways rather than linking them with bus franchises. But we will have to wait and see what he says and whether that has any relevance to the question you have just asked.

Q812 Karen Lumley: To go back to the subsidy, does the Minister think the taxpayer is getting value for money for it, and is it spread out fairly geographically?
Mr Burns: Certainly, it is getting far better value for money than it used to, and it is improving. That is reflected in the fact that it is coming down up to a point. Is it concentrated in the south-east?

Q813 Karen Lumley: That's not what I said. I said is it concentrated fairly geographically?
Mr Burns: I assumed from that you meant whether it was disproportionately in the south-east.
Karen Lumley: No, no.
Mr Burns: By and large, I think it is. It is distributed to meet the needs of the railways, and certain parts of England and Wales have a greater concentration of railway services and lines than other parts of the country, so the subsidy follows the service. If you are trying to divide it up and ask whether, to pluck two places out of one's head, it is fair that Norfolk gets x but Worcestershire only gets y minus x, that isn't a very realistic way to look at it. You have to look at where the railway service is and you will see the money there. By and large, the way it is distributed and the way the system works is a reasonable and fair one. On top of that, you do have some significant major investments. Some are in the south-east and some are in London—for example, Crossrail, Thameslink and HS2. These are outside the subsidy money; they are funded by central Government and other sources. They are being funded by the need. There is the work being done in south Wales to electrify all the valley railways and the Great Western line down to Swansea. It's needs must.

Q814 Graham Stringer: Minister, you gave a very fair explanation of demand-led investment and subsidy, but towards the end of the Labour Government Andrew Adonis had started looking beyond just the demand basis for investment to the economic impact of new investment. Investment in railways isn't just a passive issue, is it? It creates jobs and investment. Do you agree that the potential economic benefit brought from it should be part of the assessment for investment in new rail schemes, as opposed to just following the demand?
Mr Burns: Yes, absolutely; I think it is crucial. Obviously, demand is important and is a factor, but one has to recognise that the railways are a very important and vital instrument to help develop and encourage economic growth. What flows from that is the flourishing of businesses, the creation of jobs and so on. That is critical.

Q815 Graham Stringer: I don't have the ratio at my fingertips but it has increased dramatically because of Crossrail and the money going into the London underground and Thameslink. The investment going into London and the south-east is a disproportionate amount on a per head basis compared with the rest of the United Kingdom. I agree with your answers, and they are fair answers. Would you see it as part of your responsibility and that of this Government to reverse or reduce that ratio?
Mr Burns: It is important that we identify the need, wherever it is in the country, for capital projects, if they are capital projects, and infrastructure on existing services where it will significantly help and enhance economic growth and so on and make sure that the investment gets there. You have mentioned Crossrail, Thameslink and so on, but there are a number of other significant schemes around the country, not simply in the south-east, that will bring significant benefits, not least the Northern Hub, the cross-Pennine improvements and electrification, and the fact that we are going to electrify 850 more miles of track in this country.

Q816 Chair: If it could be shown that there was a growing disparity between, say, London and the south-east and the rest of the country, is that something that would give you some concern?
Mr Burns: I would be interested to see it, but I would also be interested to see on what basis the figures were drawn up.
Chair: That is something we may well return to on another occasion.

Q817 Karl McCartney: You have mentioned HS2 a number of times and particularly Leeds. As a Lincolnshire MP, I don't think Lincolnshire is particularly well served by any plans. We don't have electrification, nor do I see any benefits from HS2. As a Lincolnshire MP, you might say there are benefits for the taxpayers of Lincolnshire, because if Leeds already has a very good service, which it does on the East Coast Line, with HS2 it is therefore going to see an even better service. Would you perhaps be saying to taxpayers in Lincolnshire that there are benefits because the East Coast capacity will be freed up to run more direct trains from Lincoln to London than the one we have per day currently?
Mr Burns: Yes, it could. If HS2 is going to go up to Edinburgh in particular, that will also create capacity issues for Lincolnshire from people further up the route. But people in Lincolnshire will also significantly benefit from the investment in the new rolling stock when it comes on line, and also the improvements in electrification on the East Coast Main Line.
Paul Collins: There is electrification on the East Coast Main Line. There is a series of funding pots available across the wider industry. Beyond the schemes that are specified at the top level in HLOS2, there is a whole list of further indicative schemes, funding pots and so on, and the challenge to the industry is to go away and work out the right application of those funds to deliver high-level services. That will be across the whole country, not concentrated on an individual area.
Karl McCartney: It is only 20 miles between Lincoln and Newark.

Q818 Julie Hilling: I want to ask some questions about the efficiencies. You said you wanted the railway to be more efficient. What do you mean by "efficiency"?
Mr Burns: For example, I want to see a more effective and efficient delivery of the service and less waste in the provision of the service. Let me give you some examples. As you will appreciate, the ORR is responsible for setting Network Rail's efficiency targets and monitoring their delivery, which is a crucial role. Here are some key areas in which Network Rail have identified the way in which one can make savings.
As we discussed earlier, the development of alliances and partnership working with train operators avoids unnecessary and wasteful duplication. Mr Tim Shoveller gave evidence to you in an earlier session. He explained to you the work that he was doing in his area. I know it is very early days to get a full analysis of how successful it was, but the initial reports back are that it is beginning to make a difference and is an effective and efficient way of delivering services. Similarly, one has consolidation of signalling and control centre operations into a number of regional centres; reducing staffing costs; reorganising maintenance functions to reduce the use of subcontractors and staff costs as a result; reducing the cost of renewals by prioritising high-usage track sections; and renegotiating contracts from cost plus to fixed price. All of these are areas where one can seek to get greater efficiency and make savings.

Q819 Julie Hilling: Do you also see that it would be efficient to close ticket offices in smaller stations? Is that part of your plans for efficiency?
Mr Burns: No, you are not going to get me to say that so you can write out and say, "Minister predicts the closure of ticket offices." There are some areas or stations where lack of use has shown that one needs to reassess their viability. That happened with the Midland Mainline where a decision was taken a few weeks ago, but that was on a case-by-case basis.

Q820 Julie Hilling: Where do you see the balance between reports by passengers that they value staff being around on the stations—it makes them feel safer—and a recent study that has been done on women's safety? It said that one of the big things that stop women wanting to use trains is staff not being there. In the "efficiency" bit, where is the passengers' feeling of security compared with cutting costs?
Mr Burns: There is a balance; I fully understand that. If the demand and need is there, then it is up to the operators and stations to meet that demand. I can't give you a blanket answer one way or another because that would be particularly foolish, however much you may prod me to try to say something unwise, which I am determined not to.

Q821 Julie Hilling: McNulty talked about the default being driver-only-operated trains. Do you agree with that?
Paul Collins: There is an established presence of driver-only operation on the network. Of the order of 30% of existing services in the UK are driver-only operation. There is a good case to be made for that to be the norm, but we are trying to move towards that being challengeable on the basis of other necessary members of staff for the operation of the railway to be there. It is trying to find the right commercial drivers for the service to match going forward. Driver-only operation is only about the operational staff. There can be good commercial cases for there to be—

Q822 Chair: What is the Department's position on that? You said that a good case can be made but you want it to be challengeable. If I can cut through that a little, what is the Department's position on it?
Paul Collins: I am probably just tangling the words. It is looking for the presumption to be the most cost-efficient operational staffing of the railway. That can be driver-only operation, and indeed we would expect

for lots of services that to be the basis on which bids will be put forward. But it is for the bidding community to look at the services being procured and to decide what the right response and operational staffing level should be. It is making sure we put the right kind of challenges out when we are seeking the contracts.

Q823 Chair: Who would decide? You are using a lot of pretty vague phrases there.
Paul Collins: Ultimately, it is the Department who would look at the bids put in by the franchises on that basis and decide where best value lay looking forward.

Q824 Julie Hilling: You are saying that 30% of services are driver-only but 70% are not. We all know that train operators look to make the most efficient use of their services already, so presumably on 70% of services they have said they don't think that is the best idea. Why are you then saying that the default is that it should be driver-only?
Paul Collins: We are not saying that it should be the default. As I say, the distinction is between specifying that it should be driver-only operation or multiple-only operation, and asking the bidding community to come forward with propositions that deliver the best value for money. We can presume in putting a contract out that driver-only operation would be the norm but have that challenged in practice. It seems like a terribly circular argument, but it is the basis on which you invite the bid to be put in. We are looking for the commercial drivers, not us sitting at the centre, to be shaping what the right operational response should be, whether that is a single driver-only operation, commercial staff on train, other staff on station platforms, and so on.

Q825 Chair: So it is the Department who is saying that.
Paul Collins: Ultimately, we would put the contract into the public domain.

Q826 Chair: It is ultimately the Department. Minister, you referred earlier to the fiasco—that was your word—on the West Coast Main Line. How much is that fiasco going to cost, and who is going to pay the bill?
Mr Burns: As the Secretary of State has made quite clear, we will reimburse the full costs to the four companies who put in bids. For the costs of putting those bids together, the figure that I have seen that is being mentioned is round about £40 million.

Q827 Chair: Who will pay that bill?
Mr Burns: Unfortunately, the taxpayer will through the Department for Transport's funding.

Q828 Chair: So it won't come from any programme in the Department for Transport.
Mr Burns: No, no. We will pay for it out of Department for Transport funding.

Q829 Chair: Do you accept that is an initial minimum cost? There may well be additional costs.
Mr Burns: That is the best figure I and, I believe, my officials have seen for the estimated cost that the companies spent in putting their bids together and submitting them.

Q830 Chair: Yes, it is, but aren't there additional costs that may well arise?
Mr Burns: We don't know yet. Until they do, we won't be able to assess them—if they do.

Q831 Chair: But, if they do, who would pay for them?
Mr Burns: We will have to wait and see what happens, because as of now that is a hypothetical question. It is probably unwise to engage in hypothetical questions when one doesn't know exactly what might or might not happen.

Q832 Chair: There have been delays in franchises elsewhere. What implications will the delay in franchises have for alliancing and the efficiencies that were hoped for through alliancing?
Mr Burns: That is an unknown quantity until Richard Brown's inquiry has reported at the end of the year. We have got to wait until we see what Richard Brown is recommending in his report before we can see the best way to move forward. We are keen, obviously, to move forward as quickly as possible, having seen what Richard Brown is recommending and considering that, not cutting any corners or taking any short cuts to move forward as quickly as possible for the sake of it. But we are anxious to move forward as soon as we can, because we do not want the situation we find ourselves in now and want to move on with the other franchises that need to be dealt with.

Q833 Chair: Mr Brown's remit looks very narrow. Are you saying that he can make recommendations on anything he wants to?
Mr Burns: It will be up to Mr Brown to look at the franchise process and system and make a report with any recommendations that he thinks are suitable to make. Until we see that report, it is difficult to speculate as to what he may or may not do or say.

Q834 Chair: At this stage are you concerned that the delays to new franchises will have any implications for the efficiencies you were hoping to gain from the alliances?
Mr Burns: No, I don't think they will be impaired over the longer term.
Steve Gooding: The better news there is that South West Trains, who have the first of the deep alliances, promoted that off the back of an extant franchise they held; it wasn't because it was part of their franchise bid. In total, there are seven different versions of alliancing already in place, so there is no good reason why getting better working relations between the train operators and Network Rail can't happen as a matter

of commercial interest between the two entities rather than it necessarily being us that forces it. That is, I think, the position.

Q835 Chair: This Committee has previously looked at Thameslink. We were told about 16 months ago now that Siemens were the preferred bidder.
Mr Burns: Yes.

Q836 Chair: Yet that deal has not been concluded. Could you give us the latest information about what is going to happen?
Mr Burns: We remain confident as a Department that the financial close can be secured with Siemens. As you will appreciate, for a procurement of this size it is normal practice to assess contingency options—I know that was of interest to your Committee at an earlier hearing and in recent press speculation—were it not possible to secure financial close with the preferred bidder, but we remain confident that the financial close can be secured and that it is moving forward on that basis.

Q837 Chair: When do you expect that to happen?
Mr Burns: I find it is rather unwise to put a specific time scale. I would like to say as soon as it is viably possible.

Q838 Chair: That is a very open-ended answer, Minister.
Mr Burns: I knew you would say that.

Q839 Chair: Is it months, years? What does that mean?
Mr Burns: I would say a few months.

Q840 Chair: A few months.
Mr Burns: A few months, and now you are going to ask me what "a few" means.

Q841 Chair: Yes. What does "a few" mean, since you suggest that?
Mr Burns: I may be proved wrong, but my guesstimate would be early in the new year.

Q842 Chair: We will note that, Minister. We spoke earlier about the costs of the rail system. It is the case that patronage has increased since privatisation—in fact it has nearly doubled—but the amount of public support to the passenger railway has increased by about 50%. Does that figure concern you?
Mr Burns: When you say "public support"—

Q843 Chair: Public support—public subsidy—to the passenger rail system has increased by 50%. It hasn't gone down at all since privatisation; it has actually gone up. Patronage has gone up, but so has the level of public support. Are you aware of that figure? Is that a figure you are not familiar with?
Paul Collins: On-the-hoof reconciliations are always dangerous. So, forgive me, I don't quite recognise those numbers. Looking at the comparators, off the top of my head, the total level of subsidy, as the Minister described earlier, going into the railway has been coming down progressively over time. What is offsetting that is the investment being made in new infrastructure and so on. The total subsidy for the passenger rail services is a combination of infrastructure cost and train operation. Those are progressively, I believe—and we will take the question away and come back to you if that is helpful—moving in a positive direction.

Q844 Chair: I think we would be interested in that. The Committee has conducted its own research on this issue, and that is where those figures come from. Clearly, those figures will be published, but are you saying at this point this is an unfamiliar statement to you?
Mr Burns: Yes. If it was agreeable to you and your Committee, it would be helpful if you could supply us with those figures and the basis for them. We will look at them and come back to you. The subsidy that we give is coming down and is down to £3.2 billion, but we would be interested to see your figures and the basis for them. We would certainly get back to you and the other members of your Committee.

Q845 Chair: We will do that. Another figure that has been given to the Committee during the course of this inquiry comes from the unions, who say that privatisation is costing £1.2 billion per annum. Is that a figure that is familiar to you?
Mr Burns: I hesitate to quote Mandy Rice-Davies, but they would say that, wouldn't they? Again, I would rather like—

Q846 Chair: I think you have got to do a bit better than that.
Mr Burns: No, I haven't finished. You have given me a figure out of the blue from a source without any analysis of how that figure was arrived at or exactly what that figure is. Again, if you would be kind enough to supply us with that figure, we will look at it and come back to you.

Q847 Chair: We will do that, but I must make it very clear that that figure is not out of the blue; it is not without its support.
Mr Burns: It is to me.

Q848 Chair: It comes from a published report, which had a lot of publicity when it was published, and it is in our papers because we received it. It was produced in June of this year. The report was called "Rebuilding Rail". That was a public report, published with a great deal of publicity around it. I didn't expect you to agree with it, Minister, but I am just surprised that you and your officials perhaps are not aware of it. I just draw your attention to it.
Mr Burns: Can I defend myself first and then you, please? To be fair to me, at that time of the year I was dealing with bogus figures, again involving £1.2 billion, but that was to do with health reform and the cost of it. So, no, I was not aware of those figures in June of this year because of course I wasn't at the Department for Transport. I am now about to invite my colleague Mr Collins to give the officials' line.

Q849 Chair: Mr Collins, are you aware of it? I am surprised you had not informed your Minister of it, if you were.
Paul Collins: I have no excuse for not being fully up to speed. I do recollect the report that came out. Casting my mind back, I think it was an attempt to try to establish what the various interface costs between the different parts of the industry were without offsetting those against the potential benefits going forward. Again, I would want to go back and have another close look at it and those numbers, but that was the basis on which it seemed to us that the numbers were being put together. It was totalling on the debit side everything to be found around interfaces without necessarily countering those with full benefits.

Q850 Chair: It is good that you are aware of the report. It is a little surprising that your Minister was not made aware of it, knowing he was coming to this session and this is one of the key areas we are discussing. I accept he was not in this Department when it was published. We also discussed the fares policy earlier. When do you expect the consultation on fares policy to be concluded?
Mr Burns: In May 2013.

Q851 Chair: When do you think you will be in a position to announce the Government's decision on that?
Mr Burns: I honestly don't know. It is too far ahead to give you a definitive, accurate answer. We will want to consider and reach conclusions and then we will make our views known, but it would be unfair to pin me down to a precise date because I don't want to mislead you or for anything to happen that didn't keep to whatever date I give you.

Q852 Chair: Thank you. Members asked you a number of questions on freight issues. I have an additional question on that. What progress are you making on new intermodal freight facilities through the planning system? That is one of the concerns of business in relation to rail freight.
Steve Gooding: On this, we were remitted to go and work with the Department for Communities and Local Government to send a joint message from the Secretaries of State for Communities and Local Government and Transport, which did happen, and it was intended to give firmer guidance to planning authorities making their decisions. I fear I would have to come back to the Committee on whether, in the light of that, it has had the desired effect on the decisions that have been coming through. We have regular meetings with the freight sector and it is not something they have flagged up to us as their most recent concern, so we have reason to think it is having the desired effect.
Chair: Do any members want to ask any additional questions?

Q853 Julie Hilling: May I just ask one going back to rolling stock? With the delay in rolling stock and the amount of electrification that has taken place, has the Department commissioned more rolling stock? It seems a little like, "Once we get that bit of rolling stock, everybody else in the world will get the cascade of rolling stock and we'll all be all right", but trains don't divide as they leave somewhere. Are orders being placed for additional rolling stock, or are we going to have the nonsense of diesels running under wires with all this increased electrification?
Mr Burns: Things are still progressing in other areas where rolling stock is needed. You haven't seen everything coming to a grinding halt, no.
Steve Gooding: If I could add to that, for example, London Midland already have an order for rolling stock coming through for services north of Manchester, which again will allow a cascade of rolling stock to make sure that we don't have the network electrified without the electric trains to run under the wires. We will obviously need to keep an eye on that. As the Minister said, we've got an aspiration to close the deals we've got on the books quickly. Were some problem to arise, we would need to look again at whether we are getting the trains through on time.

Q854 Julie Hilling: Laudably, the Government are talking about electrification of smaller pieces of track, particularly in the north-west. Will there be enough electric units for that, or are they being procured currently?
Steve Gooding: I fear it is a mix of what is being procured now and what the cascade coming out of that is, but our aim is to make sure that the electric trains are there to take advantage of the electrified track as it comes on stream.

Q855 Karl McCartney: I would like to take us back to figures, which I am always happy to talk about. You mentioned the figure of £40 million for the four companies who bid for the West Coast franchise. It seems quite a high figure to me. I know that in the grand scheme of things within Government it is a small figure, but for taxpayers that is quite a large one. Dividing 40 by four, we get 10 million each, which seems quite high. Has that figure been plucked out of the air? Is it a ballpark figure? Has a burden of proof been placed on those four companies, or do they have time for some creative accounting before they provide you with anything?
Mr Burns: No, I don't think it will be the last. You can't divide the figures by four; they vary. Off the top of my head and without going into the precise details, from memory, it has been estimated that for one company its bid cost more than the other three and was higher than £10 million. The second company was on the high side, and two companies were much lower. The total came to about £40 million. In due course they will be providing the full details of the costs incurred and how they were arrived at.

Q856 Karl McCartney: Can I ask your two civil service colleagues whether they think those figures are high comparatively to other franchises that have been let in the bidding process for other companies, or in their experience are they the normal sorts of figures?
Steve Gooding: As the Minister has said, even in this competition we see quite a range in the claimed

figures from the four companies. Their cost of bidding has run into several millions for the bidders of franchises over time. One of the specific issues Richard Brown is looking at in reviewing franchising is whether there is a better way of running that will reduce the cost of bidding for bidders and therefore reduce the overall value for money of the system.

Chair: Minister and officials, thank you very much.

Written evidence

Written evidence from the Rail Delivery Group (ROR 01)

1. This is the response of the Rail Delivery Group (RDG) to the Transport Select Committee's call for evidence on the reform of the railways.

2. The RDG welcomes the Government's support for the RDG contained in the Command Paper *"Reforming our Railways: Putting the Customer First",* which was published today. The Paper calls on the Rail Delivery Group to provide leadership to the industry and to respond to the Government's strategic challenges. The Command Paper lays out the Government's vision for an expanding and efficient railway that meets the needs of passengers, freight users and taxpayers. The Government sees the Rail Delivery Group leading the industry in driving up efficiency and demand for the railway. This is a challenge that the Group accepts.

3. The Command Paper calls on the Rail Delivery Group to lead the rail industry in working together to deliver a more efficient, more affordable railway. The Rail Delivery Group is pleased that the Government has recognised that the Group is taking and shaping the industry's agenda for a sustained programme of improved management and running of the rail network.

4. The Command Paper lists the six priority areas being addressed by the Group:

- asset, programme and supply chain management;
- contractual and regulatory reform;
- technology, innovation and working practices;
- train utilisation;
- a whole-system approach; and
- industry planning

5. The Rail Delivery Group was created to unlock efficiencies that will improve Britain's railways. In its first nine months the Group has identified opportunities for a range of savings, for example in asset management through earlier involvement of the operators in planning work on the network. The RDG has also identified efficiencies in major project implementation by involving operators in the early specification.

6. The Rail Delivery Group shares the Government's desire for an affordable and efficient railway. In bringing the industry together the Rail Delivery Group will provide the leadership to capture efficiency opportunities and ensure that the railways have earned their licence to grow.

7. The Rail Delivery Group brings together the owners of Britain's Train Operating Companies, Freight Operating Companies and Network Rail to provide leadership to Britain's rail industry. The Group was set up in May 2011 in response to the call by the Rail Value for Money Study, chaired by Sir Roy McNulty, for the rail industry to demonstrate leadership.

8. The Rail Delivery Group is focusing on the recommendations contained in the Rail Value for Money Study for reducing the costs and improving the efficiency of Britain's railways. It is concentrating on industry-wide issues in the context of the need for improved services to rail users and value for money for taxpayers.

9. The priorities being pursued by the Rail Delivery Group are:

- improving the asset, programme and supply-chain management of the rail industry through closer co-operation between Network Rail, operators and suppliers;
- encouraging contractual and regulatory reform that increases flexibility and allows the industry to respond to the needs of users and taxpayers;
- embracing technology and innovation in the working environment to enhance the contribution made by one of the industry's key assets, its workforce;
- identifying ways to improve the utilisation of the train fleet by reviewing demand management, service specification and operating practices;
- achieving a quicker implementation of major technical projects by removing blockages and resolving commercial issues through taking a whole system approach; and
- making a full contribution to rail industry planning by guiding the production of the industry's Strategic Business Plan in response to the High Level Output Specification.

10. RDG members are representatives from the owning groups of the passenger and freight train operators and Network Rail. The Chairman is Tim O'Toole, Chief Executive of First Group, the vice Chairman is Sir David Higgins, Chief Executive of Network Rail and the Secretary is Graham Smith. A list of the Member companies and representatives is attached at Appendix A.

11. The Terms of Reference of the Rail Delivery Group are published on its website and an extract is attached at Appendix B.

April 2012

APPENDIX A

MEMBERSHIP OF THE RAIL DELIVERY GROUP

Membership	
Abellio	Anton Valk Dominic Booth (alternate)
Arriva	David Martin Bob Holland (alternate)
DB Schenker	Alain Thauvette Nigel Jones (alternate)
Directory Operated Railways	Doug Sutherland
First Group	Tim O'Toole Vernon Barker (alternate)
Freightliner	Peter Maybury Lindsay Durham (alternate)
Go-Ahead	David Brown Charles Horton (alternate)
National Express	Dean Finch Andrew Chivers (alternate)
Network Rail	Sir David Higgins Paul Plummer
Stagecoach	Martin Griffiths Sir Brian Souter (alternate)
Virgin	Tony Collins Patrick McCall (alternate)
Secretary	Graham Smith
ATOC	Michael Roberts

The website of the Rail Delivery Group is www.raildeliverygroup.org

The Rail Delivery Group can be contacted at info@raildeliverygroup.org

APPENDIX B

EXTRACT FROM THE TERMS OF REFERENCE (ESTABLISHED IN JUNE 2011) OF THE RAIL DELIVERY GROUP

RDG will focus on industry-wide issues in the context of the need for improved service to rail users and value for money to the taxpayer. RDG will not duplicate or over-ride the primary accountability for delivery in the UK rail industry (which remains with the passenger and freight train operators and Network Rail) or the need for much stronger collaboration between these companies at a local level.

RDG will co-ordinate the objectives for key cross-industry groups including National Task Force (NTF), Planning Oversight Group (POG) and Technical Strategy Leadership Group (TSLG).

A key initial priority for RDG will be to review and sponsor cross-industry work by POG in preparation for the Initial Industry Plan (IIP) which [was] published in September 2011 including the scope for improvements in Value for Money and overall industry costs.

RDG members will be representatives from the owning groups of the passenger and freight train operators and Network Rail.

RDG attendees will be nominated Chief Executives or Board Directors from each of these groups—alternates will not be accepted without prior agreement of the members. The Association of Train Operating Companies (ATOC) will attend the meetings but will not be a member of the Group.

Support for RDG will be provided by the Members and by the cross industry groups which RDG steers. The Association of Train Operating Companies (ATOC), the Rail Freight Operators' Association (RFOA) and the Railway Industry Association (RIA) would also provide support to the cross-industry groups and provide input to RDG as appropriate.

The Chairmanship and vice-Chairmanship of RDG will be from the group's membership and would rotate on an annual basis. The initial Chairman of the Group will be Tim O'Toole and the initial vice-Chairman will be David Higgins. The role of the Chairman will be to chair meetings of the group, establish its agenda and represent the views of the group as appropriate. The role of the vice-Chairman will be to deputise for the Chairman when necessary and to represent the views of the group as appropriate.

A part time Secretary will be appointed potentially on secondment from one of the industry members. The initial Secretary will be Graham Smith. The role of the Secretary will be to coordinate support required by the group and transmit its views to cross-industry groups about their objectives and priorities, making use of resources from member organisations as appropriate.

Government and ORR will not be members of RDG but they will be invited to provide input to the group on key issues as appropriate and representatives from RDG will engage periodically with Ministers on key cross-industry issues or on progress with industry reform.

It is recognised that the suppliers to those with a primary accountability for delivery as well as trade unions have a critical role to play and RDG will consider further how their input can be formalised.

Written evidence from Rail Freight Group (ROR 08)

1. Rail Freight Group (RFG) are pleased to submit evidence to the Transport Committee's Inquiry into Reform of the Railway.

2. As the representative body for rail freight in the UK, RFG represents companies from all across the rail freight sector, including operators, customers, suppliers, ports and terminal operators and service providers. Our aim is to increase the volume of goods moved by rail, where it is economically and environmentally beneficial to do so.

General Comments

3. Reform of the railways is critical to the rail freight business, and to growth. Rail freight is one of the sectors which has achieved efficiency gains since privatisation, and this was acknowledged both in the McNulty report and in the Government's Command paper, which stated that "*The competitive environment has also forced rail freight to find significant efficiencies over recent years, and it has encouraged Network Rail to do the same. As a result, in an industry that has had difficulty in reducing costs, freight has made good progress. Government seeks to repeat this approach with similar success for passenger services*".

4. However, the freight and logistics sector is constantly seeking to improve its efficiency, and rail freight must continue to become more cost efficient if it is to become a larger player in UK logistics. Rail freight receives little direct subsidy from Government, but, as most traffic pays only the variable track access charge (which covers wear and tear associated with freight traffic), Government also covers those parts of the fixed costs which might be attributable to freight (so called freight avoidable costs). So, in contributing to reform, the challenges for freight might be summarised as:

(a) Can freight reduce its own costs to compete more effectively in the logistics sector?

(b) Can freight reduce the costs it causes on the rail network?

(c) Can freight contribute more towards the costs it causes on the network?

5. The Government's Command Paper made a number of commitments to rail freight which we welcome, these are:

— Government will consider further investment in the Strategic Freight Network (SFN), both to help make best use of the existing network and, by increasing its freight capability, to leverage continued private sector investment in rail freight growth;

— Government is continuing to provide support through the mode shift revenue support scheme to shift freight from road to rail where there are overall environmental and social benefits from doing so;

— Government will provide a clear planning policy framework to support further private sector investment in rail freight terminals and rail-connected distribution parks, including Strategic Rail Freight Interchanges (SRFIs), to support growth;

— Network Rail will work with the industry to safeguard strategic freight capacity and to facilitate strategic investment in SRFIs. It has also appointed a Freight Director to provide a single interface for freight in a world of greater devolution within Network Rail; and

— the ORR plans to give the freight industry early assurance over the level of access charges, by setting a cap on these in June 2012.

6. In return for these commitments, the freight industry is expected to consider a number of potential cost savings. Work is currently underway between the operators, ORR and Network Rail in a number of areas.

(a) ORR are looking at whether coal and spent nuclear fuel could pay significantly higher track access charges (up to £60 million per annum greater). Initial analysis suggests that the downstream effect on energy prices would be small, but there are concerns over the impact on freight operators, ports, terminals and on domestic coal producers which we expect to be addressed in an ORR consultation at the end of April.

(b) Network Rail is assessing whether cost savings could be made if freight operators agreed to forgo any future opportunities to operate on certain lines (mostly rural branch lines). Work to date suggests that cost savings would be fairly small.

(c) Initial work is assessing whether the way freight access rights are held could be streamlined—in conjunction with developing Strategic Capacity as mentioned in the Command Paper. This could have some performance benefits on some routes.

7. In addition, proposals for rail reform being progressed by the passenger sector are likely to have implications for freight. Although we recognise the aims and objectives of reforms such as alliancing, and whilst the initial discussions have been encouraging, there is an overall concern that a more fragmented rail network will be detrimental to nationwide operators.

8. Network Rail clearly has a major role to play in ensuring that critical functions such as timetabling, access and charging are centrally managed. We understand that they are developing a System Operator role to encapsulate such responsibilities, and await more details of how this will be established and function. Proposals for devolution of franchises to a local level also emphasises the need for this.

9. ORR also has a critical role in ensuring that the needs of nationwide operators such as freight continue to be met—in particular in the award of access rights.

Specific 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?

10. For freight, Government needs to have a vision which enables rail to be part of modern logistics, focussed on its areas of strength alongside road freight. Reform of the railways needs to ensure that rail freight can continue to be increasingly competitive and meet the needs of the logistics sector, and that in delivering cost savings the focus on efficiency is not lost. The Government's Logistics Growth Review, published last autumn, highlighted the vital role of logistics for the UK economy.

11. Although investment in the rail network for freight continues to be necessary, spending constraints should cause a focus on making the best use of the available capacity for freight—for example overnight and at weekends—as well as in longer and bigger trains. Use of properly upgraded diversionary routes for freight is appropriate where the impacts on operators and customers are minimal.

12. In considering the ability to pay of freight operators and customers, the logistics market as a whole needs to be addressed. Road transport remains free at the point of use, and customers can, and do, switch mode for small changes in cost.

How are the targeted efficiency savings to be delivered? What will be the consequences?

13. For freight operators, continued efficiency gains can be delivered by allowing longer trains to operate, optimising journey times (eg by reducing time in loops) to reduce fuel use, growing volumes to reduce empty running, and, in the medium term looking to a greater use electric traction, if more of the network is electrified.

14. We continue to believe that Network Rail can deliver further cost savings, including in renewals, enhancements and management as well as in operations and maintenance. Freight operators who provide services to Network Rail for engineering work continue to cite inefficient working practices and short term alterations to plans for example. The review of standards cited by McNulty has yet to yield any outputs, but we believe that there may be unnecessary costs driven by some standards.

15. RFG members continue to find that the cost and time needed to bring new equipment to market can be prohibitive, particular given the small overall size of the UK market. This is likely to be stifling innovation in some areas.

16. As well as cost cutting, there appears to be little attention being given to raising revenue from other sources. Network Rail have suggested, for example, that they may wish to become more involved in rail freight land and interchanges and we await details of this from them.

Will the reforms to rail franchises proposed by Government, including alliances, deliver better services at lower costs?

17. Franchising is not *per se* a matter for freight operators. However, we are yet to see any real evidence that DfT is making real progress on relaxing the specification of services, or creating an environment where greater competition and commercial freedom will incentivise lower costs.

18. Alliances aim to reduce costs through closer co-operation, although as yet there is no evidence of whether this will be achieved in practice. We have received good assurances that the rights of freight operators will be protected in the new working arrangements, and that the right protections are in place.

19. As outlined above, the role of Network Rail as systems operator is key to ensuring freight operators are not adversely affected by alliancing and by devolution. It is too early to say how successful this will be. For freight it is key that control of the infrastructure remains with Network Rail, and that it is independent legally and commercially of any train operations.

What are the implications of the proposals for rail decentralisation and how should the responsibilities be devolved to local authorities?

20. As above, it is imperative that proposals for decentralisation retain Network Rail as an independent infrastructure operator. Proposals for alternative ways of specifying passenger services would need to take account of the needs for freight services.

17 April 2012

Further written evidence from Rail Freight Group (ROR 8A)

1. Rail Freight Group (RFG) is pleased to provide evidence on the HLOS Announcement as part of the Transport Committee's Rail 2020 Inquiry.

2. RFG is the representative body for rail freight in the UK, and we aim to increase the volume of goods moved by rail where it is economically and environmentally beneficial to do so. Member companies of RFG come from all parts of the rail freight sector, and include train operators, customers, ports and terminal operators, suppliers and service providers.

SUMMARY

3. Previous investment in rail freight has been shown to deliver significant benefits, and RFG is pleased that this has been recognised by Government in the HLOS.

4. The HLOS includes key priority schemes for rail freight and a continuation of the Strategic Freight Network (SFN) investment fund. These investment proposals will help to increase capacity for rail freight and target key remaining capability gaps.

5. Investment in the Electric Spine, as part of a rolling programme of electrification, will help to create the right conditions for future freight use of electric traction, and will support operators considering traction strategies for the medium term.

6. The HLOS and the reissued Guidance to ORR are a strong statement of Government support for rail freight. However, ORR's proposals for freight charging are raising concern in the sector, and could act to undermine future growth.

STRATEGIC FREIGHT NETWORK DEVELOPMENT TO DATE

7. RFG strongly supports the concept of the Strategic Freight Network (SFN) which was established at the start of CP4, and described in the DfT document "Strategic Rail Freight Network"—The Longer Term Vision (Sept 09). The aim of the SFN is to develop key routes for freight into an integrated network with sufficient capacity for growth, and the right capability to help rail freight become more efficient and better meet its customers needs.

8. Government funding, through the Transport Innovation Fund (TIF) and through the rail investment funding in Control Period 4 (CP4) has already made good progress in creating a fit for purpose network. Many schemes funding in CP4 are now in development, with completion this year and next. The £200m investment for CP4 was provided as a ring fenced fund, with an industry steering group providing advice on priority schemes.

9. The benefits of this investment are already being realised. Since the opening of the gauge cleared route from Port of Southampton, (funded by TIF), rail's market share from the port has increased by almost 10%. Data from Network Rail shows that since 2005–06 there has been an overall 32% improvement in productivity—the amount carried per train—with gauge clearance and longer trains key in achieving this.

10. The priorities for the investment to date have mainly been on capability—gauge clearance and allowing longer trains to operate. By the end of CP4, although some strategic gaps will remain, the capability of the SFN will have been considerably upgraded.

11. The focus for the CP5 has therefore been more towards providing capacity for freight on the SFN. Inevitably, capacity enhancements schemes need to include freight and passenger requirements holistically to achieve the best outcome.

HLOS AND FREIGHT

12. Against that backdrop, RFG is pleased with the published HLOS and with the proposed investment for rail freight it contains. The document includes freight as an integral part throughout, not an afterthought, and the indicative schemes include many which are freight priorities.

13. In headline terms, the key freight elements are:

(a) A £200 million fund to be used on further development of the SFN—this is likely to include gauge clearance of the Great Western Main Line alongside electrification, loop extension for longer trains on West Coast North, and contributions to capacity works from Southampton alongside signalling renewals. This is in addition to a £30 million fund included in the Scottish Government's HLOS.

(b) Capacity improvements from Felixstowe to Nuneaton with key schemes at Ely, Leicester and Peterborough specified.

(c) Capacity and gauge improvements as part of Electric Spine, benefiting traffic from Southampton, and enabling Midland Main Line to take high gauge traffic.

(d) Capacity improvements on East Coast which are necessary to support freight growth particularly from the new port at London Gateway.

14. The development of the Electric Spine is described as a "crucial step in creating the right conditions for significant private sector investment in electric freight locomotives". RFG supports this move, and also the commitment to ensuring that the scope of electrification schemes also includes the links to other adjacent routes, and to freight depots and facilities.

15. Presently, less than 10% of rail freight is electrically hauled, and the recent trend to divert freight away from main lines (Felixstowe—Nuneaton, Joint Line) has made even existing electrically hauled flows less viable. However, in the medium term, if enough of the network is electrified, including links to terminals and regularly used diversionary routes, the conditions for a greater use of electric traction will become established.

16. The oldest Class 66's are now around 15 years old, the design older, and so in the next two or so control periods, replacement strategies will be under considerations. Environmental legislation is already making replacement diesel locomotives difficult to source, and expensive to procure, particularly given the additional development work required for the UK market. Whist there is also no electric locomotive available for the UK market at present, some manufacturers are starting to consider options which could be progressed, with sufficient interest from the passenger and/or freight sector.

17. It would be naïve to think that operators will necessarily respond to HLOS by moving immediately to order new locomotives. However, the development of Electric Spine, and the other electrification proposals—including infill gaps such as Acton to Willesden—will bring the tipping point for such decisions forward. By talking of a "rolling programme" of electrification, and with commitments to CP6 development also included, the HLOS helps to build investor confidence in the prospects for electric freight.

Next Steps

18. Ahead of the Strategic Business Plan in January, and the draft determination for PR13 later in 2013, the HLOS will be translated into a more detailed assessment of projects, with their interactions and priorities established. For freight, the SFN Steering Group has already met to discuss the initial approach to this, and to verify that the feasibility work for the key projects, which is already underway, will deliver key milestones to support this Plan.

19. The schemes which are outwith the SFN fund, in particular the Electric Spine, need to be progressed quickly, with sponsors identified and with the potential scope of the scheme developed in more detail. The freight elements of this work must be factored in from the start.

20. Experience on the SFN work to date has been that the final delivery costs have often been lower that the early GRIP estimates—indeed in CP4 additional work is being undertaking using underspend from other projects. Appropriate flexibility will need to be worked into the analysis to cater for this.

Guidance to ORR

21. Published at the same time as the HLOS, the reissued Guidance from DfT to ORR is also strongly supportive of rail freight. In paragraphs 32–34 of the Guidance, the Secretary of State states Government support for "the continuing development of a competitive, efficient and dynamic private sector rail freight industry". Combined with the investment proposals in HLOS, this represents a clear statement of support for the sector, and its forward growth.

22. The Guidance also clarifies to ORR Governments expectations on how decisions affecting rail freight should be considered, including the "importance of sustaining efficient and commercially predictable network-wide freight operations including in decisions about access rights and charging structures".

23. The Guidance is well timed as ORR's consultation on "The Variable Usage Charge and a Freight Specific Charge" closed for comments on 10 August, with conclusions due during the autumn. The Guidance will form a key part of ORR's considerations.

24. The potential changes for freight being proposed by ORR for PR13, can be summarised as follows:

— The variable access charge, which is paid by all passenger and freight operators, is expected to increase slightly, probably by around 5%.

— A new freight specific charge is proposed, of between £40 million to £60 million pa which would be levied on freight operators moving power station coal, iron ore, spent nuclear fuel and possibly coal for other uses (mainly steel and cement production).

— Likely increases in other charges, including the capacity charge, paid by all operators and the freight only lines charge and coal spillage charge paid by the freight sector.

— A potential new Capacity Utilisation Charge, the details of which are presently unknown.

— Compulsory Efficiency Benefit Sharing Schemes in each of Network Rail's 10 routes, which will share a proportion of any outperformance of Network Rail's efficiency target, but also require operators to contribute financially if Network Rail do not meet their targets.

— Proposals to make the variable charge vary geographically by route, which could have adverse impacts on some freight operators and customers operating on "more expensive" parts of the network.

— Proposals to rebase the regimes for possessions so that operators are no longer compensated in full for the losses they incur when the network is closed for engineering works.

25. These proposals are causing concern for the rail freight sector and for their customers. The principle issues are:

(a) *Complexity*, ORR are proposing a significant number of changes to both the level and structure of charges. This will make quoting for new business more complex, and is likely to require additional resources to manage. This compares badly with road freight which pays just VED and fuel duty. Rail is already viewed by many businesses as too complex and difficult to understand, and these proposals will compound that position.

(b) *Regulatory Policy:* In making decisions, ORR is required to "balance it's duties". There is concern that, for freight in particular, undue weight has been given to the duty to have regard to the funds available to the Secretary of State perhaps at the expense of the duty to promote the use of the railway for the carriage of passenger and freight, and the duty to enable companies to plan their businesses with a reasonable degree of assurance.

These concerns are particularly acute for the freight specific charge, where the ORR have concluded that the charge should be set to cause a 5–10% reduction in volume per annum. We are concerned over a shift in regulatory policy towards pricing off demand, which could, in future also be applied to other sectors.

(c) *Market Impacts:* Although the coal market is volatile, an imposed price increase leading to a significant volume reduction will have impacts on the freight market, even if some of the increase can be passed onto end users. Reductions in traffic levels, (assessed as up to 23%) will impact on jobs, rail facilities and, where resources are shared, have knock on impacts to other traffic types. Reduced levels of business also impacts on freight operators financial viability and appetite to invest. There are also competitive impacts for ports, and significant concern over the effects on domestic coal production. Whilst the sector may be able to accept some modest increase in charge, the proposed increases are greater than the market appears to be able to bear.

(d) *Investor Confidence:* The messages from the consultation are not helpful for building confidence in the customer, potential customer and supplier bases who are looking to make long term investment in the rail freight sector. For example, developers looking to invest in terminals are concerned at the effect of geographic charging. Those in other bulk commodities are concerned that in the future they may also be targeted for price increases.

26. We hope that ORR will be able to consider these points, alongside the Guidance and determine fair, affordable and stable freight charges for the next control period. This will be vital if the benefits of Government's investment in the network are to be delivered as expected.

1 August 2012

Written evidence from *pteg* (ROR 10)

1. Introduction

1.1 ***pteg*** represents the six English Passenger Transport Executives (PTEs) in England which between them serve more than 11 million people in Tyne and Wear ("Nexus"), West Yorkshire ("Metro"), South Yorkshire, Greater Manchester, Merseyside ("Merseytravel") and the West Midlands ("Centro"). Bristol, Leicester and Nottingham City Councils, Transport for London (TfL) and Strathclyde Partnership for Transport (SPT) are associate members of ***pteg***, although this response does not represent their views. The PTEs plan, procure, provide and promote public transport in some of Britain's largest city regions, with the aim of providing integrated public transport networks accessible to all.

1.2 Since their inception, the PTEs have invested heavily in their local rail networks—funding new trains, routes stations, park and ride facilities, and higher service standards. Rail patronage has increased in every PTE area, up almost 160% since 1995–96.

1.3 The PTEs have high ambitions for city region rail networks in their areas. We believe that any reforms to the industry need to allow for the devolution of rail powers, responsibilities and funding necessary to unlock local rail's potential in our areas in a way that supports wider objectives for developing city region economies in a sustainable way.

1.4 We believe that the railways can be run more efficiently but that passengers should be the last to lose out from such efficiencies, and that the Government's efficiency plans for the railways should not unfairly target city region rail networks, given the success of these networks in recent years, and their key role in supporting city region economies.

2. Response to the Committee's Questions

1. *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?*

A vision for rail

2.1 The Government's vision for the railway should be predicated on the contribution rail can make to the country's wider environmental, economic and social needs. It should also be a vision that recognises the different ways in which rail can best achieve these objectives across the whole of the country. Given this, a key objective should be ensuring that rail can play its full part in supporting the economic potential of Britain's major cities especially given that there is a broad consensus that the major regional cities will need to improve their economic performance if the wider overall performance of the UK economy is to be enhanced, and if the imbalance between London and the regions is to be addressed. Without modern and efficient commuter rail networks, and the wider connectivity that rail can provide, it is difficult to see how this could be achieved. Such an approach would also put in place the conditions to maximise the benefits of high speed rail, as part of the longer term strategy for the railway, beyond 2020.

2.2 Research illustrates how public transport accessibility to the centre of our largest cities can make a critical contribution to higher productivity and wages, job creation and direct foreign investment. According to KPMG's[(1)] analysis, rising overcrowding on the local rail networks radiating from Leeds and Manchester represents a growing constraint on economic growth and could be losing the national economy £250 million of GVA per annum. KPMG have also shown that the £530 million Northern Hub scheme could generate as much as £1 billion in improved productivity, employment growth and through structural changes to the local economic fabric across the North of England.[(2)] Analysis by CEBR for Centro[(3)] suggests that the £187 million Camp Hill chords project in Birmingham would have the potential to generate over 2,500 new jobs.

Building on success

2.3 Rail services have been a major success story in supporting the growth of city region economies over the past decade, leading to a significant growth in passenger numbers—upwards of 100% in the past decade for many of our areas.[(4)] We estimate that around 125 million local rail journeys start and/or end in PTE areas each year, corresponding to one in seven journeys in England.[(5)] This trend is likely to continue over the medium to long term with Network Rail forecasting an increase of as much as 50% on regional, urban rail services in the North of England by 2029, even in spite of the recession.[(6)] Rail use has been booming because more people are commuting over longer distances to access the jobs and opportunities that our core cities now offer.

2.4 When rail services have seen investment the results are even more compelling. For example after the run down Airedale/Wharfedale lines in West Yorkshire were electrified and new commuter trains provided, rail quickly gained market share. Today over two thirds of peak commuters into Leeds from key commuter stations on these corridors now travel by rail.

Finding the right balance on subsidy

2.5 Rail in the city regions is a success story, and its continued success is vital if our core cities are to continue to act as the economic drivers for wider regional economies. However some argue that the subsidies for regional rail are disproportionately high.

2.6 Regional rail networks do benefit from a significant degree of public funding, but so do intercity networks, and rail services in the South East. What is important to understand is that the allocation of network costs (and hence the resulting level of subsidy) is a construct based on a series of assumptions and principles (some of which are implicitly political). As a result, it can be misleading to infer potential cost savings from current subsidy estimates. For example, some of the lightest passenger trains in the country share large sections of track with much heavier freight trains in the North of England. Yet, relatively light weight passenger trains are assumed to incur their entire infrastructure cost whereas heavy freight trains do not pay their full infrastructure costs (in order to make rail freight more competitive with road haulage). In effect, it's unlikely that much, if any, infrastructure cost would be saved if those passenger services no longer operated and meanwhile the costs of regional rail services appear higher than they would otherwise have been if freight paid its full infrastructure costs. In making this point we do not argue that freight should pay its full infrastructure costs but that this example illustrates that the subsidy figures are a construct.

2.7 A further illustration is that government subsidy estimates often leave out capital investment, therefore failing to recognise the full cost of London and inter-city services. Over the CP4 period, Network Rail's investment in new infrastructure was expected to total in excess of £8 billion. Of this amount we estimate that less than 15% will directly benefit regional railways. In contrast, we estimate that regional operators contribute more than 30% of the total fixed track access charges received by Network Rail.

2.8 Whereas significant capacity enhancement of London's rail infrastructure would require major capital investment, this could be achieved much more cheaply through additional rolling stock and longer trains on rail networks in the city regions. However, whereas the former is considered investment, the latter is classed under operating subsidy.

2.9 If local transport authorities, and PTEs in particular, are to make a positive contribution towards a more financially sustainable railway then we need to have access to more transparent information on industry costs, demand and revenue at a fairly disaggregate spatial level. Most of this information is not currently accessible to most LTAs in a suitable format. We believe there is much that the DfT, ORR, NR and ATOC can do to improve the current situation.

2. *How are the targeted efficiency savings (£3.5 billion by 2019 on a 2008–09 base) to be delivered? What will be the consequences?*

2.10 The key principles on efficiency should be that firstly passengers should be the last to lose out and that secondly that regional rail (with its record of strong growth, despite underinvestment) should not be unfairly targeted.

Focus on benefits to passengers, rather than to the industry

2.11 The Government's cost reduction objectives are very challenging. The consequences of the industry failing to achieve these efficiencies could be severe, with the likely impact that those parts of the railway which currently have the most subsidy allocated to them are targeted for cuts. Our concern is that the tone of the Command Paper will leave too much at the discretion of the Rail Development Group (RDG) and that government needs to take care to protect the interests of all parts of the railway, not just those which the commercial operators are most interested in.

2.12 Given that the body created for achieving these efficiencies (the RDG) is made up of the corporations and private interests that currently run the railway, there is a danger that efficiencies will be delivered in a way that best suits the industry itself, rather than necessarily being focused on driving value for the passengers. This reflects the fact that commercial operators will need to satisfy both shareholder and customer interests, but will revert to protecting the "bottom line" when under pressure.

2.13 These dangers could be resolved in part by government taking a more enabling role with the main deliverers of efficiency—Network Rail and the RDG—and by ensuring greater representation within the reform process for the block of interest in the railways with specific responsibilities for devolved areas like the PTEs, London, Scotland and Wales.

2.14 More widely many commentators have pointed out that the existing industry structure involves numerous entities (the majority of which are seeking to make a financial return) as well as the considerable interface costs between the various entities with all the legal, regulatory and bureaucracy costs that this entails. It is not clear to us why (if efficiency is the key objective) the inherent efficiency and costs of the current structure of the industry should not also be open to scrutiny.

2.15 Finally we note that the DfT commissioned a review of the Northern (REF) which concluded on the basis of the current subsidy and investment that Northern "*is an efficient and well managed operation and that there are no obvious and acceptable 'quick wins' to improving value for money*".[(7)] The clear implication of this is that the scope for significant savings on the current costs of Northern (without structural change and/or investing to save) will be difficult to achieve.

Invest to save and the Scope for savings under devolution

2.16 Operating services with older, unreliable and unattractive trains will neither reduce direct operating costs (such as maintenance) or increase revenue (through attracting passengers to rail). Capital investment in rail services (for example through route electrification or conversion of routes to tram train) can deliver greater benefits for the available levels of subsidy.

2.17 Devolution of responsibilities for local rail services also offers scope for achieving greater efficiencies as local transport authorities are much better placed (and incentivised) than officials in Whitehall to identify opportunities to find ways in which local rail services can be provided more efficiently if those efficiency gains are recycled back into the local transport network.

2.18 Integrated Transport Authorities have responsibility for the preparation of Local Transport Plans (LTPs) for the city regions. With the removal of Regional Strategies, LTPs have become the main statutory policy framework covering transport at the sub national level. Given the need for efficiency (and to avoid "reinventing the wheel"), particularly in a constrained public spending environment, it would seem logical for any future arrangements to build upon the existing framework for delivering strategic transport in the city regions.

3. *Will the reforms to rail franchises proposed by the Government, including alliances, deliver better services at lower costs?*

2.19 There are considerable advantages in having the railway's assets within the control of a body that can take the long view rather than being driven by its day-to-day share price; has the economies of scale to deliver efficiencies; and can invest in both its human and its technical resources in the interests of the railway as a whole. If alliances are to be created then they need to take account of devolved bodies who may well wish to influence how alliances deliver efficiencies and where savings are used.

2.20 We believe there should be a "horses for courses" approach on franchise length. On subsidised urban railways both long and shorter franchise lengths can deliver a better deal for passengers. For example two highly successful examples of rail devolution on urban rail have involved very different franchise lengths—25 years for Merseyrail Electrics and seven years for London Overground.

4. *How should fares and ticketing be reformed?*

2.21 There is a broad political, professional and consumer consensus around the benefits that smartcards can bring for urban public transport networks in particular.(8) The effect of Oyster has been transformative in London and all city regions aspire for something similar. We also note the considerable investment that national government has made in Oyster—first for TfL services, and then later to extend its provision for London's heavy rail network. Government support for smartcard development outside London has been welcome but far more modest. Between 2009 and 2011, TfL received £43 million from the DfT for implementing smartcard ticketing. In contrast, each of the PTEs received only just over £2 million over the same period.(9) We welcome the Government's support for the extension of smartcard ticketing in the Command Paper. We believe that as for London the cost of its implementation in our areas should be covered by national Government and not an add-on extra that has to be funded locally.

2.22 We also need to ensure that smartcard ticketing for national rail services in our areas is not developed in isolation from the smartcard ticketing being brought in on bus services and on light rail. Otherwise the delay and cost in achieving Oyster-style ticketing in the major regional cities will, in the long term, be considerable.

2.23 The DfT has persistently given the impression that commuter fares across PTE areas are comparatively lower than London and the South East. It is more complex than that. DfT's current analysis, based on a small sample of flows, shows a more complex picture than at first meets the eye. For example, there are some *commuter rail fares between stations in the South East are generally much lower than for journeys into central London, and often lower than commuter fares into northern cities*—possibly because for these journeys the car remains a feasible alternative.

2.24 Where there is a discrepancy in comparative fare levels, this can be down to factors such as the quality of the service provided (in terms of frequency, journey time, density of connecting services, rolling stock and station quality) or the fact that for many journeys into London in particular, there is no real alternative. Conversely in the city regions, the car remains the key competitor to rail on many routes. Even then, the difference is not as great as might be expected. For example, a journey between Watford and London takes around 20 minutes, with seven peak trains an hour. In contrast, the fastest train between Macclesfield and Manchester, which are a similar distance apart, takes 25 minutes with the remaining four peak trains taking between an extra five and 15 minutes. Perhaps surprisingly, a Watford to London annual season ticket *only costs an extra £4 per year* for what is a substantial difference in service quality.

2.25 We would therefore contest the DfT's blunt assessment of this issue and argue that if the review of rail fares is to contribute to wider government objectives then a much more sophisticated debate on fares is required that is not built on such misconceptions.

5. *What are the implications of the proposals for rail decentralisation and how should responsibilities be devolved to local authorities?*

2.26 We strongly believe that devolving responsibility on transport works. This can be plainly seen in the greater priority (and investment) that has been given to transport under devolution in both London and Scotland. This is because local politicians and decision makers place a high value on the role that transport plays in supporting local economies in a sustainable way and in providing communities with the modern and efficient transport that they want. On local rail we have seen the benefits of devolution clearly illustrated by both Merseyrail Electrics and by the London Overground. Services that were near the bottom of the passenger satisfaction league table under Whitehall control are now consistently at the top end of those same tables. Remote control from Whitehall has been replaced with local accountability—making those services both more responsive to what passengers want and the needs of the local economies.

2.27 With a fair deal from Government on costs and risks we believe that further devolution of powers over local rail services would lead to significantly improved local rail services, greater accountability, more integration with wider local public transport networks and better value for money.

2.28 Research we commissioned from Atkins[(10)] shows clearly that, based on experience from the UK (London, Scotland, Wales and Merseyside) and Europe, devolution delivers better outcomes for passengers:

- — rail is given greater priority, with stronger incentives and influence on network and service operators to acknowledge local priorities, maximise performance and deliver a better service for passengers;
- — investment levels rise, for example, in terms of rolling stock, new or enhanced stations or promotion of re-opened or upgraded lines to cater for, or foster, increased passenger demand;
- — operational performance rises, level of service improves, feeding into higher customer satisfaction; and
- — decision making is more fully integrated across modes and policy objectives, including capital investment, integrated fares and ticketing and branding.

2.29 Importantly, moving toward a more devolved approach has benefits for national government. By transferring responsibility (and therefore technical, financial and political risks) for local rail networks to bodies that are better placed to address these risks, Ministers would be better able to focus on the strategic development of the railways, whilst being assured that accountability for local services is maintained through local transport authorities. Of course, such a transfer of responsibilities and liabilities needs to occur with a full understanding of the risks involved by all sides.

2.30 However devolution will only work if there is sufficient funding and a fair and reasonable allocation of risks. Local transport authorities will not be interested in devolution if it becomes an attempt by national government to shift the blame for unpalatable decisions to the local level because of decisions that have been taken nationally on funding.

2.31 The five PTEs served by Northern are working together (and with local transport authorities in the rest of the North) on a devolved proposition for the North. The preferred option is for Northern to be retained as a single franchise with Trans-Pennine rolled in. A Rail in the North Executive (responsible to the PTEs and other local transport authorities) would specific and oversee the franchise. A great deal of work is currently underway on all the financial, legal and governance issues involved. One obstacle that will need to be addressed in particular is the 25 mile limitation (set in statute in the 1968 Transport Act) on a PTE's freedom of action beyond its own boundary. Government support for the necessary legislative change would be welcome. The London Midland franchise is on a longer timescale but Centro are working up their own proposition for the West Midlands.

2.32 Accompanying the Command Paper is a consultation on devolving responsibilities for local rail services, which outlines the options for local transport authorities. We welcome the fact that the DfT is open to the potential that devolution offers. However it's important to stress that: a) true devolution means going beyond the re-badging of the powers that PTEs currently or previously enjoyed (such as being co-signatory to rail franchises and having increment/decrement powers over existing rail services);and b) that to achieve devolution (with all its complexities on costs, risks and governance arrangements) will require the DfT to actively work with PTEs and local transport authorities to resolve these challenges. If the considerable opportunities that devolution has to offer are to be realised then achieving it needs to be a joint enterprise between national government and the PTEs and their local transport authority partners.

17 April 2012

References

(1) KPMG (2010), Value for money in tackling overcrowding on northern city rail services. Report to the Northern PTEs.

(2) KPMG (2010), Rail Transport, Infrastructure and the Economy.

(3) CEBR (2008), Regional Transport Priorities: Understanding the wider economic benefits of Centro's transport vision.

(4) Source: ***pteg*** analysis based on ORR National Rail Trends 2010–11 Yearbook; our analysis excludes the MOIRA PTE infill trips which were added to the ORR data series from 0809 onward. Taking all trip ends within PTE areas for trips within PTEs and to/from their wider Government Office region (but excluding the MOIRA PTE infill) rail demand in our areas is estimated to have grown by 147% between 1999–2000 and 2009–10.

(5) Source: ***pteg*** estimate based on ORR National Rail Trends 2010–11 Yearbook. In 2009–10, we estimate that 126 million short/medium rail trips (those within a single Government Office region) started and/or ended within PTE areas. By comparison, there were 960 million rail trips made in England over the same period. The PTE figure includes the MOIRA PTE matrix infill.

(6) Source: Northern Rail (2010), Northern Route Utilisation Strategy.

(7) SDG (2006), Northern Review, report to the Department for Transport.

(8) Benefits of smartcards can include simplified fares structures; increased patronage (and revenue) and passenger satisfaction; modal shift; reductions in transaction and administrative costs; reductions in fraud; acquisition of accurate data on passenger behaviour enabling better capacity and network planning; and faster boarding times enabling more reliable, faster and frequent services.

(9) Response by Norman Baker (Local Transport Minister) to a Parliamentary question by Graham Stringer, MP, 9 February 2012.

(10) Atkins (2010) report for ***pteg:*** "Enhancing the PTE Role on Rail in the City Regions".

Further written evidence from *pteg* (ROR 10A)

1. Introduction

1.1. *pteg* represents the six English Passenger Transport Executives (PTEs) in England which, between them, serve more than eleven million people in Tyne and Wear ("Nexus"), West Yorkshire ("Metro"), South Yorkshire, Greater Manchester, Merseyside ("Merseytravel") and the West Midlands ("Centro"). Bristol, Leicester and Nottingham City Councils, Transport for London (TfL) and Strathclyde Partnership for Transport (SPT) are associate members of *pteg*, although this response does not represent their views. The PTEs plan, procure, provide and promote public transport in some of Britain's largest city regions, with the aim of providing integrated public transport networks accessible to all.

1.2. *pteg* submitted an initial response to this consultation in April 2012. This document provides additional evidence at the request of the Chair of the Transport Select Committee, in respect of the following two areas:

— Net public funding of regional rail networks (within the context of the first question in the original consultation document); and

— Level of commuter fares in PTE areas (within the context of the fourth question in the original consultation document).

2. Net Public Funding of Regional Rail Networks

"Regional rail networks do benefit from a significant degree of public funding, but so do intercity networks, and rail services in the South East. What is important to understand is that the allocation of network costs (and hence the resulting level of subsidy) is a construct based on a series of assumptions and principles (some of which are implicitly political). As a result, it can be misleading to infer potential cost savings from current subsidy estimates." (Quote from our original response, para 2.6)

2.1. The analysis in this section is based on the best evidence available to us. There is a significant lack of data transparency across the rail industry which makes it difficult to cross-reference and verify the figures quoted by different sources. We have made our best efforts to ensure that our analysis is internally consistent.

2.2. The key point to stress in making the points below is that there is a lack of transparency about how funding figures are derived (and the assumptions that lie behind them); and therefore making policy decisions based upon such figures can disadvantage the position of regional rail services in terms of their apparent efficiency and value for money.

McNulty's (unexplained) analysis of rail costs

2.3. The Rail Value for Money study attempted to estimate the net public support implicitly accruing to long distance, regional and London/SE passenger franchises (but excluding capital investment). Given that a large proportion of Network Rail's costs are funded directly by government rather than through the access charges paid by operators, the results of this exercise depend critically on what proportion of Network Rail's direct grant is spent on each part of the network. We would argue that some of the assumptions made by McNulty lack a robust rationale and try to show below that more realistic assumptions would shift a greater proportion of public support towards inter-city and London commuter services.

2.4. Excluding capital investment, the total cost of providing passenger rail services was taken by McNulty to be £9.7bn, allocated between different parts of the network as follows:

— £2.8 billion—Long distance franchises (LD).

— £3.8 billion—London and South East franchises (London SE).

— £3.1 billion—Regional franchises.

2.5. However, few details are provided on how these figures are arrived at so we have attempted to develop our own bottom-up cost estimates. We began by working out the total operating cost of passenger rail franchises,[i] excluding DfT's direct grant to Network Rail and profit:

— £2.4 billion—Long distance franchises.

— £3.1 billion—London SE franchises.

— £1.4 billion—Regional franchises.

2.6. In addition to this £6.9 billion, Network Rail receives a further £2.8 billion through central government's direct grant. Added together, the two figures correspond to the £9.7 billion implicit in McNulty's analysis.

2.7. The way in which the £2.8 billion (or 29% of total industry costs) are allocated between different franchises is critical in estimating how much public funding each group of franchises is actually receiving, both directly (through TOC payments) and indirectly (through DfT's direct grant to Network Rail).

2.8. One obvious approach is to allocate these costs proportionally to the current level of infrastructure charges levied on TOCs by Network Rail. Based on the information available to us, we estimate that this approach would load 40% of costs (£1.1 billion) onto LD franchises, 35% (£1 billion) onto London SE franchises and 25% (£0.7 billion) onto regional franchises. An alternative approach would be to use just fixed charges as a proxy for TOCs' share of infrastructure costs—this would load £0.9 billion onto each group of franchises. Interestingly, the McNulty team appear to have taken neither of these approaches by loading more than half of the unallocated infrastructure costs onto regional operators (£1.4 billion), and attributing only £0.4 billion to LD franchises.

2.9. Re-allocating these costs as suggested above brings the level of subsidy for long distance and regional franchises much closer together (from a ratio of 1:4.5 to a ratio of 1:2.5) than assumed in the McNulty report. This means, for example, that on the basis of this analysis the level of subsidy per passenger trip would be higher for long distance than for regional franchises.

Table 1

pteg ANALYSIS OF NET PUBLIC SUPPORT (EXCLUDING CAPITAL INVESTMENT)

Franchise groups	*Op. costs (£bn)*	*McNulty implicit allocation of NR fixed costs (£bn)*	*pteg allocation of NR fixed costs (£bn)*	*TOC net subsidy (£bn)*	*Net public support (NPS) (£bn)*	*NPS per pax (£)*	*NPS per train-km (£)*	*NPS per pax-mile (p)*
Long Distance (LD)	2.4	0.4	1.1	-0.16	-0.16 + 1.1 = 0.94	5.3	6.6	10.4p
London SE	3.1	0.7	1.0	0	0 + 1.0 = 1.0	1.2	5	6.4p
Regional	1.4	1.6	0.7	0.82	0.82 + 0.7 = 1.52	6	12	25p

Funding gap—regional inequalities in Network Rail's capital investment spend

2.10. The McNulty analysis excludes Network Rail's substantial capital investment budget, which is funded directly by the DfT. However, investment is heavily skewed towards inter-city routes and London and the SE. Once this expenditure is taken into account then 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.

2.11. Over the CP4 period, Network Rail's capital expenditure will total £8 billion (in 2010–11 prices), equating to an average yearly spend of £1.6 billion. Of this amount, we estimate less than 15% will directly benefit regional railways (whereas they contribute more than 30% of fixed charges). In contrast, almost half will fund investment in the London and South East network.[ii] Adding in these figures almost doubles the subsidy received by London SE passengers and brings the net public cost of LD and regional franchises even closer together.

Table 2

pteg ANALYSIS OF NET PUBLIC SUPPORT (TO BE READ IN CONJUNCTION WITH THE PREVIOUS TABLE)

Franchise groups	*Net public support (franchise + NRopex + NRcapex) (£bn)*	*NPS per passenger (£)*	*NPS per train-km (£)*	*NPS per pax-mile (p)*
Long Distance (LD)	-0.16 + 1.1 + 0.56 = 1.5	8.5	10.5	16p
London SE	0 + 1.0 + 0.8 = 1.8	2.1	8.8	11.5p
Regional	0.82 + 0.7 + 0.24 = 1.76	7	13.8	29p

2.12. It is easy to lose sight of the fact that both the quality of current infrastructure and future investment levels play a key part in the ability of train operating companies (TOCs) to grow demand and generate additional revenue. Higher quality infrastructure can also lead to lower operating costs (and hence lower subsidy requirements) for TOCs. For example, an increase in track speed would reduce the number of trains, drivers and conductors required to operate a given service level.

2.13. In that sense, it is only reasonable to expect that decades of under-investment in regional rail infrastructure will lead to a widening gap in terms of subsidy requirements relative to other parts of the network.

Track access charge bias against local rail services

2.14. The above analysis allocates infrastructure costs in proportion to the track access charges paid by operators to Network Rail. However, we believe there are two strong sources of bias in the current charging framework, which act to overestimate the true infrastructure costs of local rail services.

2.15. Firstly, it assumes fixed costs are uniformly shared[iii] between different passenger operators running services across a shared network. We would argue that this tends to shift too much of the cost of providing, operating and maintaining high quality (and hence expensive) sections of track from high speed/heavy weight/ lower frequency inter-city services onto low speed/light weight/higher frequency local services. Whereas local services could (and often do) run on much cheaper track, inter-city services would be unable to do the same.

2.16. Secondly, freight trains are only charged a fraction of the track access charges paid by passenger operators even where freight could be deemed as the main user of the infrastructure. The case of the Settle-Carlisle line is paradigmatic:[iv] in 2008, freight tonnage[v] north of Hellifield was six times greater than passenger tonnage; from 2009, freight tonnage on the line increased ten-fold due to capacity constraints on the West Coast Mainline. As a result there was a need for a step-change in the scale and type of renewal work carried out on the line. But whereas the additional cost would have been reflected in higher fixed charges for local passenger operators,[vi] freight operators would have carried on paying only a variable charge at their previous rates.

2.17. In making the latter point we do not argue that freight should pay its full infrastructure costs but that this example illustrates that the subsidy figures are a construct. The effect of ignoring the shared infrastructure costs between passenger and freight services is to overestimate the actual level of public support going towards regional rail in the North and the Midlands while underestimating the value for money achieved from that subsidy (which should include the external benefits from rail freight).

3. Level of Commuter Fares in PTE Areas

"(…) fares in much of the north of England lag so very far behind the rest of the country (…)" (Theresa Villiers, 20 October 2011, Northern Rail Conference):

> "The DfT has persistently given the impression that commuter fares across PTE areas are comparatively lower than London and the South East. It is more complex than that. DfT's current analysis, based on a small sample of flows, shows a more complex picture than at first meets the eye. For example, there are some commuter rail fares between stations in the South East that are generally much lower than for journeys into central London, and often lower than commuter fares into northern cities—possibly because for these journeys the car remains a feasible alternative. (…)" (Quote from our original response, para 2.23)

3.1. In this part of our response, we try to address some of the commonly held misconceptions about commuter fares outside London and the South East. It is important to stress, as we did in our original submission, that a much more sophisticated debate is required on comparative fare levels.

Commuters in PTE areas are being subsidised by commuters in London and the South East[vii]

3.2. There are, in fact, many commuters in the South East which get a better deal than their Northern counterparts. Take the example of an annual season ticket between Banbury and Oxford: at 60p/mile this is a bargain compared to the cost of 82p/mile for a similar distance journey between Stalybridge and Leeds. But even an annual season ticket between Oxford and London turns out to be cheaper at 72p/mile.

3.3. An average PTE rail commute tends to be shorter than in the South East. Hence, average load factors on routes serving a wider rural hinterland look low compared to those routes serving London's sprawling commuter belt. In reality, many short distance PTE commuters actually pay higher fares per unit of distance travelled because of the historical discount applied to longer distance trips. Compare, for example, an annual season ticket between East Didsbury and Manchester costing £1.40/mile with average figures of 80–90p/mile for a typical commute into London. So it could be said that shorter distance PTE commuters are actually subsidising longer distance commuters in the South East.

Regional fares are too low

3.4. Discrepancies between different parts of the country are not great—the average fare per passenger kilometre in the Midlands and the North is broadly in line with other areas, particularly when you take into account differences in income, investment levels, competition from other modes and journey length:

— Fare-box revenue on local and regional services across the North is around 20% lower on average, per passenger-mile, than on London and South East services.[viii] In comparison, average wage levels in inner London are three times higher than in PTE areas.[ix]

— Investment levels lag behind London and the South East (see earlier "funding gap" section of this response), meaning poorer quality and less frequent services. If this was any other product, consumers would expect to pay less for an inferior service. Take, for example, a journey between Watford and London, which takes around 20 minutes, with seven peak trains an hour. In contrast, the fastest train between Macclesfield and Manchester, a similar distance apart, takes 25 minutes with the remaining four peak trains taking between an extra five and 15 minutes. Perhaps surprisingly, a Watford to London annual season ticket only costs an extra £4 per year for what is a substantial difference in service quality.

— Critically, the car is a genuine competitor for journeys in PTE areas, unlike London where commuters have little choice—this necessarily requires lower fare levels in the North if rail is to remain competitive and contribute to reduced congestion and pollution from car use.

Putting up fares in PTE areas is a simple solution to getting more investment

3.5. As set out above, PTE rail fares are actually higher, relative to average wage levels, than in London. And, the higher the fare, the higher the sensitivity of passengers to further increases.[x] This is more so where there are viable alternatives to rail travel such as the private car.

3.6. Our analysis, using standard rail industry models, suggests that even a substantial uniform increase in fares across the North[xi] could generate little more than a 2% increase in revenue at the expense of a 25% fall in demand.[xii] And given that a substantial proportion of infrastructure costs are fixed or shared with other types of service there is probably little or no saving to come out of such a policy. Instead, it would often make more sense to maximise revenue from the use of existing infrastructure by increasing service levels and through targeted and cost effective investment than by chipping away at the existing network.

3.7. Analysis by TfGM and WYPTE suggests that a more targeted local approach to fares and investment could generate a larger revenue gain at a lower cost to passengers and the local economy.

References

[i] Estimated as the sum of passenger revenues, net operating subsidy (or payment) (Source: TAS Rail Industry Monitor) and an estimate of other revenues. Other revenue (£0.6 billion according to the McNulty Scoping Study) was allocated proportionally to passenger revenue. This figure excludes profit of around £300 million.

[ii] Source: ***pteg*** analysis based on Network Rail's CP4 report.

[iii] Such costs are roughly allocated on the basis of train-kms.

[iv] Other obvious examples include Carlisle-Newcastle, Doncaster-Cleethorpes—which is shared with the access route to the port of Immingham—other parts of the network around Hull and Humberside, parts of South/West Yorkshire and several routes in the Midlands.

[v] Expressed as equivalent gross tonnes (EMGTPA) as defined by Network Rail.

[vi] Northern is the only TOC operating services on this route so they would have borne the entire cost of the change in track access charges.

[vii] Annual season ticket prices are taken from the National Rail Enquiries website and distances represent the shortest route by road between stations.

[viii] Source: ***pteg*** estimate based on Rail Industry Monitor data for 2009.

[ix] Source: HMT estimates of workplace GVA per head by NUTS2 area—2009 figures.

[x] The rail industry's Passenger Demand Forecasting Handbook (PDFH) recommends the use of an elasticity modifier—yet, this often seems to be ignored when talking about major fare increases.

[xi] Purely for illustration purposes, we have assumed a 50% increase in fares.

[xii] Source: ***pteg*** analysis based on PDFH parameters. Detailed calculations are not provided here given that access to PDFH is restricted to PDFC members. However, these can be provided on request.

4 July 2012

Written evidence from Network Rail (ROR 12)

— Network Rail owns and operates Britain's rail network. It is a private, independent, "not for dividend" company directly accountable to its Members and regulated by the Office of Rail Regulation (ORR). Profits made go straight back into improving the railway.

— Network Rail sees its purpose as to generate outstanding value for taxpayers and rail users by continually improving the railway; and our role as to develop, maintain and operate the rail infrastructure in partnership with our customers, suppliers and other stakeholders.

— Our vision for Network Rail is as a leading, independent British-based infrastructure group that is internationally respected for providing rail transportation solutions that deliver outstanding value responsibly.

— Network Rail owns around 20,000 miles of track; 40,000 bridges and tunnels; 1,000 signal boxes; 9,000 level crossings; 2,500 stations that are leased to train operators; 18 large stations that are managed and operated directly by the company, and a further 8,200 commercial properties all of which fund the rail network infrastructure.

— In the decade since the company was formed, passenger journeys have increased by 40%. Between 2004 and 2009 Network Rail delivered efficiency savings of 27%, and we are on course to deliver a further 23% such savings by 2014.

— In a complex and entirely interdependent system, both Network Rail and the train operating companies share the responsibility of delivering train services to the travelling public and to the nation.

— Network Rail welcomes the Committee's intention to conduct an inquiry into the issues connected to reform of the railways, and the opportunity to respond. We would also be happy to provide further evidence once the High Level Output Specifications and Statements of Funds Available have been published in July if it would assist the inquiry.

1. *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?*

1.1 Over the last 15 years, demand for rail has grown at an extraordinary rate. Passenger journeys are up 40% in a decade, and there are more passengers each year now that at any time since the First World War. Demand from companies and others wishing to move goods in intermodal containers by rail has also grown substantially over a similar time frame.

1.2 Projections show that the underlying factors that have driven this growth, including economic growth and development, social trends, the broader sustainability agenda, and the improved service provided by the industry itself, are likely to drive continued growth in demand for rail over the next two to three decades. By 2034, the year that HS2 is due to be completed, we expect passenger numbers to have grown by a further 90% to reach 2.4 billion journeys per year and, on the freight side, five million containers a year to be moving by rail, an increase of around 300%.

1.3 This is fantastic news for the industry. It shows that rail, far from being an industry in terminal decline, as it was for much of the late 20th-century, is well-placed for the 21st. It is a reflection on what the industry has achieved and a testimony to the importance of transport and infrastructure to the economy.

1.4 However, it also presents some significant challenges. Many key parts of our railway are already operating at or near capacity as it is, and this issue is only going to grow as time moves on. As the network becomes fuller it is even more important that we make best use of it. This could entail making trade-offs between running more trains and further improvements in performance.

1.5 Continued strategic investment in increasing the capacity of our rail network over the next two or three decades is also essential, and will help to continue to reverse the legacy of at least two to three decades of under-investment in the late 20th-century.

1.6 The Government has already shown its willingness to invest in rail, and has recognised the contribution such investment can make to long-term sustainable economic growth. By 2020, both Thameslink and Crossrail will have been completed, delivering significant additional capacity into and through central London, and High Speed 2—the single most important strategic investment in our rail network for more than a century—will be underway.

1.7 However, it is clear that other capital investment will still be essential, in line with a strategic analysis of where growth is expected, and at a time when the expectation is that public spending is likely to be constrained. This is likely to mean that rail will need to attract alternative sources of funding and financing for this investment.

1.8 Those potential alternative sources of funding will only be attracted to invest in rail if they can see the possibility of an acceptable rate of return on their investment. Above all, it is the need to attract long-term investment into our network that requires a focus on delivering sustainable efficiencies across the industry.

1.9 It is in this context that governments (the Department for Transport in England & Wales, and Transport Scotland in Scotland) will publish their High Level Output Specifications (HLOSs) and Statements of Funds Available (SoFAs) in July 2012. These documents will specify the outputs (what government wants to buy from the railway) and funding (how much money it has to pay for what it wants to buy) for Control Period 5 (CP5, 1 April 2014 to 31 March 2019). They will also reflect the choices made by government on the appropriate balance between fares, subsidy and investment. These choices are facilitated by a more efficient and affordable railway.

1.10 The industry has already been working collectively to help inform these choices. With limited funding available, there is a recognition that the industry must make a compelling case for investment in rail and how that investment can help drive economic growth. The industry (in the shape of Network Rail, the Association of Train Operating Companies, the Railway Industries Association and the Rail Freight Operators Association) produced its Initial Industry Plans for CP5 for England & Wales and Scotland in September 2011.

1.11 The Initial Industry Plans offer a railway that, by 2019:

- is more efficient and more affordable to the taxpayer—efficiency improvements and continued revenue growth could reduce the annual net cost to the taxpayer of the current railway in England & Wales to £1 billion (and by £72 million to £627 million in Scotland). These cost savings allow governments to consider the balance of investment in service improvements, the level of fares and the level of ongoing subsidy;
- stimulates economic growth through the efficient movement of people and goods into and between major economic centres by:
  - providing an additional 170,000 seats at peak times for commuters on key urban networks;
  - delivering a step change in the rail connectivity of major economic centres providing a stimulus to economic growth and development; and
  - providing capacity to accommodate a 30% increase in rail freight;
- maintains high levels of reliability and focuses on improving areas of poor performance which have significant impact on users;
- better meets the needs of passengers in key areas such as journey information, comfort, and accessibility, which together with high levels of reliability, can help the industry make steps towards meeting its ambition to achieve 90% customer satisfaction in the longer term;
- maintains high levels of passenger, public and workforce safety while continuing to improve safety culture throughout the industry and reduce safety risk at level crossings by 50%; and
- contributes towards a lower carbon economy, reducing industry's CO_2 emissions per passenger kilometre by 25% and removing the equivalent of one million lorry journeys off the road per year, a reduction in CO_2 emissions of 500,000 tonnes.

1.12 The DfT stated in the recent Command Paper ("*Reforming our Railways: Putting the Customer First*"; March 2012) that the HLOS for England & Wales will be framed within the context of its longer-term strategy for the railway, that being to:

- put passengers first by maintaining the reliability and safety of our railways;
- improve rail services by enhancing the connectivity and capacity of our national rail network, particularly for the journeys that matter most for economic growth—ie major inter-city, commuter and freight flows; and links to international gateways;
- improve value for money from our rail network for passengers and taxpayers; and
- support the achievement of UK environmental targets.

1.13 It is our view that the plans as set out in the IIP for England & Wales are consistent with enabling government to deliver this strategy, and will also be reflected in Network Rail's Strategic Business Plan in January 2013.

1.14 In terms of the balance between the taxpayer and farepayer in paying for the railway, this is essentially a choice for government. The industry's responsibility is to make sure the railway is affordable enough to earn the mandate for further investment, recognising the competing demands for scarce government funds.

1.15 However, the concept of making the user pay is not, in principle, wrong. It remains the stated position of government that the balance of funding should be 25% from the taxpayer and 75% from passengers. However, it is worth noting that this is (a) already the case on long-distance services, and (b) is in fact exceeded in London and the South East, where the balance is approximately 19% public subsidy to 81% from passengers.

1.16 It is on the regional network, outside London and the South East and long-distance inter-city services, that there is the greatest discrepancy between the aspiration and the reality in terms of the balance of funding. Here, fares cover an estimated 39% of the costs of the service, with public subsidy meeting the remainder. There is, of course, a strong case for subsidy for services delivering wider social and economic benefits but which are not commercially viable.

2. *How are the targeted efficiency savings (£3.5 billion by 2019 on a 2008–09 base) to be delivered? What will be the consequences?*

2.1 These annual savings, which were suggested by Sir Roy McNulty in his value for money study of the industry ("*Realising the potential of GB rail*"; May 2011), constitute annual efficiencies—based on March 2009 costs—of £2.3 billion from Network Rail and £1.2 billion from train operators and rolling stock companies.

2.2 In terms of the £2.3 billion savings identified for Network Rail, we are committed to delivering £1.2 billion of these within the current control period (ie by March 2014), and have indicated annual savings of a further £0.6 for CP5 in the IIP (ie between April 2014 and March 2019).

2.3 This would meet the low-end level of the potential savings suggested by the value for money study, and would be in addition to the 27% efficiency savings Network Rail delivered between April 2004 and March 2009.

2.4 It is realistic to believe these savings can be delivered, but success is by no means a certainty. The major challenge is not necessarily the individual elements of the wider programme of reform across the industry, it is the overall pace of change. Even without major structural reform, which was ruled out in the Command Paper, the industry is going to require continuous, radical evolution to deliver these savings, and this clearly brings its own risks to delivery.

2.5 Reaching the high-end savings of 30% suggested by the value for money study would require Network Rail to find further annual efficiency savings of £0.5 billion. This is likely to come from far closer collaborative working with our customers and suppliers, and is reflected in the priorities of our internal reform programme.

3. *Will the reforms to rail franchises proposed by the Government, including alliances, deliver better services at lower costs?*

3.1 It is clear that there is a need for reform of the franchise system. Primarily, this is about a less prescriptive approach to franchise specification, to allow greater freedom to the franchise holder to respond to market conditions, as well as a need to align incentives of train operators with Network Rail to deliver together for passengers.

3.2 We are entering a crucial period. Over the next few years around two-thirds of all franchises will be re-let. Government has stated clearly that it sees its role as incentivising train operators to be more efficient and to work more closely with Network Rail in the interests of passengers. This is likely to lead to a far greater focus on outputs (eg passenger satisfaction) than the present focus on inputs (ie detailed specification of what has to be delivered). Network Rail takes the view that this is an eminently sensible way forward, without which it is unlikely the desired savings could be delivered.

3.3 Alliances have been proposed and developed by Network Rail, rather than government, in the context that two of the key obstacles to improved value for money are the lack of alignment of incentives between industry parties and the lack of flexibility to deliver the required outputs in the most efficient way.

3.4 Our view is that the ultimate purpose of developing alliances with passenger and freight train operators is to achieve improvements in value for money and safety by enabling more effective cooperation or partnership with these customers. Such arrangements will not be appropriate everywhere, but they are a realistic option in many places. Effectively, this will mean an end to the "one size fits all" approach across the network that may have been appropriate a decade ago, but which has served its purpose. Separately, we are also seeking to develop relevant alliances with our suppliers.

3.5 On 6 March, in response to the ORR's publicly stated support for Network Rail's alliances with train operators, we published our own draft policy statement on alliances.[1] This document reiterates Network Rail's commitment to bringing down barriers to greater co-operation in the rail industry and recognises that, through alliances, we can work together more efficiently with ultimate benefits to the taxpayer, passengers and freight users.

3.6 This policy statement sets out Network Rail's objectives from alliancing with its customers, which are to:

— drive continuous safety improvement;

— deliver financial benefits beyond that which could be achieved without alliancing;

— drive improved performance and user satisfaction through alignment of incentives around the market and customers; and

— apply learning from alliancing to other parts of the business.

3.7 Network Rail expects to achieve these outcomes by using alliancing to:

— challenge constraints which would otherwise be regarded to be outside the control of the parties;

— reduce interface inefficiencies and duplication of resource with operators;

— transform behaviours and interface management away from being driven by defending current contractual positions towards collaborating to improve industry outcomes; and

[1] Available at http://www.networkrailmediacentre.co.uk/imagelibrary/downloadMedia.ashx?MediaDetailsID=5488

— drive positive change across the industry by improving Network Rail and operator understanding of each others' business.

3.8 Network Rail has been and will continue to provide input to government in relation to the specification of franchises. In future, we hope to agree with government a simple basis for alliancing opportunities which could then be encouraged through the franchise specification and evaluation processes.

3.9 Furthermore, Network Rail has increasingly been seeking to engage with shortlisted franchise bidders on potential alliancing arrangements and, if we can reach an agreement with government along the lines above, we would hope this engagement could build on whatever alliancing arrangements are included in the franchise specification.

3.10 Where Network Rail has developed alliancing projects with an incumbent franchisee in advance of the refranchising process, the details of these projects would be made transparent to bidders in the competitive process. However, any alliancing conversations with shortlisted bidders would be non-exclusive and would be treated as confidential where appropriate.

3.11 It is important to stress that the ultimate purpose of developing alliances with passenger and freight train operators is to achieve improvements in value for money and safety through more effective cooperation or partnership. If they do not deliver these, or even hinder them, we would willingly end any arrangement that we had made.

4. *How should fares and ticketing be reformed?*

4.1 It is unlikely that pricing by time of travel can be used as a tool to manage peak commuter demand, at least to any major extent. It is likely that, to lead to the level of behaviour change necessary, prices would have to rise to an unacceptable level to deliver even minor capacity benefits. Research indicates that the price differential between peak and non-peak fares would need to be significantly larger than now to achieve even a modest reduction in peak demand.

4.2 However, fares and ticketing could offer some assistance in making the best use of existing capacity. Specifically, this could be through the introduction of smart ticketing that incentivises commuters to travel less often, if possible, and accrue some financial benefit from doing so. 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. Reduced peak demand would help alleviate pressure on the network at the busiest time of the day for travel.

5. *What are the implications of the proposals for rail decentralisation and how should responsibilities be devolved to local authorities?*

5.1 In broad terms, Network Rail supports initiatives to devolve decisions on funding and outputs. Bringing local knowledge and priorities into play can clearly add value to the process.

5.2 We would support a range of local stakeholders having an increased role in reviewing and helping set franchise specifications based on such factors as current and expected future economic growth, local/regional priorities, available funding, and local rail demand.

5.3 In addition, government could formalise responsibilities with sub-national bodies for increments and decrements to train service provision—with incremental funding available for any such enhancements. An approach such as this could create a more route-specific focus for service provision and be suited to more rural branch line areas.

5.4 Arrangements in Scotland, with the Northern Rail franchise, or with Community Rail Partnerships, all offer examples as to how a decentralised approach can enable initiatives that improve service provision, station facilities and the environment.

5.5 We also consider that a more collaborative approach to station investment would also result from a greater local perspective. Such an approach could also help to establish a shared vision for the station development and/or wider regeneration schemes that can integrate rail with the wider community.

5.6 However, ultimately, it is vital this is output-based and we must remain able to optimise at a network level how to deliver these outputs efficiently and effectively. It would benefit no one to have sub-national bodies specifying inputs without regard to the wider circumstances. The railway is a network, and decisions must be taken within that context. This includes core functions like train planning which are undertaken at network level, and core responsibilities such as safety.

18 April 2012

Written evidence from DB Schenker Rail UK Ltd (ROR 17)

Introduction

1. DB Schenker Rail UK Ltd (DB Schenker) is pleased to submit evidence to the Transport Committee's Inquiry into Rail Reform. Our evidence focuses on:

(a) The vision for rail freight for 2020 and beyond.

(b) The role of rail freight in the Industry's response to the need for efficiency savings.

(c) Rail freight and Alliancing.

(d) The implications for rail freight of increased decentralisation**.**

We would be pleased to provide oral evidence to the Committee if required.

2. DB Schenker is the largest UK rail freight operator. DB Schenker moves around 80 million tonnes/10bn tonne kilometres of freight a year and employs 3,200 staff in Great Britain. Besides transporting coal for electricity generation, steel and petroleum, we move stone, deep-sea containers and operate international freight services through the Channel Tunnel in connection with the European Network of DB Schenker. DB Schenker is wholly owned by Deutsche Bahn AG, the second largest logistics provider in the world.

3. Rail freight produces between three and four times less CO_2 per tonne moved than road haulage and up to 10 times less polluting emissions. Whilst rail must continue to reduce its own carbon footprint, its primary contribution to Climate Change is to continue to attract traffic from more polluting modes.

4. Rail freight in Britain has been one of the success stories of privatisation and has grown by over 60% in the last 15 years, increasing its surface market share from 8% to 11.5%. At the same time the industry has become more efficient with DB Schenker having reduced key asset numbers and costs by over 30% in the past five years. Although rail freight volumes reduced during the recession, they are again growing (by 8.9% between 2010–11 and 2011–12) and the industry continues to invest in the firm expectation that absolute growth, as well as increased market share, is achievable.

5. The achievements and efficiencies of rail freight post-privatisation, and the scale of competition both within the mode and with other modes, were recognised by the McNulty Value for Money report. Subsequently the Command Paper also gave government support for both present and future rail freight growth.

6. Both of these acknowledged that rail freight is essentially a private sector activity, whilst recognising that some fixed infrastructure elements attributed by Network Rail to freight are funded directly by Government in the same way as for passenger rail. The significance of this is that this places rail freight on a more equivalent basis with road freight, which is the main competitor and which is essentially free at the point of use (as road hauliers do not pay access charges, merely VED and fuel duty).

7. In summary therefore, rail freight is rather different to passenger rail and it is very important to always look outwards at the markets/competitors of rail freight and to resist insularity and merely looking inwards at the rest of the railway.

Vision for Rail Freight in 2020 and Beyond

8. The essential vision is that of rail freight playing an even greater role in supporting economic growth and the development of UK plc and helping Governments achieve their carbon and other environmental objectives.

9. A key element to achieving this is implementing the vision set out by the previous Government in 2008 ("Development of a Strategic Rail Freight Network") and subsequently endorsed by the Coalition, most recently in the Command Paper.

10. In support of this, the rail freight community has developed and recently updated growth forecasts for rail freight for both 2020 and 2030. These were used in the Initial Industry Plan and underpin current CP5 work. Recognising the multi-user nature of the rail network, these forecasts were endorsed by a wider stakeholder group that included Freight Operators such as DB Schenker, Network Rail, Department for Transport, Transport Scotland, Welsh Assembly Government, ATOC, the Office of Rail Regulation, the PTE Group and Transport for London. End-customers and other stakeholders were represented by the Railfreight Group and the Freight Transport Association.

11. Central to achievement of the growth forecasts will be the development of sufficient well-located rail freight terminals or interchanges; the publication by DfT of their Policy Statement in support of Strategic Rail Freight Interchanges in November 2011 was a key element in developing a planning regime that facilitates rather than hinders this.

12. The UK Government is investing over £400 million in Strategic Freight Network infrastructure investment in CP4; Government is currently considering whether to continue this investment in CP5, and if so at what level, as part of the HLOS/SoFA processes.

Efficiency Savings

13. DB Schenker sees that the role of rail freight with respect to continued and increasing industry efficiency has two main elements.

14. The first element is that DB Schenker (and the freight community in general) is fully committed to playing its part in helping to understand and drive whole-system efficiencies—for example, in DB Schenker's case, by involvement in the leadership role of the Rail Delivery Group and the various Rail Delivery Group workstreams. As the McNulty VFM Report suggested, these tend to be complex areas which require considerable development to understand why, as an industry, we are where we are and what changes will be possible over time.

15. The second element relates specifically to rail freight. The McNulty VFM Report recognised freight's achievements in driving efficiency since privatisation—for example in the reduction of operating costs and staff numbers, improvements in asset utilisation and Investment in new equipment.

16. However we are not complacent. The McNulty VFM Report identified areas where freight could do more. These included:

- freight agreeing to forego potential future access to parts of the network where there is no reasonably foreseeable freight demand to allow different and cheaper asset maintenance & renewal policies to be considered; and
- ensuring capacity is used efficiently at key pinchpoints.

These are being followed up by DB Schenker and others within the freight community alongside the Rail Reform and Periodic Review 13 processes.

17. DB Schenker is also heavily involved in the Office of Rail Regulation's Periodic Review 13 workstreams to help decide NR's revenue for CP5.

Alliances

18. Alliances have the potential to drive change across the rail industry. By Alliance, DB Schenker simply means a bilateral or multilateral arrangement for parties to work together in a different way to drive efficiency and benefit.

19. DB Schenker would like to make three points:

- On a multi-user railway, no user should be disbenefitted by any such arrangement. All users have to learn to work together in a different way and in this respect the incentives to be put in place as part of CP5 will be vital.
- DB Schenker sees the keys to success with Alliancing as:
  - Communication—the earlier that all parties engage in dialogue the better. Solutions are likely to be more realistic and optimal, and it is DB Schenker's belief that cost management will be enhanced. This is as true for track renewals as it is for enhancements, rolling stock provision or capacity management.

    DB Schenker strongly believes that all users of a route have to be incentivised to support "deep" Alliances and, where appropriate, other Alliances (eg for delivery of specific enhancements).
  - Transparency—transparency of purpose, aims, structure, reporting and decision making will be vital to ensuring the support of affected third parties. Without transparency, the risk of an Alliance failing would seem to DB Schenker to be significantly greater.
  - Trust—to some extent trust will follow from Communication and Transparency, but it is DB Schenker's view that the management of any proposed Alliance have a responsibility to build and maintain trust with all stakeholders and affected parties. DB Schenker does not underestimate the scale of this challenge.
- This implies that Alliances require changes in behaviour and culture that will not be straightforward and experience suggests will take some time to mature.

  However these cultural changes are at the heart of how the rail industry needs to develop to drive whole-system efficiencies.

Implications of the Proposals for Rail Decentralisation

20. DB Schenker believes that decentralisation in its different forms—in terms of Network Rail devolution, possible future infrastructure concessions, possible future vertical integration trials or devolved responsibility for passenger services (both funding and specification)—potentially have major implications for rail freight.

21. It is important to emphasise the distinction that rail freight operates in response to demand, not in anticipation of demand which is the case with most passenger services. Therefore the known requirements of our customers drive the patterns and frequency of rail freight.

These requirements, which often change weekly or monthly, do not neatly follow railway lines of route or organisational boundaries. As an example, each freight flow typically crosses three or four Network Rail routes.

22. DB Schenker is always conscious that we—and other rail freight operators—compete directly with road freight in virtually all markets and rail freight has to be as simple and understandable as possible to use, if customers are to be persuaded to shift mode or increase their use of rail.

23. Rail freight therefore depends on a national network and needs to operate in a national framework—by this DB Schenker means that the customers demand (inter alia):

- Simple, affordable, national access charging.
- A national network—trying to deal with multiple handoffs at regional boundaries would be a major problem, effectively replicating some of the problems of international rail freight on the continent within the UK. This applies to train planning as much as it would to differing standards, rules or maintenance regimes.
- Development by Network Rail of the "System Operator" role is critical and it is of concern to DB Schenker that progress with this seems slow or has not yet been more widely shared.
- A co-ordinated national possessions regime to ensure that appropriate diversionary routes are always available.

24. DB Schenker suggests that there is a serious risk of increasing tension between the development of devolution, particularly of Network Rail routes, and the needs of freight customers and freight operators. Our main concern is that we risk having to apply considerably more manpower, cost and energy to managing internal railway relationships rather than focussing on developing business with customers.

Our main competitors, road haulage, face no such parallel task and thus Rail Reform inadvertently risks placing rail freight operators at a competitive disadvantage.

DB Schenker would make six observations:

- Network Rail has recognised this dilemma and has responded by appointing a Freight Director. DB Schenker welcomes the provision of this senior focus for freight.
- Notwithstanding the appointment of the Freight Director, the nature of the relationship between Freight Operating Companies such as DB Schenker, Network Rail's Freight Director and his team and the Network Rail Route Managing Directors is still developing.

It is clear to DB Schenker that some form of direct relationship with Route Managing Directors is still necessary given their responsibility for managing the railway. However, for a national operator such as DB Schenker, forging such a relationship with all 10 Route Managing Directors is a considerable logistical challenge.

- In the event of an infrastructure concession being let, or of a vertical integration trial, such a direct relationship with the Route Managing Director will probably become more important.
- PTEs are already showing greater interest in rail freight that operates either within or through their respective "areas". It seems inevitable to DB Schenker that we will have to develop a new relationship with both individual PTEs and the PTE Group, if PTEs take on greater roles within the passenger rail sector.
- Local Authorities are typically interested in rail freight, but the only direct involvement tends to be via the planning regime (eg in applications for consent for new freight terminals)—so the current relationship between Local Authorities and the rail freight community is rather indirect. It is not clear to DB Schenker what greater role Local Authorities might take with respect to passenger services, but any greater role would imply the need for some different relationship with the freight community even if only for communication. This would have considerable logistical challenges for rail freight operators.
- DB Schenker has some concern that Local Authorities—or indeed Local Enterprise Partnerships—will inevitably be focussed on issues within their area and may be less well placed to put rail freight in the wider context which is necessary. It is important to remember that many of the benefits of rail freight fall outside of the railway balance sheet.

25. DB Schenker therefore foresees that there is some risk that the interests of rail freight customers and operators will be subordinated (perhaps inadvertently) behind the issues for which Network Rail Route Managing Directors, PTEs, Local Authorities or Local Enterprise Partnerships have direct responsibility or immediate interest.

18 April 2012

Further written evidence from DB Schenker Rail UK Ltd (ROR 17A)

THE GOVERNMENT'S HIGH LEVEL OUTPUT SPECIFICATION (HLOS) FOR RAIL FOR 2014–19

Introduction

1. DB Schenker Rail UK ("DB Schenker") is please to submit additional evidence to the Transport Committee's Inquiry into Rail 2020. This evidence should be read in conjunction with our submission of April 2012.

HLOS Vision and Policy

2. DB Schenker welcomes the Government's vision for "dynamic, sustainable world class transport that drives economic growth and competitiveness and puts the customer and businesses at its heart".

3. The strategy of successive Governments for rail freight has been consistent since the publication in September 2009 of the Strategic Freight Network; the Longer Term Vision.

4. The March 2012 Command Paper—*Reforming our Railways: Putting the Customer First* reiterated this policy and it was further referenced in the Secretary of State's July 2012 "Guidance to the Office of Rail Regulation" which summarised the Government's position as:

> "The Government recognises the important role that rail freight plays in the nation's logistics and in the achievement of the Government's sustainable distribution objectives. The Government wishes to facilitate the continuing development of a competitive, efficient and dynamic private sector rail freight industry and is committed to ensuring that policies and regulations should work to this end and should not create unnecessary transactional costs or other obstacles to the achievement of these objectives and future growth".
>
> "In an industry where planning and operational decision-making are increasingly devolved, the Secretary of State wishes ORR to have regard, in exercising its statutory functions, to the importance of sustaining efficient and commercially predictable network-wide freight operations, including in decisions about access rights and charging structures".
>
> "The Secretary of State wishes the ORR, in developing any proposals, and in making decisions in relation to rail freight, to note particularly the Government's rail freight policy. The Secretary of State wishes to be advised by the ORR of, and to discuss with the ORR, any material measure which the ORR proposes to take or policy which it proposes to pursue which would adversely affect the competitiveness of rail freight compared to other modes".

5. DB Schenker welcomes the clear expression of government policy and support for rail freight set out (most recently) in the Secretary of State's Guidance to the ORR.

HLOS Strategic Context

6. The HLOS is framed against the background of forecast further strong average growth during CP5 of 16% in passenger demand and 23% in freight.

7. These forecasts need to be set against a backcloth of strong growth. Sir Roy McNulty's "Rail Value for Money Study" published in May 2011 noted that the low point of rail freight traffic was in 1994–95 when 13 billion net tonne kilometres were moved. From then, until just before the recession, rail freight activity increased by 68% to 21.9 billion net tonne km. During the recession activity fell as demand for bulk, manufactured and consumer goods reduced. By 2011–12 the level of rail freight activity had recovered to 21.06 billion net tonne km excluding infrastructure support services where activity totalled a further 1.86 billion net tonne km. The sector grew by nearly 10% between 2010–11 and 2011–12, with substantial increases in activity in intermodal (now the largest sector), construction and coal.

8. The McNulty Report also noted that "this has been underpinned by some £1.5 billion private-sector investment in rail freight equipment … such as locomotives, wagons, yards, terminals and information systems".

9. The industry is in the middle of the Periodic Review 13 process which will, inter alia, establish the access charging regime for CP5. DB Schenker has serious concerns about the potential impact on rail freight of the current proposals from ORR with respect to access charges (and especially the proposals to introduce a new freight specific charge and for geographic disaggregation of access charges).

10. In DB Schenker's view these changes will make the structure of charges too complex, will place rail freight at a further structural competitive disadvantage against road and potentially worsen the financial position of rail freight operators such that it will place at risk the plans for further modal shift from road to rail.

11. It also represents a deeply concerning change to regulatory policy for freight charging; hitherto this been supportive of rail freight and an important element in underpinning rail freight growth. However the effect of the PR 13 consultations has already been to inject considerable regulatory risk into the sector. There is some evidence that potential third party (including customer) investment in rail freight facilities has already been impacted.

12. Long term planning, and long term investment, is critical for railways and political and regulatory support is therefore of huge importance in terms of investor confidence. DB Schenker is concerned that ORR, in considering the balance of its various statutory duties in respect of their PR 13 proposals for rail freight has placed insufficient emphasis on the need for freight operators to be able to plan the future of their business with a reasonable degree of assurance.

13. It would be unfortunate if the benefits of the supportive framework for rail freight contained within the HLOS could not be maximised because of the consequences of the PR13 process.

14. DB Schenker is supportive of the Government's strategy for CP5 aimed at "exploiting synergies between schemes in order to efficiently meet forecast demand growth, support economic growth and better environmental outcomes, and secure cost efficiencies for both passenger and freight operators".

However DB Schenker is concerned that implementation of the strategy might be adversely affected by the impact of the current PR13 process on rail freight access charging.

HLOS Priorities

15. Government identified four main priorities in the HLOS:

— The creation of an "Electric Spine".

— Increasing capacity and faster journey times between key cities.

— Facilitating commuter travel into major urban areas.

— Improving railway links to major ports and airports.

16. The major strategic questions posed for the freight sector by the HLOS relate to electrification and the capacity to cater for growth.

Electrification

17. Government has estimated that currently only about 6% of freight tonnes kilometres are electrically hauled. This is because:

— Relatively few freight customers or freight terminals have sidings or connections that are electrified, even if the Network Rail route itself is electrified.

— Relatively few freight end-end journeys pass along routes that are entirely electrified and changing locomotives en route is not practicable as:

(i) as the economics cannot stand the cost;

(ii) it would add in disproportionate time to the journey;

(iii) it would increase performance risk.

— Many rail freight loading and unloading operations are untaken with the train locomotive attached to the wagons and moving the train when necessary. In addition, many rail freight cargoes are loaded into the top of wagons—for example coal is loaded from overhead chutes into the top of hopper wagons. It is not possible to undertake many loading and unloading operations under electric wires.

18. DB Schenker's general policy across Europe is to use electric locomotives as long as it is operationally practicable and economically sensible, for reasons of efficiency and environmental responsibility. The regime for charging for traction electricity is also a key influencing factor in the assessment of whether to invest in electric locomotives. This has been DB's policy for many years and DB has an established track record of investment in electric traction.

19. Within the UK, a high proportion of the rail freight locomotive fleet has been renewed since 1998—in DB Schenker's case, over 66% of the fleet of active main line locomotives. With a book life of 30 year and an actual life often closer to 40 years, the current locomotive fleet is not in need of significant replacement until the late 2020s/2030s. DB Schenker has some 55 electric mainline locomotives, designed for high speed and Channel Tunnel operations—these were built between 1987 and 1996, so are effectively only half way through their operational life.

20. It is therefore likely to be complex to make an earlier financial case for reinvestment in new electric locomotives for rail freight.

21. In addition, electric haulage poses additional operational issues for rail freight operators. When the main electrified route is not available for freight trains to use because of Network Rail engineering possessions for maintenance and enhancement, few diversionary routes have, or will have, electric capability. The economics of rail freight do not allow a duplicate fleet of diesel locomotives to be retained for use in these circumstances.

22. The detail of individual electrification projects is important for freight to ensure appropriate connectivity between main lines as well as connections into yards, sidings and depots. An example of this, which DB Schenker welcomes, is the inclusion of the Acton—Willesden link between the Great Western Main Line and the West Coast Main Line (WCML) within the Great Western Electrification project.

23. The Electric Spine opens up new possibilities for the rail freight sector by offering an alternative electrified route from Southampton to the WCML, and from the WCML to the Midland Main Line north of Bedford. This will make sites adjacent to the "Electric Spine" and the Midland Main Line north of Bedford realistic possibilities for development into rail freight interchanges for the first time.

24. The Government's commitment to a programme of main line electrification, potentially continuing through CP6, has therefore posed a number of important strategic questions for the rail freight sector. We are commencing work with Network Rail to evaluate in more detail the financial implications of these so that we can develop a clearer picture of the choices, options and timescales involved.

Capacity for Growth

25. The Initial Industry Plan published in September 2011 forecast that rail freight growth would continue by approximately 3.5% per annum in terms of tones carried and 4.3% per annum in terms of tonne-kilometres between 2010 and 2030.

These forecasts, developed by the wider rail freight community, have been validated by MDS Transmodal and are generally accepted (including by Government) as reasonable forecasts in the light of the growth achieved since privatization. They therefore underpin the freight element of planning work for the HLOSs.

26. Not all sectors of the freight market will grow—indeed some, such as power station coal, will decline due to structural changes in those markets. Growth is anticipated in the intermodal sector as well as some bulk commodities such as aggregates.

27. DB Schenker is pleased that these freight growth forecasts seem to have been taken into account in Government's consideration of rail capacity needs and key elements of the HLOS capacity enhancements therefore explicitly reference freight including:

— Accommodating crossing freight and passenger trains at Leicester, Ely and Peterborough.
— Gauge clearance for large containers and appropriate electrified links to adjacent electrified routes, depots and freight facilities.
— Improving port links being a stated Government priority. DB Schenker welcomes the confirmation that "The Government has a longer-term aim to provide high-capacity electrified routes from all major ports to the long-distance electric rail network".

28. DB Schenker also welcomes the recognition within HLOS that strategic railway planning is a longer term process that will extend beyond the end of CP5. With this in mind, DB Schenker supports the creation of a Development Fund for CP6 and also the request for the industry to "identify the most efficient strategic electrification schemes that may be considered for CP6. This should include freight linkages in South Yorkshire and Derby—Birmingham—Bristol".

Metrics

29. As rail freight is a private sector activity, there is less specification in the HLOS in relation to metrics for freight as it is recognized that market disciplines appropriately incentivise the sector. DB Schenker agrees with this approach but would make the following observations.

Safety

30. DB Schenker fully supports the Secretary of State's desire for "the continued safe operation of the railway to be of the utmost importance" and will work together with industry colleagues "to continue to improve its record on passenger and worker safety through the application of the "so far as reasonably practicable" approach and to ensure that current safety levels are maintained and enhanced by focusing domestic efforts on the achievement of European Common Safety Targets".

Reliability and customer satisfaction

31. Reliability and quality of service are critical for freight customers, but there is no freight equivalent to PPM nor any customer satisfaction mechanism as freight customers, in a competitive market, have a choice as to the rail freight operator (or mode) that meets their needs and can (and do) exercise that choice. The dynamics of the market therefore provide sufficient incentive, although within the Strategic Business Plan there will be a Regulatory metric for Network Rail's freight performance.

European Rail Traffic Management System

32. ERTMS poses particular issues for rail freight. The nationwide nature of freight operations, coupled with the need for flexibility in deployment of assets and staff in support of Network Rail's programme of infrastructure improvements and enhancements, means that the early retro-fitment of the entire freight locomotive fleet together with appropriate staff training will be essential. This will be complex to organize and early clarity on the precise financing and operational elements will be important. DB Schenker is committed

to playing its part in making sure the works necessary for ERTMS are procured and delivered timeously and with value for money, and also that the projected efficiency and capacity benefits are identified and realised.

Ring-Fenced Investment Funds

33. DB Schenker strongly supports the use of ring-fenced investment funds. The experience of the CP4 Strategic Freight Network fund confirms that with an appropriate remit, membership and governance arrangements, these can be a powerful driver of aligned behaviour that drives value for money and obtaining the maximum benefit possible.

34. DB Schenker supports the ring-fenced allocation of £200 million over the course of CP5 made by the Secretary of State for Transport in respect of infrastructure improvements to benefit rail freight in England & Wales and the separate £30 million Strategic Freight Fund established by the Scottish Government.

35. Some key elements of infrastructure capacity and capability will be delivered within route based projects and the proposed ring-fenced fund for the East Coast Main Line will be critical to delivering the identified requirement for improvements at Peterborough to allow for the crossing flows of passenger and freight traffic. The governance and structure of the proposed East Coast Main Line ring-fenced fund will therefore be critical to freight.

36. Given the long term nature of railway planning, together with strong forecast growth in freight traffic, DB Schenker supports the proposal of the Secretary of State for a fund to plan for future control periods and to develop innovation in the industry.

Update on Rail Reform Progress

37. Since DB Schenker submitted evidence to the Transport Committee in April 2012 relating to the impact of Rail Reform, key policy initiatives have continued to develop and DB Schenker would offer the following additional observations:

- Network Rail's Freight Director has established himself and his team within the organization and has helped to increase focus on rail freight across Network Rail, This has been particularly evident in terms of day-day operational performance, where the focus of Network Rail has increased visibly and their operational performance has improved.
- Network Rail in Scotland has established a Joint Freight Board with wide stakeholder involvement that will seek to manage the relationship between Network Rail and the sector in a different and more open form. The Board has met once and early indications are encouraging.
- DB Schenker is also a member of the Stakeholder Board of the Wessex "Deep" Alliance which met for the first time in July. The Alliance has hitherto been concerned with establishing itself so no radical changes have yet been evident. However the Board was conducted in an open manner, and that, together with the enthusiasm and commitment of the Alliance team, was encouraging.
- DB Schenker is a member of the Rail Delivery Group, and is actively involved in a number of the workstreams established by the Rail Delivery Groups to drive cost-industry efficiencies.

23 August 2012

Written evidence from the Local Government Association (ROR 19)

1. Introduction

1.1 The Local Government Association (LGA) is a voluntary membership organisation with 422 member authorities covering every part of England and Wales, and includes county and district councils, metropolitan and unitary councils, London boroughs, Welsh unitary councils, fire, police, national park and passenger transport authorities.

1.2 The LGA lobbies and campaigns for changes in policy, legislation and funding on behalf of our member councils and the people and communities they serve. Together they represent over 50 million people and spend around £113 billion a year on local services.

Response to Inquiry Questions

2. *What should be the Government's vision for the railways in 2020, taking account of likely spending constraints?*

2.1 The LGA shares the Secretary of State's determination to move to a more localised approach to decision making on the railways and wants to work with the department to realise that vision. In submitting this evidence we seek to make a constructive contribution to the development of a policy we support.

2.2 The Government's vision for rail also needs to see rail in the context not only of the totality of an area's transport provision but in the context of other polices, in particular around economic growth and the environment.

2.3 The LGA would like to see the development of a model of transport devolution that:

- 2.3.1 Supports increased local economic growth.
- 2.3.2 Maximises councils' involvement in bus/rail and road provision, including through increased involvement in the rail franchising process.
- 2.3.3 Allows authorities to enter into partnerships when and where appropriate with each other, private and third sector partners and agencies such as Highways Agency and Network Rail, and to get the best from LEPs.
- 2.3.4 Minimises financial risk and ensures devolution does not simply mean creating an environment in which service cuts are inevitable and councils get the blame.
- 2.3.5 Maximises budgetary flexibility to shift funds between modes and to access other funding aimed at promoting growth/environmental goals and health outcomes.
- 2.3.6 Maintain a role for DfT, working with LGA and others to provide support for councils through the provision of central expertise and dissemination of best practice, while freeing councils from a single DfT evaluation criteria.
- 2.3.7 Dovetails the various devolutionary measures central government is currently considering both within the transport sphere and relevant to it.

2.4 Coherent, integrated local transport systems are key to creating growth in our cities and rural areas. This involves managing existing systems and infrastructure more effectively and new investment where appropriate.

2.5 Decisions on these matters need to be taken locally. Local authorities and ITAs are in the best position to deliver integrated approaches, but to do so they need greater influence over local transport decision-making.

2.6 Many of our major cities and towns underperform their European equivalents on key economic indicators and at least part of the reason is the quality of the local transport systems, which make these cities attractive places to invest and which enable people to get to the jobs.

2.7 In the UK, transport infrastructure problems are estimated to cost businesses nearly £20,000 per annum on average, and the top two improvements businesses would like to see in their current city are improved transport links with other cities and improved public transport.

2.8 Another key role for transport in economic development is helping people to get into work. Nearly 40% of jobseekers say transport is a key barrier to getting a job. Studies have show that this support works best when they are designed with the needs of different individuals and places in mind; when they integrate and assist individuals in the use of existing transport provision; and when they work alongside initiatives in other policy areas. Again, this requires decision-making at a local level.

2.9 The LGA has long argued for greater local decision-making in transport. A number of recent developments—including in regard to rail franchising—suggest that central government has begun to appreciate the advantages of such an approach, but these developments need joining up. The DfT's hopes for railway devolution need to dovetail with the devolution of other forms of transport funding—and the barriers between them removed—so that councils can target funding where it will have the greatest effect. This is not just about rail policy but total local effect—for example through realising the potential of stations as local economic and social hubs.

2.10 The government is currently consulting on the proposal to devolve local major schemes (LMS), an aim the LGA supports. In responding to that consultation we have argued that councils need to be free to make alliances that are project-specific, where they see this as sensible, rather than being tied into a local transport consortia as that consultation proposes. Although the Government recognises the need to consider the two devolutions together,[2] we are not convinced it will always be possible to construct local transport consortia as envisaged in the LMS devolution that are appropriate vehicles for rail decentralisation. On the other hand project-specific alliances could enable councils to work together on rail projects that dovetail with road or bus schemes without having to create a permanent bureaucracy around them. We are not opposed to the consortia described in the LMS consultation but we think there needs to be room for alternative approaches.

2.11 With specific reference to rail we are unclear as to how greater decentralisation will fit with the government's desire for more flexible franchises. If this means councils have less scope to specify the content of franchises than the DfT (and councils where they were involved) had during the last franchising process, it is difficult to see what incentive councils will have to take on a franchise in this round.

2.12 We question the DfT's desire to subject 'decentralised' transport to DfT value for money models. The DfT's methods for appraising and evaluating value for money in transport are open to criticisms and for devolution to be meaningful, councils must have more leeway in determining what 'value for money' means so that greater or lesser weight can be given to different outcomes (for example economic, environmental,

[2] See paragraph 5.5 of the rail devolution consultation.

health, social), depending on what local priorities are. In particular the use of time-savings as criteria should not be imposed on councils.

3. *How should the balance be struck between the taxpayer and the fare payer in paying for the railway?*

3.1 The subsidy paid to a rail service should reflect the fact that the benefits of that service accrue to those who do not pay directly to use it—in terms of economic growth, reduced carbon emissions, reduced congestion and in some cases the avoidance of social isolation. Subsidy paid on this basis needs to be treated as a payment for a service and not simply a cost to be reduced irrespective of the knock-on effects. This should not mean that no effort is made to deliver the service efficiently nor that the subsidy cannot be withdrawn, but that cost savings and subsidy reductions need to be viewed in a wider context than that of the railway's balance sheet, because a reduction in the cost of the railway to taxpayers may ultimately incur a greater cost to them elsewhere.

3.2 In making these points we are conscious that the current rail industry plan has been considered by the Rail Delivery Group which contains no public sector input. This imbalance needs to be addressed. In addition, there needs to be more opportunity for councils to lever money into the railways either from private sector partners or from other budgets where appropriate.

4. *How are the targeted efficiency savings (£3.5 billion by 2019 on a 2009–09 base) to be delivered? What will be the consequences?*

4.1 The LGA is concerned that the Government intends to devolve funding in a manner that assumes the savings set out in the McNulty report will be made; and that if these savings subsequently fail to appear, councils will be left with inadequate funds to maintain an acceptable level of service. We believe this will act as a significant deterrent to local authorities in taking on franchising responsibilities, in particular if it is combined with long-term franchises devoid of break-points.

4.2 The Government's consultation on decentralisation states that it "would expect that the level of funding devolved would fully reflect the efficiency improvements that can be reasonably expected, as well as any extra cost required to respond to growth where this represents value for money".[3] The effect of this intention will depend almost entirely on what the phrase 'that can reasonably be expected' means in practice, and in particular whether local authorities feel confident that the expectations of government are reasonable.

4.3 In turning this phrase into a detailed set of plans, the Government needs to bear three points in mind:

4.3.1 Historically it has almost always been the case that the rail industry over-estimates future earnings and underestimates future costs.

4.3.2 Key aspects of cost reductions set out in the Initial Industry Plan are as yet unclear and there is an inevitable uncertainty over whether these savings will emerge. While exploring the possibilities for decentralising NR, greater partnership working and increasing train utilisation are sensible and welcome proposals, but while it is almost certainly true that the industry can save money through better partnership, at this stage none of these initiatives can offer a firm, securable, saving. Some may yet turn out to be dead ends (for example there is no guarantee that the work on possible increased train utilisation will find significant savings), and the report acknowledges that 'a step-change in the degree of cross-industry collaboration' is required, if the envisaged improvements are to be achieved.

4.3.3 Equally the IIP sets out a vision in which lowering the subsidy requirement depends to a significant extent on an increase in revenue, which could fail to materialise for a variety of reasons, some of them beyond the railways' control.

4.4 Quite apart from the concern set out above, we think that unless the reasonable expectations of savings are very low there is little prospect of additional savings materialising that can be redirected to increase train usage as mentioned in paragraph 3.9 of the consultation paper.

4.5 The financing of railway services needs to be viewed in a wider public policy context. For example, we need to ask whether the opportunities provided by staffed stations are being fully exploited and to consider the transformative power of stations within local economies as hubs that can play an important part in supporting the high street and town centre economy, rather than seeing station staffing simply as a cost issue. One success of the private railway has been the proliferation of small businesses on platforms and in station buildings which had often suffered years of neglect and which had become eyesores deterring passengers. De-staffing stations runs the risk that they will once again cease to be a business-friendly environment, leading to an increase in crime and antisocial behaviour in and around stations and deterring rail use. Greater local involvement in the railway at both council and community level may help here.

4.6 Another pertinent example of the wider context is the proposal to raise more revenue from car parking facilities. The LGA is already aware that this is encouraging passengers to get lifts to and from stations, doubling their road journey (as those who drop/collect them return/leave home). In addition, the increased cost

[3] See paragraph 3.5 of the rail devolution consultation.

of station parking is already leading to displaced parking in surrounding streets. It may also encourage passengers to leave rail and journey instead by road.

4.7 LGA is concerned that if the envisaged savings fail to emerge, investments in or support for services which are in themselves worthwhile, may be cutback in an unplanned attempt to meet savings targets that reflect unrealised expectations of what can be saved, or unmet hopes of increased revenue. This would have damaging economic and social consequences at a local level.

5. *Will the reforms to rail franchises proposed by the Government, including alliances, deliver better services at lower costs?*

5.1 The LGA supports the Secretary of State's desire to increase local government's involvement in rail franchising and her willingness to consider a variety of means to that end. We do not think there should be a single model of rail devolution. Different approaches will suit different areas and it is for the councils involved to decide on the right approach for them.

5.2 We support closer working between Network Rail and ToCs. One difficulty facing councils in getting enhancements to local rail services is the number of partners involved. Alliances should help reduce this obstacle to enhancements.

5.3. While we are not opposed to more flexible franchises, we do note that the franchise system was tightened up in the middle of the last decade to iron out problems such as train companies running additional services that were not required in order to generate additional subsidy payments. Increased flexibility will need to be accompanied with safeguards against the re-emergence of the issues that have prompted reform in the past

6. *How should fares and ticketing be reformed?*

6.1 We support the Government's intention to expand smart ticketing technologies. We hope that a more flexible approach to ticketing will not only help to manage peak demand, but will encourage passengers onto trains that are currently less than full. For example, through considering contra-peak ticketing that would reduce the costs of those travelling against the peak flow, making cheap days out simpler for families in school holidays. Greater local involvement in franchising would, we think, encourage a more innovative approach to ticketing by bringing more detailed local knowledge into play.

7. *What are the implications of the proposals for rail decentralisation and how should responsibilities be devolved to local authorities?*

7.1 The key point for the LGA is that there must not be a one size fits all approach to devolution. While their will be common elements across franchises, to a certain extent, local involvement in each needs to be bespoke. Different authorities will want different models and some may not see franchising as the best means to influence rail outcomes. An approach that can accommodate these different views is required.

7.2 We believe it is for authorities themselves to come forward with views on the structure they prefer, either individually or in consortia.

7.3 While the LGA is still considering its detailed response to the consultation on rail devolution, it broadly agrees with the division of local and central responsibilities set out in paragraphs 4.1–4.15 of the consultation document, and with the views stated in paragraph 5.5.

7.4 We do not necessarily agree with the Government's view that some types of service should be outside of local control because they are strategic. For some authorities, the most important rail service may be the intercity connection to London or regional inter urban services. Authorities should be free to fund improvements in long-distance services where these are considered a priority for the authority's area (although we accept that this is unlikely to be best-achieved through responsibility for the franchise). Where authorities wish to come together to franchise inter urban services across a region they should be free to do so.

7.5 If authorities are to play a part in franchising, there needs to be greater transparency over costs and passenger number figures, and this data needs to be made easily accessible to the sector.

7.6 We are not entirely convinced that it will be possible for decentralisation of rail to be carried out without new legislation. We would encourage government not to settle for second best when a more desirable structure is possible but requires a short bill. We will work with government to devise such legislation if necessary.

18 April 2012

Written evidence from the Mayor of London and Transport for London (ROR 20)

1. Introduction

1.1 The Mayor of London and Transport for London (TfL) welcome the opportunity to contribute to the Committee's inquiry into this topic and this evidence is submitted on behalf of both.

2. Government's Vision for the Railways

2.1 The second High Level Output Specification or HLOS2 will set out the required outputs for the rail network in Control Period 5 (CP5) between 2014 and 2019. Government's stated intention is to improve the connectivity and capacity of the network, particularly for the journeys that matter most to economic growth including major intercity, commuter and freight flows. These aspirations are shared by the Mayor and TfL. The Mayor's Transport Strategy sets out the challenges faced by London and the Mayor's *Rail Vision*, published in February 2012, develops a realistic proposal setting out the schemes that should be funded in London to achieve the Government's and the Capital's goals. This includes a proposal for the policy of rail decentralisation to be further extended in London, building on the successful London Overground model.

2.2 The Capital is highly dependent on rail, with the Tube and National Rail having a combined mode share of 78% for trips to central London in 2010. Londoners make six times as many rail trips as people in the rest of England, and 60% of all UK rail trips are made either to, from or within the Capital. As rail is the main means by which people get to two million central London jobs, the Capital's economy is crucially dependent on it.

2.3 Londoners experience lower service quality than other parts of Great Britain. This is demonstrated by National Passenger Survey scores which show overall satisfaction is three to four percentage points lower in London and the South East than in the rest of the country. National Rail fares are higher in London than in regional cities (averaging 13p per passenger kilometre compared with 10p). London stations have lower accessibility, with only 33% of stations step-free compared with 60% in the three next biggest cities. Crowding is more severe. Almost 60% of trains arriving in the morning peak have passengers standing and 20% of passengers stand. This is around twice the level of standing in Birmingham and Manchester.[4]

2.4 The UK's economy is crucially dependent on the London economy. As a global and business financial centre, the city's productivity per head is 60% higher than the UK average. London and the South East contributes more than a third of UK GDP, and by 2016 it is forecast to generate a tax surplus of £27 billion. Paradoxically, London also has a significant amount of deprivation, playing host to 20% of the most deprived areas in the UK.

2.5 The balance between taxpayer and farepayer should take more account of the economic benefits delivered by rail services. The importance of rail to London's economy and of London's economy to the UK's, mean that there is a strong case for continued investment in London's rail services. With fares already high, it is necessary to look to Government to provide this investment. Despite this, subsidy per passenger kilometre is only 15% of that of regional operators as shown in paragraph 3.2.

2.6 London has a growing population and a severe housing shortage. But it also has a number of major opportunity areas, brownfield sites that could accommodate dense development if rail access were provided. Some of this investment, which is normally beyond the capacity of the site developers to support in full, could be recovered from tax income generated by the development, but there is still likely to be a gap that Government could be called on to fill. Investment in infrastructure to regenerate abandoned parts of London can be justified by the Capital's importance to the country's economy.

2.7 The requirement on the rail industry to provide greater step-free access is a further call on the investment budget.

2.8 Providing sufficient capacity to meet commuter demand is essential to the growth of London and of the UK. Jobs and population growth in the Capital is projected to be such that, by 2020, there will be very severe crowding on many rail corridors. Committed schemes will meet part of the capacity shortfall on a proportion of routes. But in many places crowding will remain very substantial and further investment in capacity will be needed if the rail network is to support London's and UK's potential economic growth. Capacity at key stations will also be a problem.

2.9 The most severe crowding is forecast on orbital routes. The upgrade of the London Overground has transformed the passenger experience and unlocked a huge volume of previously suppressed orbital journeys, with 110% growth over four years on a like-for-like basis. However, in the context of the forecast growth, longer trains will soon be urgently needed to cope with the anticipated high level of demand.

2.10 Severe crowding is also forecast on the line between Staines and Clapham Junction, on services into London Bridge and on the Tilbury and Grays line into Barking and Fenchurch Street. TfL also has concerns over crowding levels on outer-suburban services, especially on Essex Thameside, Kent coast, Brighton main line, South West main line and Great Western main line services. TfL's recommendations for CP5 and the

[4] ORR National Rail Trends, 2010–11.

associated benefits are set out in the Mayor's Rail Vision.[5] The recommended package of schemes is estimated to increase GDP by around £3bn in present value terms.

2.11 The Initial Industry Plan shows that the provision of additional London commuter market capacity offers good value for money, with an outstanding benefit-cost ratio of 11 to 1,[6] and fits with the Mayor's Transport Strategy.

3. Targeted Efficiency Savings

3.1 The McNulty review targeted efficiency savings of £3.5 billion by 2019 to be delivered by the rail industry. Reductions in Network Rail's costs as a result of the last Periodic Review and existing commitments are expected to deliver £2.5 billion of efficiencies. In its March 2012 Command Paper, the Government states that a further £1 billion of savings can be delivered as a result of its recommendations. ORR's Advice to the Secretary of State estimated Network Rail's costs for CP5 to be very close to Network Rail's own submission. This suggests that the Network Rail cost savings identified so far are deliverable. However, the Government needs to set out the mechanism through which the additional £1 billion savings will be delivered and to publish milestones.

3.2 Savings need to be found from across the industry in the form of cost reductions or growth in revenue. Sectors that already largely cover their costs should not be unduly penalised. Table 5.1 of the Command Paper[7] shows that net cost to Government is 4.8p per passenger mile for London and South East operators compared with 7.3p for long distance operators and 31.1p for regional operators. London and South East services are already covering a high proportion of their costs through the farebox. Efficiencies should be targeted at areas which will not impact negatively on economic growth.

3.3 Nonetheless, inefficiencies in the franchising system mean that some savings can be delivered in London.

4. Reforms to Franchising

4.1 The Government's preferred model of longer, less prescriptive franchises works better for medium to long distance journeys where train operators are incentivised by the farebox to provide good quality services which meet passenger demand.

4.2 Urban rail services, on the other hand, meet a social and economic need but would be relatively neglected by a commercially focused train operator. Demand for London commuter services is driven largely by London employment and other macro-economic factors. Fares are largely outside the control of operators, and yields are relatively low in absolute terms because of short average journey lengths, under £2.50 compared with £20.00 per journey on long distance services. Other things being equal, commercial incentives are therefore modest when combined with relatively high costs associated with peaked mass-market demand, and largely captive customers, so companies that provide inner suburban rail services deliver the minimum required. However these 400 million journeys every year are vitally important to the London and by extension UK economies.

4.3 The Government is requiring the industry to lead the delivery of cost savings and believes that train operators will be incentivised through the new franchises to deliver changes to working practices. The Government wishes to take a hands-off approach, but it is not clear how train operators will be incentivised to deliver efficiencies. Rather, quality may suffer because of limited commercial or contractual incentives: off-peak train services could be cut and station facilities scaled back. The Government should set out clearly what steps will be taken to incentivise operators to deliver industry reform. TfL's proposals for urban services in London (see section 6) would address these problems.

4.4 The Command Paper targets significant savings to be found from closer alignment between train operators and Network Rail's zones, through alliances for example. It is essential that alignment results in genuine efficiencies rather than a reduction in quality. Furthermore, almost every alliance will play host to one or more secondary operators (both passenger and freight). Their interests need to be protected. ORR has issued a statement to this effect and it has an important role in managing the implementation of alliances.

5. Reform of Fares and Ticketing

5.1 TfL supports the case for greater use of smartcards across the National Rail network and for season tickets to be issued on smartcards. In London, experience has shown that passengers prefer Oyster Travelcards to magnetic Travelcards. Transferring season tickets to smartcards will deliver benefits to passengers and reduce fraudulent travel because of the ability to hotlist cards. It will also enable operators to provide flexible alternatives to the traditional season ticket, for example by offering better value to people working from home one day per week or with shoulder peak discounts. There will be an opportunity to introduce weekly fares "capping", analogous to the current daily cap, as an alternative to a weekly season ticket. TfL believes that fares should be aligned to the time of travel and number of journeys made. Currently prices are

5 http://www.london.gov.uk/mayor%E2%80%99s-rail-vision-investing-rail-services-london
6 Initial Industry Plan England and Wales, September 2011.
7 Reforming our Railways: Putting the Customer First, March 2012.

disproportionately high for part-time workers, many of whom are less well off. The Government should take steps to address these issues when franchises are let, noting that changes will need to be made gradually.

5.2 TfL aims to roll out innovative new ticketing systems like "wave and pay", that is the use of contactless debit and credit cards as a smart ticket valid for travel. Customers who choose this method need never use either a ticket office or ticket machine at all. Enhanced functionality on easier-to-use ticket machines will reduce the need to buy tickets from ticket offices. TfL's experience is that, especially with the rise of new ticketing technologies, customers increasingly want to see staff out and about in the station to help customers by providing assistance and security, rather than behind glass.

5.3 Demand spreading measures will help to move demand into less busy periods but will not solve London's crowding problem unless they are used alongside capacity increases. The Fares and Ticketing Review consultation quotes research that shows a hypothetical 40% peak additional increase in high peak fares over five years would generate a five% reduction in peak demand, equivalent to just over one year's growth.

5.4 The Mayor's response to the fares and ticketing review consultation will provide more detail on these points.

6. Rail Decentralisation

6.1 Urban rail services such as London's inner-suburban services are most suitable for local control because they deliver substantial economic and social benefits yet are neglected by commercially focused operators.

6.2 In London, TfL proposes that national government should continue to specify and manage outer suburban rail and longer distance rail services. Responsibility for specifying, procuring and managing some London-focused inner suburban services should be transferred to TfL along with general responsibility for setting all rail fares for travel within the London area. The following five point plan sets out TfL's proposals:

1. the Mayor should be allocated DfT's rail budget for relevant inner suburban passenger services;
2. when Anglia and Kent franchises come up for renewal, inner suburban services should be specified by TfL to Overground standard under a separate concession;
3. TfL should have full accountability for contract management, such as "breach" and "default";
4. all fares for travel within London would be set by the Mayor to enable a simplification not only of the associated bureaucracy but also to reduce confusion around ticket products and fare structures; and
5. with the above, relevant inner suburban services could be branded "London Overground".

6.3 Although the West Anglia and Southeastern inner suburban services are proposed for devolution in the Mayor's Rail Vision, the specific routes mentioned are indicative and there are feasibly other options.

6.4 Local bodies such as the Mayor and TfL have a detailed knowledge of the services and their characteristics and can respond quickly as changes occur. They are also best placed to integrate rail services with the rest of the public transport network in terms of fares, information and the delivery of a consistent customer service proposition. This is especially so in London where National Rail services are fragmented and disjointed in many passengers' eyes, compared to the multi-modal TfL network.

6.5 Devolution in London would also improve value for money. As with its existing London Overground, Docklands Light Railway and bus services, TfL would let "gross cost" contracts, in which it absorbs revenue risk, for the operation of devolved inner-suburban services. Because train operators have little control over revenues, which as noted earlier are driven largely by macroeconomic factors, they will only do so at a price. This additional cost to the public sector would be reduced if TfL took the revenue risk instead. For the routes proposed for devolution, the gross saving from the transfer of revenue risk has been estimated at £100m over 20 years. This could then be invested in improving customer service quality and providing incentives to improve reliability. This is wholly consistent with the objective of greater value for money as set out in the McNulty review.

6.6 Savings would be achieved by properly incentivising train operators to collect revenue. Fare evasion surveys show that net cost contracts have been ineffective in incentivising operators to collect fare revenue on inner suburban routes. However on London Overground, where concession operator, London Overground Rail Operations Limited (LOROL), is subject to penalties and incentives geared towards meeting a specified target, reduced fares evasion now generates an estimated £9m per year in revenue.

6.7 Incentives would improve other aspects of service quality. On the London Overground concession, for example, the customer satisfaction survey, mystery shopper survey, reliability measures and other performance indicators objectively measure the quality of service. A detailed service quality regime of this type is appropriate for an urban railway. The London Overground service quality regime is different from that on DfT franchises where reporting is at a more aggregate and less objective level. LOROL is also penalised for delay minutes attributed to the operator in a way that does not apply to franchised TOCs. This has resulted in LOROL becoming one of the best performing train operators. Conversely, these are all areas that could be neglected under longer, less-prescriptive franchises. This effect can be seen already in lower performance and satisfaction ratings for franchised TOCs (National Passenger Survey scores of 80 for West Anglia and Southeastern inners compared to 87 for London Overground).

6.8 Devolution in London would provide a means to achieve more readily and cost effectively the goals of the Mayor's Transport Strategy, of simple and consistent standards of service quality. London and South East already has the lowest subsidy per passenger mile in Great Britain and devolution would provide improved services and better value for money as well as benefits to the economy. TfL's proposals would not add new bureaucracy or layers of management to the industry. Rather, they are designed to replace existing industry relationships and functions. Responsibility for London's railways would sit in one place, directly accountable to a local electorate, integrated with other modes, delivering operational synergies and, via a "single till for transport", providing cost savings. Interests of passengers living outside London would be protected and democratic accountability for rail services would be increased compared with the current industry structure.

6.9 The Mayor's response to the Rail Decentralisation consultation will provide more detail on these points.

18 April 2012

Further written evidence from the Mayor of London and Transport for London (ROR 20A)

RAIL 2020: HIGH LEVEL OUTPUT SPECIFICATION ANNOUNCEMENT

1. Introduction

1.1 The Mayor of London and Transport for London (TfL) welcome the opportunity to provide additional evidence to the Committee's inquiry and this evidence is submitted on behalf of both.

2. Overall Conclusions

2.1 The High Level Output Specification (HLOS) process works well and brings greater certainty to the industry. Its content is hugely important to Londoners who make six times as many rail trips per head than anyone else in the UK.

2.2 However, seemingly in London it is driven solely by demand and crowding as opposed to wider considerations, such as the London Plan, which identifies a number of areas of future growth, regeneration and economic development, but where there is no crowding in the absence of existing services.

2.3 The HLOS announcement sets out a number of illustrative options. TfL looks forward to working with the industry in shaping these further as part of the Strategic Business Plan process through to January 2013 which will determine in detail what will be delivered in Control Period 5 (CP5).

3. Government's Vision for the Railways

3.1 The Government has recently announced the second HLOS setting out the required outputs for the rail network in CP5 between 2014 and 2019. The Government's strategic priorities are to improve connectivity and capacity of the network. These aspirations continue to be shared by the Mayor and TfL who welcome additional investment of over £700 million in congested routes in London and the South East. This is in addition to existing schemes including Crossrail and Thameslink, which will be delivered in CP5.

3.2 Rail crowding in London is more severe and more widespread than in other British cities. Reliability tends to be somewhat worse than regional services. Taken together, it is no surprise that customer satisfaction is rather lower, as measured by Passenger Focus.

3.3 Almost 60% of trains arriving in the morning peak have passengers standing and 20% of passengers stand. This is around twice the level of standing in Birmingham and 50% more than in Manchester.[8]

3.4 The HLOS, including existing capacity schemes, will accommodate a 22% increase in morning peak arrivals at London termini by 2018–19. TfL welcomes this capacity increase which, we estimate, will contain the growth in crowding levels overall on National Rail, though by no means solve it. London's population continues to grow strongly as demonstrated by the 2011 Census which reported that London's population is now 8.2 million, 12% higher than when the 2001 Census was carried out. Population in London and the South East of England has grown by 1.5 million since 2001. The London Plan, which has broadly been correct to date, anticipates this growth to continue over both this decade and the next.

3.5 TfL notes the progress rightly required to achieve a more cost effective railway. The context though, as identified in the McNulty review, is a subsidy per passenger kilometre which is considerably lower at only 5p per passenger mile compared with 31p per passenger mile for regional operators.[9] London and South East services already provide relatively good value for money, given the high level of benefits they deliver and their importance to London's economy.

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[8] DfT Peak Rail Capacity RAI0212, 2011.

[9] McNulty *Rail Value for Money* report, May 2011.

3.6 TfL welcomes the provision made for ring fenced investment funds, particularly those covering the Strategic Freight Network, Passenger Journey Improvement, Station Improvement and Development. This simplifies existing arrangements and gives the industry flexibility. We look forward to working with the industry to develop proposals for scheme funding through the investment pots.

3.7 Within London there are large variations in the quality of station infrastructure and facilities and the £100 million fund for station infrastructure improvements is welcome. The Mayor has proposed improvements to West Anglia and Southeastern inner suburban stations as part of his Expression of Interest in rail decentralisation. However this only covers selected routes and there are many other stations in London which would benefit from improvements.

3.8 A smaller proportion of London's stations is accessible compared with other parts of the country, with only 33% of stations step-free compared with 60% in the three next biggest cities. The HLOS announcement includes a £100 million fund to improve the accessibility of stations. TfL welcomes the continuation of the Access for All programme which has already delivered significant benefits to passengers across the country. TfL has identified a priority list of stations which require accessibility improvements and it is ready to submit the stations as candidates for future tranches of Access for All funding. We believe there is a case for further increasing the level of funding provided for step-free access above the £100 million identified in HLOS. This sum equates to only half the annual level of funding in the original Access for All programme, yet many stations still require step-free access, and implementation becomes increasingly difficult as the easier stations are addressed.

3.9 Station congestion is a constraint on rail demand growth and the Mayor and TfL welcome illustrative options to reduce congestion at Paddington, Victoria, Clapham Junction and Wimbledon stations. Other London stations, as set out in the Mayor's Rail Vision, also suffer from severe congestion and would benefit from capacity enhancements during CP5. These include Fenchurch Street, Charing Cross, Finsbury Park, Bromley South, Sutton, Surbiton and Barking.

3.10 The additional train and station capacity will meet demand overall, essential for supporting the growth of London and the UK. However, there are some routes where TfL believes the illustrative options require some development to meet better demand requirements (see section 4).

4 Illustrative Options

4.1 DfT has published a number of *Illustrative Options* to meet London's capacity challenge. The Mayor's recommendations for capacity enhancements were set out in the Mayor's *Rail Vision*[10] in February 2012. The illustrative options are a good start in scoping these, but some important gaps remain in planned capacity provision which, left unchanged, will constrain the economic growth projected in the London Plan.

4.2 The most severe crowding is forecast by TfL to be on orbital routes. The upgrade of the London Overground has transformed the passenger experience and unlocked a huge volume of previously suppressed orbital journeys, with 140% growth over four years on a like-for-like basis. However, in the context of the forecast growth, longer trains will soon be urgently needed to cope with the anticipated high level of demand. Capacity provision for 8 car Southern services on the West London Line is welcomed. However this does not provide for much needed capacity improvements on other orbital routes. Although responsibility for the former Silverlink Metro franchise was transferred to TfL with effect from November 2007, the infrastructure remains under the ownership of Network Rail as part of the National Rail network. Furthermore, capacity enhancements to London Overground services form part of integrated solutions to National Rail network capacity problems; for example, on the West London line and the Sydenham corridor, where capacity enhancements are of mutual benefit to all parallel services regardless of who operates them. As such, TfL considers that enhancements to the London Overground network should remain part of the HLOS process.

4.3 Gospel Oak-Barking electrification is another scheme proposed in the Mayor's Rail Vision which would deliver significant freight and environment benefits as well as enabling train lengthening on London Overground services, but which is not in HLOS. This is despite the fact that it featured in Network Rail's electrification Route Utilisation Strategy as one of four core schemes, the other three of which feature in HLOS. It also featured in the Initial Industry Plan. Passenger demand is also growing fast, which is expected to be matched by a rapid increase in freight flows from the opening of the DP World London Gateway port next year. Electrification is an effective means to solve these capacity problems.

4.4 Network Rail estimates that nearly 60% of freight traffic would switch to electric haulage were the route to be electrified. TfL's cost benefit appraisal also shows that 60% of the benefits of electrification are from freight, including a substantial contribution from reduced carbon emissions from freight traffic right around the UK. It also contributes to our shared goals of improving air quality, especially to reduce NO_x emissions which remain a major challenge in London. For example, the analysis for the Mayor's Air Quality Strategy suggested that electrification of the line would save around 200 tonnes of NO_x and around five tonnes of PM_{10} a year, the equivalent of 1% of London's transport emissions.

4.5 An Illustrative Option to provide additional Brimsdown-Stratford services on the Lea Valley line is included in HLOS. The Mayor and TfL believe that this scheme is insufficient to provide the turn-up-and-go

[10] http://www.london.gov.uk/mayor%E2%80%99s-rail-vision-investing-rail-services-london

frequency required to regenerate the Upper Lea Valley, one of the London Plan's main areas where growth can be comfortably accommodated. The route is currently particularly poorly served by rail with stations such as Northumberland Park and Angel Road only receiving a peak service of two trains per hour or less. Planned developments on the route would generate 37,000 new jobs in and around the Upper Lea Valley and lead to the building of 18,000 new homes. A regular and adequately frequent rail services is an essential contributor to economic development here.

4.6 The statement provides for a significant enhancement at London Waterloo to increase capacity. TfL's analysis shows that there is a clear and urgent need for additional capacity on the South West suburban lines via Wimbledon. These have had little capacity added in CP4 and are limited to 160 metre trains. Lengthening to at least 200 metres (10-car trains) or longer is a scheme that TfL believes needs to be progressed as soon as possible. In the 2020s, the Crossrail 2 scheme could deliver additional capacity on the South West corridor as well, and this could help solve multiple problems on this corridor.

4.7 While also a scheme that will open only in the 2020s, High Speed 2 (HS2) will increase the demands on cross London services. Again Crossrail 2 is a means to mitigate its substantial impact on the Underground at Euston, especially in HS2's second phase to Yorkshire and further north. It is also a means to relieve the heavily crowded corridors to/from north east London. While beyond CP5, the illustrative options should take account of this safeguarded scheme, to ensure joined up transport planning.

5. Rail Decentralisation

5.1 It is essential to make the best use of available capacity. Improved service quality and integrated fares encourage use of the railway, especially at off peak times when there is spare capacity. Since taking over management of the London Overground service in 2007, dismal reliability and customer satisfaction have improved to become among the UK's best; while consequentially demand has increased by 140% even before taking the East London Line extension into account. The Mayor and TfL believe that devolution of more inner suburban rail services in London offers further opportunities, as set out in the Mayor's response to DfT's recent consultation on Rail Decentralisation. Southeastern and West Anglia inner suburban routes are the Mayor's priorities for devolution.

5.2 The DfT's model is for train operators to be incentivised by farebox revenues. This approach works well for long distance services with fares of perhaps £25 each way and competition from car and air. In these circumstances, the operator has a strong commercial incentive to increase demand through provision of high quality services. Those incentives are much weaker for London local journeys where fares are a fraction of that and alternatives for rail trips to and from London are limited. Indeed, the incentives are so limited that the predecessor to London Overground, Silverlink Metro, left 13% of fares revenue uncollected. The result is local services are often relatively neglected compared to longer-distance routes, a quite rational business response by the operator in the circumstances.

5.3 The alternative model is that used for urban railways such as London Overground and DLR where operators' income is determined by performance—which they control directly—leading to higher service quality. Payment is made by results. The higher performance is, as measured by reliability, service quality and fares evasion rates, the more the operator makes. The operator collects fares, but the revenue goes to TfL. The operator can therefore focus on service quality and managing the costs, both of which are directly within its control. In contrast, it need not take a bet on macro-economic conditions, such as employment, which largely determine demand and revenues. Taking away this risk tends to reduce the margin which operators require, so this offers better value too.

5.4 Investment in station cleaning and facilities, better staffing, improved reliability and frequency improvements where possible would improve customer satisfaction. On West Anglia and Southeastern, it is expected that devolution could deliver an increase in customer satisfaction from around 80% to 90% and an increase in reliability from the current levels of 87% for West Anglia and 92% for Southeastern to 90–95%. In addition, ticketless travel will be reduced from around 10% to below 5%, reducing the net cost of rail operations.

5.5 In summary, rail devolution will improve efficiency and deliver higher service quality for London passengers.

August 2012

Written evidence from the Freight Transport Association (ROR 21)

Introduction

1. The Freight Transport Association (FTA) is pleased to make this submission to the House of Commons Transport Select Committee's inquiry into Reform of the Railways. This submission sets out the role of FTA and the importance of freight, then goes on to respond to the Committee's specific question as appropriate to FTA.

FTA's Role

2. FTA represents over 14,000 companies spread across the UK relying on or providing the transport of freight both domestically and internationally, to or from the UK. Our members include road hauliers, freight forwarders, rail and air freight operators, through to customers—suppliers of raw materials, retailers, manufacturers and wholesalers, covering all modes of transport—road, rail, air and sea. Our members involved in rail freight include shippers of bulk, deep sea and domestic intermodal and retail goods, and also freight operating companies and logistics service providers.

3. FTA members are responsible for 90% of goods moved by rail and around 70% of goods moved by air and sea. They also operate over 200,000 commercial goods vehicles in the UK, approximately half of the UK fleet of goods vehicles.

4. FTA's primary rail freight focus is to represent the shippers—the ultimate end users—of rail freight who make the decisions about modal choice.

The Importance of Freight

5. Freight is crucial to our way of life. This is not because of the direct contribution of the sector to the economy, though this is substantial. But rather it is because of what freight makes possible—the entirety of our modern economy. Every physical product grown, made, traded and consumed in the modern world requires the services of freight—to move it from field or mine to production site to distribution hub to retail outlet and even to our homes.

6. Too often the needs of freight are ignored as it is not as visible as public transport or private motoring. This fundamentally misunderstands the relative importance of freight to the UK economy and that risk should be avoided by this study specifically addressing the needs of freight within both the industry structure and this review.

7. Within rail too, any discussion on rail is automatically taken to mean passenger rail. In fact, when judged by distance, the rail network moved a tonne of freight for every 2.5 passengers that it transported.[11] This demonstrates the importance of freight within the context of the rail industry.

Reponses to Committee's Questions

8. In the following FTA will respond to those aspects of the Committee's question that are appropriate to the Association's remit and where we have concerns about the direction of policy.

1. *What should be the Government's vision for the railways in 2020, taking account of likely spending constraints?*

9. Rail freight is benefiting from public sector investment to help optimise Britain's mixed use rail network for freight. Part of this recently has been via the Strategic Freight Network (SFN) scheme.

10. Plans to continue the development of the SFN in the next control period (2014–19) have been set out the Initial Industry Plans (IIP) for England and Wales and for Scotland. FTA supports the IIPs wholeheartedly. The Association has found the Strategic Freight Network programme to be an excellent vehicle for enhancing rail's contribution to the UK supply chain. The commitment to a national structure for freight is exactly what is required and the scheme has been handled in an efficient manner. Furthermore, the four proposed freight schemes that are put forward in the IIPs fit with the needs of the logistics industry and the users of freight services—Britain's production, manufacturing and retail businesses.

11. The envisaged fund for freight would deliver real benefits in terms of enabling the logistics industry to utilise trains in place of trucks, freeing up space on Britain's roads in key areas across the country. It would improve the quality of the supply chain for Britain's importers and exporters as well as reducing carbon emissions.

12. This fund, at £350 million for England and Wales, represents only a small part of the total proposals in the IIP, which include £4.9 billion worth of investment proposals (excluding schemes already committed).

[11] Source: FTA calculation based on ORR National Rail Trends 2009–10.

13. The Association ask the Committee at all opportunities to encourage the UK Government to support the proposals for freight investment as contained in the IIPs when they make their proposals for the next control period in summer 2012.

3. *Will the reforms to rail franchises proposed by the Government, including alliances, deliver better services at lower costs?*

14. The largest single concern FTA has about the package of rail reforms as about the proposed alliances between the infrastructure manager and the dominant passenger company. The freight industry is concerned that the closer integration of passenger services and infrastructure operations could see freight become a second class citizen on the network.

15. If Network Rail and a given passenger operator are more closely combined (in an organisational sense or by joint financial incentives) there is the possibility that passenger services would be given unfair preference. This could be either during routine planning of issues such as engineering works, or in getting trains moving again in the event of a disruption.

16. Whilst safeguards are proposed, if these are legal requirements that freight operators would have to go to court to get enforced, our experience is that this will be a less than ideal arrangement. Freight companies are reluctant to go through the expense and effort of legal work. Breaches of requirements can be difficult to prove.

5. *What are the implications of the proposals for rail decentralisation and how should responsibilities be devolved to local authorities?*

17. The move towards regionalisation within Network Rail could create difficulties for cross-national operators such as freight. If Freight Operating Companies (FOCs) have to deal with many different regimes across Great Britain this could multiply the amount of bureaucracy that has to be dealt with to make rail freight services work. Whilst we understand issues such as pathing will still be dealt with at a national level, this regionalisation could create problems in areas such as co-ordination of engineering works and providing diversionary routes to avoid them.

18 April 2012

Written evidence from Campaign for Better Transport (ROR 22)

1. *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?*

1.1 The Government vision for the railways should be as part of a modern transport system that can both support economic development, reduce the impact of transport on the environment (including achieving significant reductions in carbon) and improve people's quality of life. Rail provides a lower carbon mode of transport but it needs to be a more affordable and attractive option for both passengers and freight compared to motor traffic (and aviation on longer routes). This would help to cut congestion in urban areas and on strategic routes between cities. In addition, rail has significant potential on regional and rural routes which have not been a priority in recent investment rounds.

1.2 Given this, the key indicator underpinning this vision should be that rail's share of trips is increasing relative to motor traffic (private cars and HGVs) and aviation. The implication of this vision and ambition, is an expansion of capacity on the network.

1.3 Achieving this vision also means that the railways should be at the centre of a network of door-to-door sustainable transport, providing a high quality alternative to car travel. This requires attention to connections between the railways and other modes of transport, including the car. In the same way, railways should be part of the freight logistics chain so they can substitute for longer distance road freight transport. Both of these require good interchange—passengers also require good information, through tickets and connections between different trains and between trains and other modes.

1.4 Railways already help to deliver a range of Government objectives and provide a host of social, economic and environmental goods that do not simply benefit those who use them. Some of these can be quantified, in terms of the economic "agglomeration benefits" of rail services to a particular area, or the savings to businesses of reduced congestion. Other benefits in terms of having development that is less car dependent or improvements to quality of life are less easy to quantify but are still real.

1.5 The Government's vision for the railways should link with its policies on the economy and on land use planning. The evidence is that if developments are built around public transport, people choose to use cars less and rail freight use goes up. Other countries as diverse as the USA and the Netherlands have been better than the UK in integrating public transport with housing and commercial development.

1.6 There will also be wider benefits from continuing rail investment:

— There are clear economic benefits. Each day, the railway helps underpin our economy by carrying millions of people to and from their work and thousands of tonnes of goods and other cargo to our shops and factories. Investment can strengthen this, notably by improving links between and within urban areas and supporting railfreight. Continuing current levels of investment will also safeguard and expand employment in UK-based rail manufacturing and construction, and this will contribute to the Government's aim of rebalancing the economy.

— Railways are a low carbon form of transport, and can be made more so with electrification, so continued rail investment can help achieve the Government's environmental objectives and the need to meet challenging targets for reducing carbon emissions. Rail investment can also help tackle other environmental problems, such as poor air quality and noise.

— Rail investment can contribute to the Government's social policies, notably in helping people gain access to labour markets.

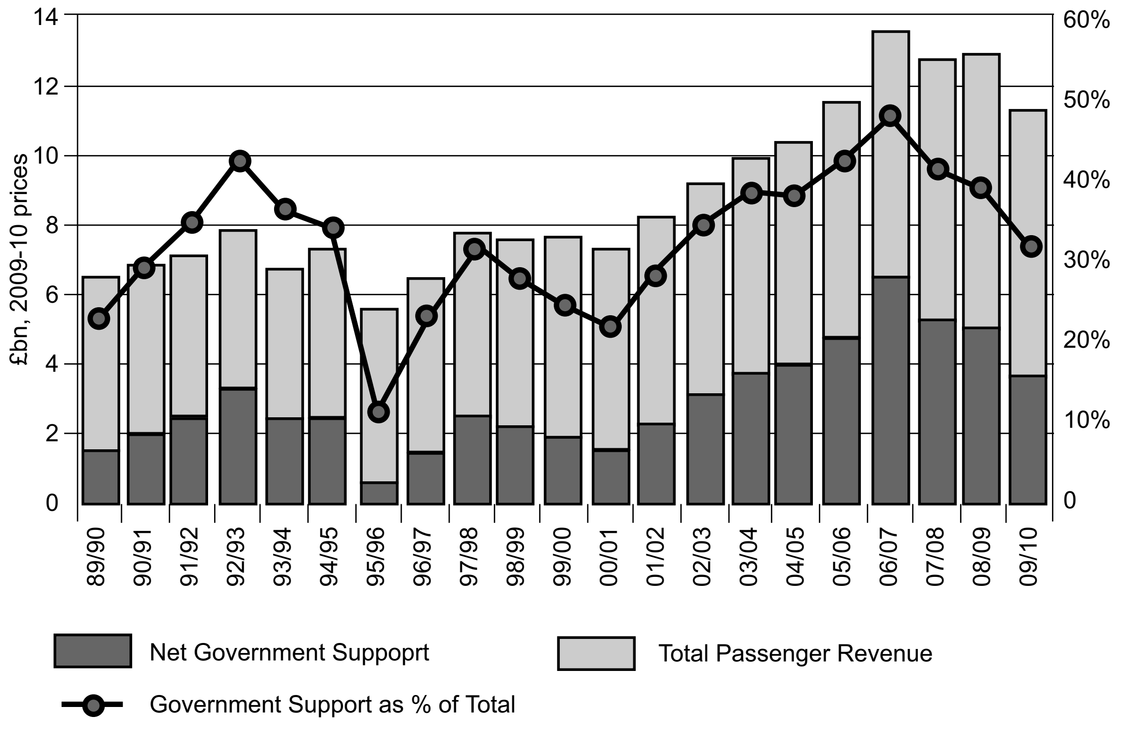
1.7 These benefits must be acknowledged when addressing the question of who should fund the railways—a fact which is recognised by many of our European counterparts, where state support has helped to create modern, efficient and affordable railways. These wider benefits also need to be fully reflected in transport appraisal—currently the Government's forecasting and appraisal methods do not fully allow for them.

1.8 Public spending on the railways currently sits at £4 billion annually.[12] Of this amount, £3.4 billion, or approximately 85%, went to Network Rail in 2010–11, with the majority of the remainder spent on subsidy payments to train companies and rail in the city regions.[13] It is therefore worth noting that, when we hear about the high levels of Government subsidy for the railways, this is in large part to finance Network Rail's track and infrastructure operating costs and its significant debt—not to lay on trains in rural areas or reduce the cost of travel for particular vulnerable groups, as the common notion of "subsidy" suggests.

1.9 Moreover, the level of Government support has been steadily declining since 2006–07, when it peaked at £6.8 billion following the wave of upgrades and improvements that were prompted by the Hatfield crash of 2000.

Figure 1.1

FAREPAYER AND TAXPAYER CONTRIBUTIONS TO GB RAIL SINCE 1989–90



Source: National Rail Trends, DfT statutory accounts, TOC statutory accounts

1.10 This chart shows that we are already on course to meet the target of fare-payers shouldering 75% of the costs of running the railways while taxpayers contribute 25% by 2014, as set out in the 2007 White

[12] The remainder of the industry's total annual cost of £11 billion is met by £6.6 billion in revenue from fares and £377 million in private company investment. Office of Rail Regulation, *National rail trends yearbook 2010–11*, July 2011.

[13] Office of Rail Regulation, *National rail trends yearbook 2010–11*, July 2011 and Department for Transport, *Business Plan Quarterly Data Summary*, July 2011.

Paper.[14] The Initial Industry Plan, meanwhile, suggests that the rail industry should cover its costs by 2023–24, with the London and South-East sector generating a surplus as early as 2018–19.[15] Unlike the nation's roads, which are expected to need to be subsidised in perpetuity, much of the rail network has the potential to be self-funding in the near future. In other words, the Government is already achieving its goal of reducing public spending on the railways, which undermines the most common justification for the need for the current policy to accelerate fare rises by increasing the permitted cap next year for regulated fare rises to RPI+3%. It also raises the question of what the Government's end goal might be on this front—and the possible consequences if this is to reduce taxpayers contribution to running the railways to zero.

1.11 The other core justification for the RPI+3% formula for regulated fares in 2013 and 2014 is the need to fund additional capacity and investment in major rail projects. Again, there is often a difference in how spending on road maintenance and additional road capacity funded through general taxation is regarded as investment, whilst spending on rail capacity and maintenance is regarded as subsidy. In fact, rail investment is catching up on decades of under-investment, which lagged well behind spending on new motorways, trunk roads and by-passes from the 1960s through to the early 1990s.

2. *How are the targeted efficiency savings (£3.5 billion by 2019 on a 2008–09 base) to be delivered? What will be the consequences?*

2.1 The rail industry is already bringing its costs down and the savings already identified should bring the share of income between farepayers and other income sources compared to taxpayers support down to the target share in the 2007 White Paper. The additional cuts identified by the McNulty report on top of these (including closure of ticket offices, reviews of station staffing and higher "super peak" fares) should be reviewed as these could be counter-productive to the overall vision of increasing rail shares of travel, and could even reduce its fare income as rail travel becomes less attractive.

2.2 There is scope to further bring down costs and the means to achieve this include greater transparency of rail costs, better procurement (such as standardising components) and better planning and management of works, as well as reviewing the evidence base to assess whether high cost specifications are appropriate or justified. Reducing the number and costs from interfaces between different bodies involved in delivering rail services should also reduce costs significantly.

3. *Will the reforms to rail franchises proposed by the Government, including alliances, deliver better services at lower costs?*

3.1 Changes to the franchise system could help reduce costs but changes which put passengers and freight customers off using the railway need to be avoided. While the Government is seeking to cut costs, this should not result in cuts to services. We want to see the reach and capacity of the railway grow, not wither.

Minimum service frequency should take account of latent demand and the possibilities for modal shift. Adequate frequency and first and last train times for evening and weekend services should be specified.

Franchises should specify that current levels of service should be maintained as a minimum standard. Greater flexibility carries the risk that operators will decrease services at times and stations where demand and income are lower, including services at evenings or at weekends. However these trains are vital for many passengers, for example for tourists and people who work non-standard hours, as well as providing the certainty of a regular service that people need in order to rely on rail as a reliable services to get them home.

3.2 We are concerned that if the structures that govern the railways change to include more alliancing and even vertical integration there must be provisions to protect the interests of rail freight. Rail freight creates 70% less carbon dioxide than the equivalent road journey, and franchises must allow this sector to grow. Moves in the direction of vertical integration raise concerns because the national railway network risks becoming more fragmented with more interfaces. Road freight does not face these complicated structures which will make it more difficult for rail freight to compete. Greater clarity on the governance structure of alliances is needed. In particular third party operators should have an advocate on the governance board of the alliance, and there needs to be greater clarity on the appeals process open to third parties. The needs and interests of both existing and future freight traffic must not be overlooked.

3.3 We are not convinced that longer franchises are automatically in the best interests of passengers. The right controls, incentives, standards and sanctions must be in place to ensure the railways fulfils its purpose as a public service. There is no conclusive evidence about the impact of franchise length alone on performance.

4. *How should fares and ticketing be reformed?*

4.1 The Campaign for Better Transport has been calling for reform of the fares and ticketing system for some time. We launched the Fair Fares Now campaign in January 2011 calling for cheaper, simpler and fairer fares and as part of this we produced a Fair Fares Charter. This sets out 13 straight forward and deliverable policies to achieve that.[16] The current fares system does not deliver for passengers.

[14] Department for Transport, *Delivering a Sustainable Railway*, July 2007.

[15] Network Rail, Initial Industry Plan England and Wales, September 2011.

[16] See http://www.bettertransport.org.uk/files/fair-fares-charter-march-2012.pdf

4.2 The Department for Transport Rail Fares and Ticketing Review is an opportunity to look at how the fares system can be made less confusing for passengers and provide products that are more useful for many kinds of travellers. However, the Department for Transport is restricted in what it can say by a refusal to look at the overall level of fares and a desire to avoid changes which could lead to less revenue from passengers or a cost in implementation which central government would have to pick up (ie any proposal should be revenue neutral).

4.3 There is also a tension between the Department for Transport's desire to hand train companies more freedom and flexibility in future franchises and the ability of the Department for Transport to see some of the ideas discussed in the review through to implementation.

4.4 The proposals to develop "super peak" fares in the rush hour, balanced by some reductions in prices on less busy services, is deeply unpopular. A poll commissioned for Campaign for Better Transport showed that only 14% of people believe that raising fares on the busiest trains at a higher rate than other services is fair. In contrast, 63% thought the proposal unfair for all passengers, even if it meant lower fares on some less busy services.[17] Many commuters have no choice but to travel at the busiest times to get work at 8.30 to 9.30 because of the nature of their job or of other commitments like childcare or school times.

4.5 The Department for Transport is also considering introducing a new higher "shoulder peak" period to avoid big changes in price when the peak comes to an end on some services, particularly longer-distance services. This can lead to overcrowding on the first off-peak service after the peak period—the example often given is the 19.03 from London's Euston station on a Friday night. However, peak times already vary across different services and adding to the confusion further could lead to more cynicism from passengers about the way the fares system works. There is a danger in setting overall policy to solve the problems on some particular services, rather than setting policy to meet general policy aims.

4.6 Smart cards offer an opportunity to introduce a new generation of tickets more in line with passengers' needs. Oyster is already successful and the effect of extending Oyster to National Rail in London has on its own led to an increase in patronage of 5.5%, generating an additional £50 million in revenue.[18]

4.7 However, to deliver for passengers, there needs to be:

- Products that are simple and clear to underpin the technology.
- Fare levels that are transparent and understandable (eg based on zones so passengers know what they will pay, rather than complex fares which could hide actual costs from passengers).
- Co-ordination between train companies, bus operators and local transport authorities to ensure that products can be used across different forms of transport like rail, bus and tram.

4.8 Smart cards could help part-time workers and the consideration of this in the Fares and Ticketing Review is helpful. For part-timers, smart cards could help either through an e-purse which can be loaded up and which would charge a lower rate compared to the normal rate (basically an electronic version of carnet tickets) or a more complex season ticket product which would specify which days travel would be covered, or how many days in a week.

4.9 Even without smart cards, there is still much more that could be done to promote part-time season tickets. Carnet tickets (where, for instance, 12 tickets can be pre-bought for the price of 10) is one option that can work for part-time workers. However, research carried out by Campaign for Better Transport found few carnet schemes currently available nationwide and that of the 50 busiest commuter stations in the South East outside London, only four rail companies run schemes which are valid on commuter services.

4.10 Another option is a part-time season ticket with the customer specifying which days the ticket would be bought for. Campaign for Better Transport's research found only one example of such a scheme (in Devon and Cornwall). If a three-day-week season ticket were available at 60% of the cost of a full season ticket and a four- day one at 80%, a part-time worker travelling into London from the South East would save on average between £700 and £1,400 a year.[19]

5. *What are the implications of the proposals for rail decentralisation and how should responsibilities be devolved to local authorities?*

5.1 The devolution of the London Overground routes to Transport for London (TfL) and the Merseyrail network have both shown that devolving powers over rail can deliver real benefits. Every other country in Europe, even those such as France which are traditionally centralised, has devolved some responsibility for local rail services, often to groupings of local authorities. The evidence is that local management and specification of rail services brings more business to local rail lines and raises standards and quality of services. Many local services have, as noted already, received very little investment over the years; where they have, usage has grown significantly.

[17] See http://www.bettertransport.org.uk/media/08-mar-fares-review

[18] Transport for London, Rail and Underground Panel, Oyster on National Rail Progress Update, January 2011 http://www.tfl.gov.uk/assets/downloads/corporate/Item08-Oyster-NR.pdf)

[19] See http://www.bettertransport.org.uk/media/08-feb-part-time-season-tickets

5.2 Much investment in local rail services has come from local authorities or via Community Rail Partnerships, with little central Government involvement. As well as the examples in the big cities, counties such as Lancashire and Devon have helped developed their local rail services over many years. Devon has pursued a "Devon Metro" strategy and has now got at least an hourly service on all its branch lines—the result has been some of the highest growth in usage in the country as services have become more attractive to car users. In the absence of regional bodies, devolution should be pursued with groupings of local authorities. Government needs to actively help devolution rather than just waiting for proposals.

5.3 In principle, we think there are opportunities in four areas.

5.4 First, on some local branch lines in areas such as Devon, Cornwall and Cumbria, existing partnerships should be extended, giving councils more control over specifications and allowing them to buy extra services where possible. This should be mirrored by local management of those lines or networks, within both operators and Network Rail.

5.5 Second, the West Midlands rail network, currently part of London Midland, should be considered for a local franchise overseen by Centro, with remaining London Midland services linked to the West Coast franchise.

5.6 Third, options for giving local control over the Northern Trains and Trans Pennine Express franchises should be explored. Though we recognise that there are issues with governance and accountability, we think that there are models from elsewhere that could be used to manage this.

5.7 Fourth, existing devolution arrangements in Wales, Scotland and London could be extended. In London, clear proposals have been set out by Transport for London to extend the benefits of the Overground to other lines. This should be subject to formal partnerships with local authorities in surrounding areas to ensure that their interests are fully considered and that they have influence over the devolved services.

5.8 Devolution can be used to experiment with different approaches to franchises. The London example is significant in that the way train services are contracted is significantly different to the usual franchise model used by the Department for Transport. TfL's contracts are gross-cost, where TfL take the risks over revenue from tickets and set more detailed terms for the services on offer, including station standards and service frequencies. TfL believes that, because they take the risks on revenue, they can avoid train companies charging a high risk premium in franchises (as revenue is largely dependent on factors outside the train operating companies' control). This offers savings that can be used to invest in improvements, as well as delivering improvements for passengers.

5.9 There could be particular benefits from improving railway stations integration with other forms of public transport if decentralisation is pursued.

18 April 2012

Further written evidence from the Campaign for Better Transport (ROR 22A)

Thank you for the opportunity to comment on the HLOS inquiry.

Freight on Rail, a partnership of the rail freight industry, the transport trade unions and Campaign for Better Transport, works to promote the economic, social and environmental benefits of rail freight to local and central Government.

Summary

Our response covers the following areas:

1. HLOS rail freight related announcements.
2. The case for rail freight investment and the need to reduce freight's carbon footprint.
3. Trends in rail freight and forecasted growth.
4. What the HLOS announcements will mean.
5. What else is needed.

1. Key Rail Freight Schemes Announced and Funded in HLOS and SOFA

(i) £200 million for the Strategic (Rail) Freight Network (SFN)
Additionally, the following projects are the main schemes which will benefit freight and passenger services.

(ii) Reconstruction of Ely North Junction.

(iii) Leicester area capacity.

(iv) Electric Spine—Southampton Port to Basingstoke, Basingstoke—Reading- Oxford—Banbury—Leamington Spa—Coventry to join up to the West Coast Mainline.

(v) Capacity upgrades to the West and East Coast Mainline.

(vi) Great Western electrification.

These key schemes will expand key routes to and from the ports and to major cities.

2. The Case for Rail Freight Investment

This continued expansion of the rail freight network will stimulate the economy and create green jobs, relieve long distance road congestion and reduce long distance road accidents. These upgrades will unlock suppressed demand for long distance rail freight services out of the ports and on key arterial routes. Rail is well placed to offer reliable long distance services to customers who want a robust cost effective service by a combination of the most appropriate freight modes.

A. *Value of Rail Freight to GB PLC*

The rail freight sector directly contributes £870 million to the UK economy and supports output of £5.9 billion:

- The rail freight industry has achieved a 48% growth in tonne kilometres since 1994–95 with half the number of locomotives and two thirds of the wagons employed at that time.
- The benefits of rail freight fall outside the railway balance sheet but benefit the road network and the economy by removing or reducing:
  - £772 million per annum in congestion costs;
  - £133 million per annum in road infrastructure costs;
  - £68 million per annum in CO_2 costs; and
  - Pro-rata 42 road deaths at a value of £78.8 million.
- There has been over £1.5 billion of private sector investment since 1996.

B. *Sustainable distribution and its role in helping the Government meet its CO_2 targets*

Freight is a big CO_2 emitter; HGVs are responsible for 20% of carbon dioxide emissions from all domestic transport and road freight now account for 8% of UK carbon dioxide emissions. Rail produces 70% less carbon dioxide than road per tonne carried for the equivalent journey so it has a crucial role in reducing freight's overall carbon footprint.

Energy efficiency of rail—A gallon of diesel will carry a tonne of freight 246 miles by rail as opposed to 88 miles Network Rail July 2010.

3. Trends in Rail Freight

A. *Rail freight has been a success story*

- Rail freight overall grew 60% in past 10 years. Over the last five years during the recession, inland freight market down 10%, HGV veh kms down 13% but rail tonne km up 2%, (excluding coal) up 15%.
- Latest ORR figures for the year 2011–12 show total tonne kms up 10% and intermodal freight up 11% on previous year, the 9th consecutive year of growth for consumer rail freight.
- Overall volume of containers at ports in 2010 was the same as 2005 but rail volumes 29% up.
- Actual tonne kms figures for the years 2009–11 higher than previously forecasted.
- Potential from Felixstowe to increase long distance traffic from 25% to up to 40% when HLOS capacity schemes completed which will also remove 40 million long distance lorry miles for annum off the A14 corridor.

B. *Forecasted growth*

- MDS forecasts rail tonne-km doubling 2010–30 with Intermodal quadrupling and in fact with investment intermodal could grow five fold.
- MDS forecasts rail tonne-Km doubling 2010–30 with intermodal quadrupling or even fivefold with investment.

C. *Targeted investments in rail freight work*

Southampton example—Rail's share of market increased from 29–36% within a year of the gauge work being completed in March 2011.

4. What these Investments will mean for Rail Freight

These upgrades will create a robust network to ports and key centres with diversionary routes so that rail freight can offer its customers a fast reliable versatile service.

A. *Spatial Planning*

It will encourage developers to submit applications for:

Large strategic rail freight interchanges for consumer market on the Strategic Rail Freight Network which will make rail more competitive over shorter distances.

Medium sized and smaller terminals for specialist cargos on the network.

Different freight modes complement each other. Rail freight has shown that it is well placed to provide the long distance trunk services as part of an integrated offering to customers.

B. *Electrification announcements*

These announcements are important for the future so that rail can offer even lower emissions and faster services to customers.

5. What Else is Needed

A. *Stable Pricing Structure—ORR Periodic Review*

HLOS announcements will help give industry the confidence to invest in the sector; however, the ORR variable usage and freight specific charge proposals could significantly increase charges and add layers of complexity. These proposed increases threaten existing rail freight traffic viability and future growth as they undermine confidence in future rail freight investment.

As the Secretary of State for Transport's guidance issued to the ORR on 16 July states, rail freight needs a simple consistent charging structure to give its customers and the industry confidence to invest long term. (Paragraph 33)

The guidance spells out in more detail the Government's commitment to rail freight expansion. It not only highlights the importance of rail freight distribution to society and the economy (paragraph 32) but stresses the need to take into account the Government's policies to develop rail freight[i] and the need for the ORR to discuss with the DfT any policy which would adversely affect the competitiveness of rail freight compared to other modes (paragraph 34).

The proposed changes and increased charges raise a number of issues:

The ORR Periodic Review proposed increases appear to conflict with the SoS's guidance.

A major change in ORR policy stands outside normal commercial risk by overlaying a political risk upon the commercial ones. In PR08 ORR continued a trend established since privatisation by further lowering freight access charges by one third to reflect Network Rail's long term efficiency requirements. Just one Control Period later there is a policy to raise charges for some commodities three or four fold. This major change in ORR policy does beyond affording businesses the ability to do their business "with a reasonable degree of certainty".

ORR is proposing to set the charge at a level which is forecast to reduce rail freight for ESI coal by 10% which would result in 25% reduction in traffic. These planned changes to reduce coal traffic by 10% would directly affect jobs so we ask what impact assessments on job losses has the ORR made?

Coal is approximately one third of all rail freight so a significant contraction in this sector will affect the viability of operators and impact on other sectors as the servicing of coal traffic cannot be isolated from Freight Operators' overall business. This will have knock on effects on other parts of rail freight, for example locomotive use, maintenance and terminal costs across other commodities which could render other traffic unviable. There will also be a knock on for other users of coal other than the electricity generators that also rely on coal deliveries for their production process, eg: cement, steel. This could result in a spiral of decline for rail.

Variable usage charges to be increased by 5% in 2014 which is unhelpful.

It raises longer term questions about ORR's remit and powers. Should it be allowed to price demand off the railways and shrink the sector?

Additionally, the question remains whether this charging mechanism would set a precedent to price off other freight commodities and indeed rural or open access passenger services?

Decline in rail freight would undermine the government's ability to meet its legally binding Climate Change emissions reductions

Freight is a big CO_2 emitter; HGVs are responsible for 20% of carbon dioxide emissions from all domestic transport and road freight now account for 8% of UK carbon dioxide emissions. Rail produces 70% less carbon dioxide than road per tonne carried[ii] for the equivalent journey so it has a crucial role in reducing freight's overall carbon footprint.

Were all freight modes to internalise a greater proportion of their costs, then the rail freight sector might be more able to make a greater contribution to track access charges—however, this would depend on the details of any such proposals.

Rail has to compete with road which sets the market price which, by and large, has access to national network and does not pay charging to access the network. Complex charging systems are a disincentive to using rail. Currently, road pays an annual VED and fuel duty whereas rail already has seven different charges with an additional four charges being proposed by yourselves. The added layer of complexity provided by the proposed changes will make it more challenging for rail freight operators to respond quickly in quoting for business to potential customers and will therefore be a real deterrent to new business. This factor does not arise for competitors on road.

It has to be asked why the ORR is considering undermining rail freight which has been a success story for the railways and is forecast to double tonne kilometres by 2030?

B. *UK government must stand firm on its opposition to mega trucks of 25 metres and up to 60 tonnes in weight on UK roads*

The UK Government will come under increased pressure from the road haulage industry to allow 25 metre trucks from Europe after the EU Transport Commissioner unilaterally allowed cross border traffic of 25 metre trucks between consenting countries. It must oppose mega trucks on economic, environmental and safety grounds. The example of the 7ft longer trailers demonstrated how the Government buckled to industry pressure.

Road and rail complement each other but large quantities of long distance freight can be more sustainably and more safely carried by rail than in even larger lorries, 25 metres long and 60 tonnes in weight.

The proponents' case is predicated on mega trucks, which would be 50% longer and a third heavier than existing trucks, delivering a significant reduction in vehicle kilometres. The assumptions for safety and environmental improvement depend entirely on the prediction of a dramatic reduction in vehicles kilometres on the premise that two mega trucks would replace three HGVs. However, their calculations ignore the dynamic effects in terms of distorting the intermodal competition which would significantly increase the demand for road freight and undermine sustainable alternatives. They are also derived from very high levels of load utilisation—in excess of that routinely achieved within the haulage sector. So until there is a rational basis for all existing HGVs to be used more efficiently it is questionable how assumptions can be made that mega trucks will have higher utilisation than existing HGVs. Government statistics show that currently one in four lorries are completely empty in the UK and almost 50% of lorries are neither constrained by volume or weight, ie partially loaded. When empty and partially loaded, mega trucks will use more fuel per vehicle kilometre because they are heavier than current HGVs.

History shows us that previous increases in lorry dimensions have neither improved vehicle efficiency nor reduced road congestion or emissions

The case for longer lorries relies on the same questionable presumption used in the past to justify each increase in lorry dimensions, that there would be fewer but bigger trucks on the roads. In practice however, since the previous increases in dimensions there is no direct evidence of larger or heavier lorries leading to improvements in average payloads or a reduction in empty running. Source Review of Longer HGVs MTRU June 2011

Mega trucks have dangers of their own due to their size and lack of manoeuvrability

The European Commission's own research in Jan 2009 stated that mega trucks are individually more dangerous than standard HGVs.—*TML Effects of adapting the rules on weights and dimensions of HGVs P14 penultimate line 6 November 2008 DGTREN website.* The double articulation of a mega trucks increases side to side oscillation ie a "snake" (rear amplication) and problems with other manoeuvres at cruising speeds, for example changing lane on a dual carriageway. There is a conflict here between manoeuvrability needed in urban areas with this loss of stability at cruising speeds.

Rail freight is safer than long-distance road freight using major roads

As HGVs are over three times more likely to be involved in fatal accidents than cars on major roads due to a combination of size, lack of proper enforcement of drivers hours, vehicle overloading and differing foreign operating standards. *Source: Source: Traffic statistics table 2010 TRA0104, Accident statistics Table RAS 30017, both DfT.*

Rail freight which has a much better environmental record than road

UK rail freight produces 70% less Carbon dioxide emissions than the equivalent long distance road journey.

In the UK mega trucks would destroy the intermodal rail market (ie containers) and 50% of bulk traffic forcing the traffic back onto congested roads

Under existing operating conditions, intermodal freight is forecast to grow four or five fold by 2030.

Certain elements of the road haulage industry has a poor record in complying with existing road regulations

In the UK over 82% of HGVs exceeded their speed limit of 50 mph on dual carriageways and almost 75% exceeded the 40 mph limit on single carriageway non-built up roads.

Longer heavier lorries will increase road congestion

As they are closer to negotiate junctions etc. whereas with the heaviest UK train can remove 160 long distance HGVs from our roads *Source Network Rail 2010.*

Trying to restrict mega trucks to dual-carriageways and motorways will not work

The promoters are claiming that these vehicles will be restricted to motorways, dual carriageways and major roads. The reality is that these vehicles will need local road access to distribution hubs not on motorways/dual carriageways. Dutch trials stated that mega trucks should only be allowed on roads with separate infrastructure for bikes which does not exist in UK and most member states.

Adaption costs

Taxpayers would have to pay millions for adaptation and maintenance of the road network up front. The Austrian Government estimates that it would cost over £5bn to adapt infrastructure in Austria, alone.

23 August 2012

References

i The Strategic Rail Freight Network Vision and the Strategic Rail Freight Interchange Policy.

ii DfT Logistics Perspective Dec 2008 P8 section 10 (corrected version).

Written evidcence from the TUC, ASLEF, RMT, TSSA and Unite (ROR 24)

Introduction

1. This is a joint written submission from the TUC, ASLEF, RMT, TSSA and Unite, representing over 100,000 workers across all parts of the UK rail industry.

2. We welcome the opportunity to inform the Transport Committee's inquiry into the reform of the railways. In our view, the rail industry clearly needs reform given that the burden on the taxpayer and passenger has increased significantly since privatisation.

3. However, we believe that the government's proposals outlined in the *Rail Command Paper* do nothing to challenge the fundamental causes of inefficiency and fragmentation in our rail system, indeed in some cases will make it worse.

Key Points of the Submission

4. Discussions around the balance of the cost burden on taxpayer and farepayer must take into account increased costs in the industry as a result of privatisation. Quantifiable costs directly attributable to privatisation in the rail industry amount to £1.2 billion per year. Eliminating these costs from the industry could provide an across the board cut in rail fares of 18%.

5. Train operating companies will be given greater freedom to reduce services, increase fares for peak time passengers and de-staff trains and stations penalising the passenger and laying off thousands of rail workers.

6. Achieving high end cost savings of £3.5 billion by 2019 could result in 20,000 job losses across the rail industry as well as closures of over 650 ticket offices. Passenger surveys consistently show that passengers want staff on stations, on trains and in ticket offices.

7. Network Rail will continue to reduce its own maintenance, signalling and renewals workforce in order to meet its efficiency savings, while undergoing fundamental restructuring that will see it fragmented and potentially subordinated to the interests of commercial train operating companies through the creation of alliances, creating a number of mini-Railtracks.

8. This provides significant risk to safety and infrastructure management, creates a greater number of regional interfaces and threatens to subordinate the interests of rival TOCs and freight operators.

9. EU comparators indicate that unified and integrated national rail systems under public ownership are more efficient and cheaper for passengers.

10. Trade unions have, to date, been excluded from the Rail Delivery Group and high-level strategic discussions within the rail industry.

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?

11. In considering how our railways should be reformed, it is important to focus not just on the mechanics of reform, but on what we want that reform to achieve—that is, a vision of what our railways are for.

12. For UK rail to fulfil its potential and meet its full range of economic, environmental and social objectives, the government should be setting out a vision for rail that includes:

— Providing a high quality service that passengers understand, with simple system-wide ticketing and affordable fares.
— Tackling overcrowding through the expansion of capacity (rather than pricing people off trains).
— Seeking ways to stimulate economic regeneration across all parts of the UK through investment in better rail services.
— Rebuilding a rail manufacturing base in the UK, as a basis for then exporting our skills and technology to other countries.
— Helping create uncongested liveable cities like the best in Europe through the expansion of urban rail networks.
— Reducing carbon emissions by moving more long distance freight from road to rail (especially by encouraging palletised freight movements), as well as by providing passenger services that are an attractive alternative to driving.
— Reducing longer rail journey times so that domestic and short haul flying becomes comparatively less attractive, in the way that Spain has achieved a more sustainable mode shift from air to rail.
— Working with developers, development agencies and planners to integrate rail services with land use planning, so that users of major new developments can travel sustainably rather than being car-dependent;
— At the regional and local level, making the railway function as part of a fully integrated public transport system.

13. Perhaps above all, creating a strong ethos of public service, in which all staff feel they are working to create the best possible railway, for the benefit of all of us.

14. The current model of UK railways has singularly failed to deliver this agenda. Privatisation has proved costly for both taxpayer and farepayer while failing to deliver the efficiency, innovation or investment that was promised.

15. Unpublished research by Transport for Quality of Life,[20] commissioned by ASLEF, TSSA, RMT and Unite, shows that additional *quantifiable* costs of over £1 billion per year are incurred through a combination of debt write-offs, dividend payments to private investors, fragmentation and transaction costs, including profit margins of complex tiers of contractors and sub-contractors and higher interest payments incurred by Network Rail resulting from being kept off the government's balance sheet. The cumulative costs since privatisation could be well over £11bn, as the following table demonstrates.

Figure 1

QUANTIFIABLE COSTS OF PRIVATISED AND FRAGMENTED RAILWAY SYSTEM

	Annual (£ million)	*Cumulative (£ million)*
Total Costs	**£1.2 billion**	**£11.3–11.7 billion**
Excess interest payment on Network Rail debt	156	950
Fragmentation costs		
Cost of interfaces between TOCs and Network Rail	290	Not known
Network Rail: costs of outsourcing renewals.enhancements (and maintenance before 2003–04)		
TOC sub-contractors' operating margins	76	771
ROSCO sub-contractors' operating margins	15	176

[20] *Rebuilding Rail*, Transport for Quality of Life, April 2012.

	Annual (£ million)	Cumulative (£ million)
Leakage		
Dividend payments: Railtrack	—	709
Dividend payments: TOCs	227	507–1,000
Dividend payments: ROSCOs	207	2,520
Sunk costs		
Underselling of ROSCOs at time of privatisation	—	1,100
Debt write-offs and liability transfers to make Railtrack sell-off attractive	—	2,208

16. As such, when seeking to address the balance that should be struck between taxpayer and the farepayer, we need to also address the fundamental problem of how both are being burdened with unnecessary and unproductive costs associated with privatisation.

17. A more useful exercise might be to look at the balance of benefits accrued to taxpayer, passenger, train operating companies, shareholders and other stakeholders as a result of escalating fares and public subsidy to the industry.

18. One way of looking at this would be that if all unnecessary costs highlighted above were eliminated and the resultant saving was used entirely to reduce fares, it would equate to an across the board cut in fares of 18% (or a substantially larger cut if applied only to regulated fares). Of course, savings could also be shared between farepayer and taxpayer. Either way, this would seem a more useful starting place to analyse the fundamental issue of how industry costs are being allocated between the passenger and the public purse.

19. Research by Just Economics,[21] commissioned by the RMT, constructed an index that evaluated a range of outcomes in relation to levels of public subsidy across the UK and other EU nations. It found that the UK is the poorest performer by some distance. National, integrated rail systems under public ownership in Europe are more efficient and cheaper to use than the fragmented, privatised UK rail system.

How are the targeted efficiency savings (£3.5 billion by 2019 on a 2008–09 base) to be delivered? What will be the consequences?

20. Targeted savings of £3.5 billion by 2019 represent the high end of estimated achievable savings set out by the McNulty Review. While rail industry employers have set out a case for achieving low end savings of £2.5 billion through the *Initial Industry Plan* (IIP) the government strategy is "to incentivise the industry to entirely close the £3.5 billion efficiency gap by 2019"[22] and the ORR has committed to "challenging Network Rail hard to deliver further savings"[23] beyond the low end savings already outlined in the IIP.

21. There remain serious doubts as to whether the proposed changes outlined in the Rail Command Paper and the IIP will be able to achieve the significant savings identified even at the low end. Moreover, until further detail through the publication of High Level Output Specification (HLOS) and Statement of Funds Available (SoFA) there remains very little detail as to how the government expects the industry to extend these savings to the high end target of £3.5 billion.

22. Both the Rail Command Paper and the Initial Industry Plan place great faith in the twin track approach of providing greater commercial freedom to train operating companies and the alignment of incentives for TOCs and Network Rail through alliancing. This is premised on the assumption that TOCs run on commercial grounds will drive through greater efficiency, innovation and investment and that Network Rail should be more subordinate to their interests. Yet much of this is based on assumptions with little supporting evidence, as industry analyst Roger Ford points out the Rail Command Paper is "full of such unconsidered and untested assertions".[24]

23. We believe that reductions in labour costs already form a disproportionate slice of overall targeted efficiency savings. It is also our view that where predicted savings fail to materialise in areas such as alliancing and train utilisation, the industry will resort to "quicker wins" through further reductions in staffing costs, removal of services, further over-crowding and fare hikes.

24. It is clear from the McNulty review is that efficiency savings through reduced "people" costs is one of the main areas to be targeted, with labour costs constituting between a quarter and a third of all savings.

25. McNulty's prescriptions for achieving these significant savings include the closure of over 650 ticket offices around the country, the use of Driver Only Operation as the default setting on UK rail, a review of station staffing and attacks on above inflation pay rises and revisions to existing terms and conditions for the rail workforce.

[21] A Fare Return: Ensuring the UK's railways deliver true value for money, Just Economics, February 2012.
[22] Rail Command Paper, March 2012.
[23] Advice on NR's Cost and Outputs in CP5, Letter to Sec of State, Richard Price, ORR, 15 March 2012.
[24] Informed Sources, April 2012.

26. Many of these recommendations have been adopted by rail industry employers in their Initial Industry Plan and the Rail Delivery Group is currently working on its strategy covering "technology, innovation and the impact on working practices", although rail industry unions have not been party to these discussions.

27. However, it is clear that job cuts are expected as part of the new rail franchises.

28. The Invitation to Tender for the Intercity West Coast franchise provides an indication of the way franchises will work to secure efficiency savings. Under a section on McNulty and Industry Reform it states that *"bidders are required to consider how the costs of running the railway can be reduced to secure a sustainable and efficient railway for the future. Bidders are also expected to propose in their plans how they would reduce the unit costs of the existing operations to improve efficiency."*

29. On staffing it specifically states that "it is not necessary for all stations to have a continuous visible staff presence, but staff should be on-duty at each station each operational day. It is for Bidders to define the balance of resources at each station between the various functions to deliver the most effective results".

30. What might this mean for the rail workforce? Rail industry employers and the Secretary of State have been very reluctant to discuss potential numbers. Extrapolating from the McNulty Review we can identify the following jobs "at risk":

Job type	*Numbers at risk*
Ticket retail in E and D stations	2,000
Station staff	5,500
Non-driver on-train staff	6,800
NR maintenance, signalling and operations	6,300
Total	20,800

31. What this will mean in practice, is a reduced service to passengers and a reduction in customer-facing staff that runs directly in contrast to what passengers want. We know from successive surveys and research: rail passenger want staff on trains and on stations.

32. Passenger Focus's National Passenger Survey[25] shows that "personal security" and "availability of staff" are two of the worst three areas of passenger satisfaction at stations. Personal security scored more highly on trains but less than half of all rail passengers were satisfied with the availability of a staff member on their train.

33. In response to the Command Paper, Anthony Smith, Chief Executive of Passenger Focus stated that "all our research indicates passengers really like the re-assurance only the presence of staff can bring. Taking staff away from stations would represent a very short-term, short-sighted saving."

34. In her report commissioned by the Labour Party *Everywoman safe everywhere*, Vera Baird QC states that "a significant number of respondents to the consultation raised concerns about cuts to travel budgets and services and the corresponding impact on that could have on women's perceptions of safety."[26] Removal of station and train staff and closures of ticket offices were chief among these concerns.

35. As Sophie Allain of the Campaign for Better Transport put it "cutting money from front-line passenger services, like ticket offices and train staff, will do more harm than good. Passengers want to know that train fares will be collected, that stations will not be deserted and dangerous, and that staff at ticket offices will be able to answer questions when they have them. Without these basic passenger services, rail will be less attractive to new customers."

36. What is more, we believe that the targeting of labour costs is misplaced. Labour cost efficiency targets are based on the assumption that wages have been a key contributory factor to the increasing cost burden in the industry. The McNulty Review blames "excessive wage drift" while the Rail Command Paper states that "successive substantial increases in pay have inevitably been one of the pressures behind the escalating costs of the railways"[27]

37. However, our analysis shows that unlike TOC profit margins, for example, there is very little correlation between increases in labour costs and public subsidy for the industry.

[25] National Passenger Survey, Passenger Focus, Autumn 2011.
[26] *Everywoman safe everywhere*, Baird, March 2012.
[27] *Reforming the Railways: Putting Passengers First*, DFT, March 2012.

38. Train operating staff productivity has increased at a higher rate than unit labour costs and the wage bill. Rail pay provides value for money, as the following table shows:

EMPLOYMENT, LABOUR COSTS AND PRODUCTIVITY
1996–97 TO 2008–09

39. All TOCs	
Wage Bill[28]	52.2%
Total employed[29]	13.6%
Unit labour cost—TOCs[30]	35.3%
Unit labour cost—Whole Economy[31]	38.0%
Productivity [32]	56.3%

40. The McNulty Review also shows that UK rail workers are 4th most productive in Europe and also points out that "train staff" and "other staff costs" are actually lower than those European competitors used as benchmarks in the report.

41. It is also worth noting that rail employment has a significant multiplier effect in the wider economy. Research by Ekogen found that the creation of 100 direct jobs in rail supports 140 indirect and induced jobs in the wider economy. The scale of job losses that might be inflicted in the rail industry will have significant repercussions throughout the economy.

Will the reforms to rail franchises proposed by the Government, including alliances, deliver better services at lower costs?

42. The government's promotion of alliances between TOCs and Network Rail on a franchise basis and the potential for Network Rail to let long term infrastructure management concessions cause significant concerns.

43. In the absence of a fully integrated rail system under public ownership, the current national, not-for-dividend model is the most effective and efficient way for Network Rail to deliver its role as infrastructure manager. It provides economies of scale, an integrated approach across the network and prioritises investment in safety and maintenance over short term profit and dividend payments.

44. The economies of scale that can be achieved may be demonstrated by the savings of £400 million per annum which resulted from Network Rail's decision to bring maintenance in-house. It is estimated that £100m of these savings can be attributed to reduced interface costs.[33]

45. The Rail Command Paper promotes both the fragmentation of Network Rail into smaller regional units thereby making it "more accountable to its train operating customers" and closer alignment of train and track, including "options to place responsibility for train operations and infrastructure management in an area in the same hands".[34] The paper makes clear the government's intention to use future franchises to "encourage bespoke arrangements for cost and revenue sharing, including the forming of alliances between train operators and Network Rail".[35]

46. Alliancing can be seen as a first step towards the "full vertical integration" of track and train "through a concession of infrastructure management and train operations combined"[36] as proposed in the McNulty Review. Indeed, the Command Paper commits the government to explore "full integration on discrete parts of the network", identifying Network Rail routes such as Wessex and Anglia as potential areas for targeting vertical integration.

47. Of course, greater integration makes sense and we would support a fully integrated system if it were on a national, publicly accountable and not-for-profit basis.

48. But both alliancing and full integration within the current system will cause greater fragmentation, increasing transaction costs and inefficiency across the network as well as reducing the economies of scale currently afforded to Network Rail. Furthermore, it places safety and maintenance back in a commercial framework that was a key contributing factor to safety failures under the previous Railtrack model. Creating a series of regional Railtracks would pose a major threat to safety and maintenance.

49. Moreover, there are doubts as to what kind of savings might be made through alliances. Again, as Roger Ford notes, "the Command Paper claims that it is "clear" that some of the additional Network Rail efficiency is only deliverable through partnership working with train operators. But no one knows yet how partnerships

[28] TAS Business Monitor: Rail Industry Performance July 2010.
[29] TAS Business Monitor: Rail Industry Performance July 2010.
[30] TAS Business Monitor: Rail Industry Performance July 2010.
[31] ONS Labour Force Survey Unit Wage Costs data.
[32] TAS Business Monitor: Rail Industry Performance July 2010.
[33] Rail Value for Money Scoping Study Report, 31 March 2010.
[34] *Reforming the Railways: Putting Passengers First*, DFT, March 2012.
[35] Ibid.
[36] *Rail Value for Money Study*, McNulty May 2011.

might work, let alone the savings they might deliver. It is back to 1992 when everyone "knew" that privatisation would cut costs."[37]

50. There are also serious concerns about the nature of Network Rail's current alliance proposals, particularly in the "deep alliance" model piloted with Stagecoach on South West Trains. Network Rail's policy paper refers to "an integrated management team with a single Managing Director who is accountable to both companies".[38]

51. To what extent does this demonstrate closer collaboration between Network Rail and TOCs or capture and takeover of Network Rail by the latter? While it is clear that Network Rail's statutory responsibilities and accountability will be unchanged, there can only be significant tensions with the profit motives of Stagecoach when negotiating priorities for infrastructure work, particularly as Stagecoach will directly benefit from efficiency gains through the sharing of "upside risk". The extent to which shared efficiency gains will benefit Stagecoach profits and dividend payments as opposed to the whole network is unclear at this stage and should be subject to particular attention as the deep alliance progresses.

52. We are also concerned by the impact of alliancing and/or vertical integration on access to the network by other rail operators, particularly those in the freight sector.

53. Finally, we are particularly concerned with proposals that have been mooted for privatisation of parts of Network Rail through the letting of infrastructure concessions to equity based providers. While this is separate from alliancing and no tangible proposals have been submitted to Network Rail as yet, this would raise considerable concerns about fragmentation and negative impacts on safety as highlighted above.

How should fares and ticketing be reformed?

54. The Command Paper states that the government will "reduce and then end above-inflation rises in average regulated fares, as soon as the impact of cost saving measures and improvement in the wider economic situation permit"[39] However, it is made clear that this will only be achieved once savings are found as the government's austerity drive means that subsidy will be cut. Given that the government is committed to RPI + 3% increases (along with the 5% that train operating companies can add to some routes) on regulated fares for 2013 and 2014, there is unlikely to be any respite for the passenger until towards the end of this decade at the earliest.

55. Furthermore, peak time passengers are likely to face a further fare hike. The government states that "while we reject the idea of using demand management to price people off railways, we need to look seriously at the possibility of rewarding passengers who do not travel on the most crowded trains, and asking those passengers who drive the need for capacity enhancements by travelling at the busiest times to pay more over the time for their journey by comparison".[40]

56. However, this approach to demand management jars with the experience of many paying passengers who have no choice but to travel at peak times due to working hours. Without a massive culture change in attitudes to working hours, this kind of approach will simply penalise a captive market of commuters. As the Campaign for Better Transport states "If people could change their commute times easily, they would have done so by now to avoid having to stand on crowded trains. Raising the price of tickets by RPI+3% +5%flex +X% for the busiest trains will simply price people on lower incomes off trains and make little difference to overcrowding."[41]

57. A YouGov poll commissioned by the Campaign for Better Transport shows only 14% of people believe that raising fares on the busiest trains at a higher rate than other services is fair, whilst 63% think the proposal is unfair for all passengers, even if it meant lower fares on some less busy services.

58. Helping passengers obtain tickets through better information and technology is something that we would support. However, we believe that both the McNulty Review and the Command Paper have ambitious plans to de-staff trains and ticket offices that will be at the expense of the passenger. And we do not believe that purchasing train tickets from non-trained staff in other retail settings provides the help and advice that passengers want.

59. Over half of all nationally available ticket retail is provided through face to face contact with ticket office or train staff. Nearly all (89%)[42] ticket retailers offering the full range of tickets for passengers are handled by trained staff in ticket offices and on trains. What is more, surveys show that passengers value face to face contact when it comes to navigating their way around the complex ticket pricing system.

60. The Department for Transport's own review into ticketing acknowledges Passenger Focus research that shows that "passengers are more confident with ticket offices than any other sales channel of obtaining the best value ticket for their journey".[43] Plans to cut on-train and ticket office staff will be unacceptable to a great majority of passengers.

[37] Informed Sources, April 2012.
[38] *Alliancing: Network Rail Policy Statement,* March 2012.
[39] Ibid.
[40] Ibid.
[41] *Media briefing on fares review,* Campaign for Better Transport.
[42] *Rail Fares and Ticketing Review: Initial Consultation*, Department for Transport, March 2012.
[43] Ibid.

What are the implications of the proposals for rail decentralisation and how should responsibilities be devolved to local authorities?

61. As European comparisons indicate a strong role for regional and local authorities helps support greater specification of service needs and integration of rail services with local transport modes.

62. A greater role for regional bodies, such as ITAs, could result in a closer focus on local social, environmental and economic priorities through all parts of the country.

63. However, the examples from Europe suggest that this is greatly facilitated by the existence of strong regional structures within a unified national rail system under public ownership.

64. Negotiating long term sustainable outcomes is much harder in a UK system where most parts of the country are covered by local authorities that lack the scope and resources to engage with rail, where regional bodies have largely been abolished and where local funding is subject to severe funding cuts. This is exacerbated by the complex number of interfaces that local authorities would have with multiple passenger and freight operators.

65. There are also serious concerns about the devolution of funding for rail. The current situation with local bus services under threat due to severe restrictions in local authority funding, shows how vulnerable transport can be where devolved budgets are under threat. A similar devolution of rail funding might lead to additional threats to regional rail services.

66. As such, there are severe limitation to the current structure of local government and the rail industry in managing effective joined-up regional management of the railways.

18 April 2012

Further written evidence from TUC, ASLEF, RMT, TSSA and Unite (ROR 24A)

ADDITIONAL INFORMATION: ESTIMATED JOBS AT RISK

Introduction

1. In our submission to the Transport Select Committee inquiry *Reform of the Railways*, rail unions identified over 20,000 jobs in the rail industry that would be "at risk" as a result of a number of recommendations arising from the McNulty Review and promoted within the government's Rail Command Paper and the Initial Industry Plan.

2. These estimates were based on our analysis of figures included within the final report of Rail Value for Money Study.

3. At the oral evidence session of the Transport Select Committee on Tuesday 19 June, Sir Roy McNulty described the rail unions' estimates as exaggerated and claimed that the likely figure was closer to 6,000.

4. In a later session featuring representatives of ASLEF, RMT, TSSA and Unite, committee members asked for further written clarification as to how the unions' figures for jobs at risk were estimated.

5. This additional written submission provides information on how our figures were arrived at and what impacts this might have on passenger safety and services.

Estimated Jobs at Risk

6. By extrapolating from the McNulty Review, our briefing indicated the total numbers of jobs at risk broke down as follows:

Job type	*Numbers at risk*
Non-driver on-train staff	6,800
Maintenance, Signalling and Operations Staff	6,300
Ticket retail in E and D stations	2,000
Station staff	5,500
Total	**20,600**

7. The following are direct quotes from "Realising the potential of GB rail: the final report of the Rail Value for Money study" published in May 2010.

Non-Driver on-Train Staff

8. The Rail Value for Money Study states: *"the Study has reviewed the number and cost to the industry of the second member of the train crew employed by most TOCs—known as guards, conductors or train managers—of which there are 6,800"*.

9. The Rail Value for Money Study recommends *"the financial imperatives facing the industry, the need to change radically the cost structure of the industry, and the availability of new communications technology has led the Study to recommend that the default position for all services on the GB rail network should be DOO (Driver Only Operation)"*.

Maintenance, Signalling and Operations Staff

10. The Rail Value for Money Study states: *"The Study understands that, in order to meet its efficiency targets, NR expects to reduce staff numbers over Control Period 4 (CP4) by 6,300. Much of the reduction could come from the maintenance function, with further reductions from investment projects, and from operations staff (signallers and others). This equates to a 17% reduction in staff numbers and is predicted to deliver a corresponding 21% reduction in staff costs"*.

11. The Rail Value for Money Study recommends: *"NR employed 8,600 signalling and operations staff at the beginning of CP4. This number should be able to be reduced to 7,600 by the beginning of CP5. NR employed 18,000 maintenance staff at the beginning of CP4, which could be reduced to 14,000 by the beginning of CP5"*.

Retail Staff in Category D and E Station Booking Offices

12. The Rail Value for Money Study states: *"Around 5,500 staff work on retail activities, of which 37% (approximately 2,000 people) are employed at small- and medium-sized stations"*.

13. The Rail Value for Money Study recommends: *"The closure of all Category E station ticket offices; reducing the opening hours at Category D station ticket offices"*.

Station Staff

14. The Rail Value for Money Study states: *"Excluding those involved solely in retail, a further 5,500 staff work on stations on the platforms or elsewhere in the station environment. Their primary responsibility is dispatching trains"*.

15. The Rail Value for Money Study recommends: *"The Study recognises that TOCs are free to make commercial judgements on the need for dispatch staff within the bounds of their safety responsibilities and recommends that TOCs should review station staffing as a matter of priority"*.

16. Clearly, all these estimates need to be treated with a great deal of caution and we are not claiming that the higher end figures will materialise in terms of job cuts.

17. However, we are confident that the figures contained within our briefing were an accurate reflection of those job numbers that will be under review or actively targeted for cuts as a result of McNulty recommendations.

18. Sir Roy's assertion that we can expect only 6,000 job cuts looks unrealistic given the content of his own report, the figure for Network Rail job cuts in Control Period 4 exceeds that number alone.

19. Moreover, our figures may also be on the conservative side given that they do not include other groups within the industry such as catering or cleaning workers.

Potential Impact on Passengers' Services and Safety

Personal security

20. There are direct associations between staffing levels and personal security.

21. Anthony Smith, Chief Executive of Passenger Focus has stated that "all our research indicates passengers really like the re-assurance only the presence of staff can bring. Taking staff away from stations would represent a very short-term, short-sighted saving".

22. Passenger Focus's National Passenger Survey[44] shows that "personal security" and "availability of staff" are two of the worst three areas of passenger satisfaction at stations. Personal security scored more highly on trains but less than half of all rail passengers were satisfied with the availability of a guard on their train.

23. Passenger Focus Wales published its report "The Passenger Experience at Unstaffed Stations" in February 2011. Among its main findings were: "w*ith 54% of passengers rating their personal security as good, 9% lower than the ATW average, personal security at unstaffed stations is a concern for many passengers"*.

24. An Independent Social Research report from April 2009 "Passengers" Perceptions of Personal Security on Public Transport" stated that: "*the presence of uniformed staff provided a sense of order and authority, and gave passengers confidence that anti-social behaviour would be challenged. Women and older people in particular were reassured by staffing initiatives, and often commented that seeing staff on trains, stations and at bus stations made them feel safer"*.

[44] National Passenger Survey, Passenger Focus, Autumn 2011.

25. In respect to specific security issues facing young passengers, the report found that: "r*eactions to staffing initiatives—especially among older teenagers—were different for young men and young women. Most of the young women we interviewed were reassured by seeing uniformed staff on trains and stations, especially if they were travelling at night. This was the case for the staffing initiatives included on Merseyrail, Southeastern, and the Colchester to Clacton line. As with adult passengers, they liked to see an authority figure who would keep order and challenge anti-social behaviour"*,

26. In her 2005 research report "Women and Transport", Kerry Hamilton of the University of East London found that: "*women feel more vulnerable to attack and harassment than men and their greater concern with personal security ... This deep concern about personal security has important implications for the design of transport interchanges and waiting areas and for staffing levels"*.

27. The report concluded that reduced staffing levels had direct impact on the perception of women's personal security: "t*he removal of conductors, as a result of One Person Operation on buses and trains, which was introduced in the 1980s and was generally commonplace by the 1990s, resulted in reduced personal security for passengers, especially women ... Therefore the quality and level of staffing on vehicles and at bus and rail stations is of vital importance"*.

28. In their response to the consultation on the Rail Value for Money Study, the RMT quoted research from a report by trade unions and passenger groups in relation to proposed ticket office closures on South West Trains which found that: "*only 55% of passengers were satisfied with the current availability of staff at South West Trains stations. Only 62% of passengers say they are satisfied with their personal security while using South West Trains stations. Evidence suggests that staff presence is key to making passengers feel safer when taking the train"*.

29. The "Women and Transport" report published by the Scottish Executive in 2000 found that: "m*any transport interchanges are seen to be unsafe by women, and more isolated bus stops and unstaffed railway stations are often avoided after dark"*.

30. Personal safety was the issue that solicited the largest number of responses to the Scottish Executive study. The report found that: "t*he change which was identified most frequently related to the provision of increased staffing at stations and on public transport vehicles (as well as in car parks and cycle paths) in relation to women's personal safety needs (57% of these respondents). Although a small number argued that an increased police presence would be beneficial, many more identified the need for an increase in public transport staff*".

31. In her report commissioned by the Labour Party *Everywoman safe everywhere*, Vera Baird QC states that "a significant number of respondents to the consultation raised concerns about cuts to travel budgets and services and the corresponding impact on that could have on women's perceptions of safety".[45] Removal of station and train staff and closures of ticket offices were chief among these concerns.

Safety

32. In addition to providing passengers with general reassurance, travel and ticket advice, guards have a key operational safety role. Removing guards has serious repercussions for passenger safety. Currently both drivers and guards have operational safety duties. Currently guards on trains are fully trained in operational safety and route knowledge, including being able to safely operate the doors, protecting the train and acting in emergencies such as driver incapacity, failure of train safety systems and derailments.

33. The Cullen inquiry into the Ladbroke Grove rail crash highlighted the essential role of the guard in protecting the train due to the death of the driver. Arising from that inquiry Lord Cullen recommended that"*increasing the training of the existing staff so that all members of the on-board staff (including persons working under contract) are trained in train evacuation and protection"*.

34. If the driver of a train is incapacitated in any way there will be no one who can carry out the recommendation of Cullen. It is also important to note that where DOO has already been introduced the guards have not been replaced in many instances by other staff, the trains are literally one person operated. Under the new less prescriptive franchises and pressures to drive down costs it is likely Train Operators will opt for one person trains. Even when other staff have been introduced they are not adequately trained in protection and evacuation as recommended by Cullen.

35. Network Rail's in house maintenance and signalling staff play a key role in ensuring safety on rail. When announcing the in-sourcing of 18,000 maintenance workers in October 2003, Network Rail chairman Ian McAllister said the move would not only provide greater efficiency savings but would ensure "greater consistency of maintenance standards".

36. The recent floods, derailments and landslides that have hit services hard in the north and Scotland, including the Tyne and Wear Metro, are the most graphic recent demonstration of the kind of emergency situations that are thrown at rail and transport staff without any notice and which only skilled and trained staff in adequate numbers can safely deal with. The evacuation of passengers in Dumfries and Galloway by guards

[45] *Everywoman safe everywhere*, Baird, March 2012.

following a fire on a Virgin train service from Birmingham to Glasgow illustrates the essential role that trained staff on board perform in emergency situations.

37. In 2009 the RMT compiled a dossier of evidence from rail maintenance workers from around the UK identifying the impact on track safety as a result of job cuts announced by Network Rail. The evidence illustrated a situation where inspection and maintenance staffing was stretched, there were numerous cases of backlogs in safety tests, work on reported problems was not completed or delayed and short cuts in safety procedures.

38. The loss of over 6,000 further jobs at Network Rail will exacerbate this situation.

Access

39. The Department for Transport's Code of Practice on accessible train stations, drafted in co-operation with ATOC and Network Rail states that *"one of the most effective ways of making services more attractive to disabled passengers is to provide properly trained staff"* and continues that "*all railway passengers like to know, in advance of their journey, where to go when they reach the station and how to find the appropriate train service. This is especially true of disabled passengers, who may have particular concerns about ... help available from staff"*.

40. The Code of Practice recommends that *"At the very least, staffed booking offices and information points as well as appropriate remote help points should be able to provide this information"*.

41. The Department for Transport accessibility strategy *Railways for All* states that "s*taff are seen by many passengers, and by disabled passengers in particular, as important at times of disruption, especially unplanned engineering works or delayed trains and in improving personal security, all of which increase confidence to travel by rail"*.

42. In a Daily Telegraph article in December 2011, the Secretary of State for Transport Justine Greening, highlighted the role that staff on trains and at stations can play in helping passengers calling on employers and unions to work together to provide the best possible service for passengers.

Ticket retailing

43. While new forms of ticket retail have become increasingly available, over half of all nationally available ticket retail is provided through face to face contact with ticket office or train staff.

44. Nearly all (89%)[46] ticket retailers offering the full range of tickets for passengers are handled by trained staff in ticket offices and on trains.

45. Surveys show that passengers value face to face contact when it comes to navigating their way around the complex ticket pricing system. The Department for Transport's own review into ticketing acknowledges Passenger Focus research that shows that "passengers are more confident with ticket offices than any other sales channel of obtaining the best value ticket for their journey".[47]

46. In April 2011, Passenger Focus announced the results of its public consultation on the proposals for stations outside London. In a sign of the effect of community action, over 18,000 objections were received, including via petitions, pre-paid post cards and templated letters as well as from individuals, MPs and organisations.

47. In response to recent announcements for ticket office closures and reduced opening hours at over 100 stations across the country, Passenger Focus stated that: *"passengers really value the presence of staff at stations. Any reduction in ticket-office opening hours and the subsequent withdrawal of booking staff often reduces the overall facilities available at stations. Access to waiting rooms and lavatories can be affected by this sort of change. We fear that this could lead to passengers feeling less safe at stations and paying more for their tickets than they should. Ticket vending machines are important, but as they don't at present offer all ticket types or provide advice to ensure passengers get the cheapest fares, we see a strong ongoing need for visible station staff"*.

48. Likewise, the Campaign for Better Transport stated *"Plans to close ticket offices and cut staff in stations will mean passengers are left to fend for themselves when buying a ticket and will result in people paying over the odds for their journey"*.

5 July 2012

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[46] *Rail Fares and Ticketing Review: Initial Consultation*, Department for Transport, March 2012.
[47] Ibid.

Further written evidence from Unite (ROR 24B)

2012 HLOS ANNOUNCEMENT

1. Introduction

1.1 This response is submitted by Unite the Union, the UK's largest trade union with 1.6 million members across the private and public sectors. The union's members work in a range of industries including manufacturing, financial services, print, media, construction, energy generation, chemicals, transport and local government, education, health and not for profit sectors. In the arena of transport Unite represents over a quarter of a million members in all transport modes, making it the largest transport union in the UK.

1.2 Of importance to this enquiry Unite is the fourth rail union with members primarily in rail manufacturing, rail freight and track and train maintenance. A significant proportion of our members rely on the rail network to get to their place of work and hence our response will try and provide an overview of Unites concerns over the way the High Level Output Strategy (HLOS) has been drafted.

2. Background

2.1 The UK's Rail network is struggling to cope with increasing demands placed upon it caused by the lack of a guiding mind since privatisation and the lack of onward investment by the rail companies. Instead of putting money into new capacity and new trains for a long term solution, the franchise system has encouraged a series of short term fixes targeted at obtaining the most out of what is already in place.

2.2 Rolling Stock Operating Companies (ROSCO's) have failed to invest in new rolling stock, depending instead on government intervention due to claims over uncertainty over the needs of the new Train Operating Companies (TOC's) future requirements. As a result ROSCO's have been left to operate in an environment where they can make excessive profits for no risk while design through to finished product rail manufacturing in the UK has all but disappeared.

2.3 TOC's too have had little risk that passengers would go elsewhere as they can operate on lines in competition only with other transport modes. On commuter journeys they have consequently been operating in a near monopoly being able to increase fairs far beyond pay increases, forcing passengers out of employment and companies finding it difficult to recruit in lower paid roles from outside the immediate area due to the cost of travel.

2.4 As the cost of car insurance also increases, especially for younger drivers and fuel prices spiral at the pumps, more and more people are being put onto the already overcrowded networks. To counter this and provide more capacity train speeds have increased, which has the twin detrimental effect of increasing wear rates of track and infrastructure and pushing up carbon emissions. The increase in speed also increases the risk of accidents and hence there needs to be a significant increase in safety oversight and more investment in maintenance.

2.5 Investment into the network is, therefore, urgently needed. Track gauge enhancement work has created a significant improvement towards encouraging freight away from long distance road movement towards the rails from Southampton for example. Equally enhancement on the Felixstowe to Nuneaton route should also create a far better climate for growth in this area. The issue still remains, however, that once on the rails the network of intermodal terminals is often inadequate or even under treat from developers of closing.

2.6 The Government has set out in the HLOS moves to increase the proportion of track which is electrified and focuses on the use of a "public performance measure" (PPM). Whist the former may decrease the environmental footprint of the network in the long term and the later potentially improve journeys fro passenger traffic it will do little to assist rail freight.

2.7 Unite suggests that this improvement programme will be funded out of the travelling publics pocket and those of its workforce, not the governments, given the content of the Rail Command Paper. This seeks to reduce the cost of the government subsidy, by cutting jobs and undermining the terms and conditions of workers and Unite would argue putting passengers at increased risk.

3. Significantly Late

3.1 At para 21 it states *"The Secretary of State also wishes to see a reduction to no more than 2.2% by the end of CP5 in the overall percentage of trains which are cancelled or arrive at their final destination significantly late"*. The measure of significantly late arrival is *"A train is significantly late if it arrives at destination 30 or more minutes later than the time shown on the public timetable"*. On the surface this appears to be a reasonable target to achieve until you realise that this measurement is generally made between the original departing station and the final destination and there is nothing to stop TOC's building in additional time in the journey between the penultimate stop and the final destination to allow for delays.

3.2 Under current calculation methodology a train may be over 45 minutes late due to intermediate stops but arrive "on time" at the final destination. Unite would argue that the calculation of delays should instead be based on journey times to each station on the route to provide a more accurate measure.

4. Capacity

4.1 Unite welcomes the government desire to see an increase in carrying capacity. To achieve this goal, however, significant investment is needed in track capacity and stations as well as rolling stock. Due to size limitations UK rolling stock has to be narrower and shorter than European networks leaving only four ways to increase capacity.

4.2 Increase the length of the train which then requires a consequential increase in platform length for passenger traffic and a longer walk for passengers. Such a move also means the requirement in some cases to purchase back neighbouring land to facilitate such a move as developers have been allowed to encroach on what was railway land. This is not an issue for rail freight which could have trains over a mile long but introducing such trains does create a problem allowing space in timetables for such trains to pass.

4.3 Increasing the speed of trains does reduce journey times and provides space for additional services. Increasing speed does require an increase in safety margins and squares the wear rates on the track and infrastructure requiring a far higher level of maintenance. Such a move also reduces the reliability of rolling stock creating a far higher risk of failure. Despite this, this method of generating capacity has been the preferred avenue since privatisation.

4.4 Reducing safety margins can also provide more capacity. Doing so safely requires a far greater accuracy than is currently available on the network to pinpoint the limits of trains. Currently a controller will know that there is a train on a section of line but will not know exactly where the train is within that section of line. As a result it is often the case, that more track than is required to safely stop the train, is left underutilised. Global positioning and feed back of trains would provide a more accurate locating option but these do not work in tunnels, under bridges and can be distorted by built up areas and terrain. Unite opposes any move to reduce safety criteria, unless it can clearly be shown that such technology can be employed to make such large margins unnecessary.

4.5 Building more track is the final and most obvious solution but doing so often causes significant disruption to services whilst the doubling or re doubling exercise is carried out.

5. Electrification

5.1 Whilst the commitment to electrification is welcomed by Unite, for it to encourage freight away from diesel powered haulage, there needs to be infill work completed. Currently just 19% of freight is moved by electrically powered trains, with the balance diesel powered, often under the overhead electrical wires. Due to gaps in the network where no electrical power (neither third/fourth rail or overhead line), is provided, moving freight by electrically powered traction requires the hauling power unit to be dual (electric/diesel) powered in order to cope with areas where no electrification exists. Such units are significantly more expensive to purchase and maintain. To electrify the rail freight industry therefore there will need to be a major move toward electrical infill of these lines as well as electrification of a spine.

5.2 The other hurdle to electrification of freight is the need to utilise cranes and forklifts to load and unload trains in depots. This could be facilitated by diesel shunting trains from holding areas. Such a plan would however require far larger intermodal terminals than are currently in place around the UK. If these two developments were to occur, Unite believes around 55% of freight could be moved under electrical power.

5.3 Electrification of passenger services is also a welcome move but this will create demand for more electrically powered and dual power capable trains. Unite therefore hopes the commitment to electrification of lines is matched with a commitment to provide the rolling stock to make best use of this opportunity.

6. Customer Satisfaction

6.1 Unite is pleased to see a commitment to customer satisfaction but feels that this could be undermined by the content of the command paper and moves by franchises to reduce staffing levels particularly in ticket offices, on platforms and on trains. This will reduce the passenger's access to a uniformed member of staff and consequently feeling of personal safety, particularly at night.

6.2 Implied reductions in maintenance and signalling jobs also appear at odds with a desire to increase capacity, as highlighted previously. Without these highly trained staff, services will become less and less resilient to increase wear rates created by higher journey speeds. Despite rail journeys being currently the safest transport option, this record will be under threat of another Hatfield disaster, if staffing levels are not maintained.

7. Environmental Performance

7.1 Other than the obvious savings that can be achieved from electrification, Unite struggles to see how commitments towards reducing carbon can be seen on services without impacts on off peak service provision. Typically, off peak capacity requires only a third of peak capacity trains as highlighted by the McNulty value for money review. Slowing off peak services or cutting these services would create carbon savings but doing so would make services less attractive.

8. Connectivity

8.1 Unite welcomes the plans to connect Heathrow to the Great Western Main Line (GWML). Unite feels that the airport should also be connected to HS2 in the initial phase of construction and bringing this line through to a terminal on the GWML as proposed by Heathrow Hub limited has far greater benefits as it would also provide the West Country and South Wales with access to HS2 without entering central London. The Heathrow Hub proposals would also reduce the impact on the Chilterns.

8.2 Unite also supports the Wandsworth Council "Airtrack Lite" proposals for a line to run south from the airport to Staines providing the final link in a route connecting the GWML and Heathrow to Gatwick by rail.

8.3 Unite also welcomes the additional proposals to enhance services in East Anglia, connections to Gatwick and the ports. In terms of electrically hauled freight, however, as outlined previously, this would depend on in-fill electrification work.

8.4 Northern Hub proposals have been around for some time and Unite believes that such a development will be highly rewarding in the long term, benefiting not just passengers but also businesses in the region.

9. European Rail Traffic Management System

9.1 Unite welcomes the development of a common standardised signalling system across the network as it has the potential to provide savings in terms of training and enhanced safety.

10. Conclusion

Unite welcomes the majority of the proposals as set out in the HLOS but is concerned over how some of these proposals can be delivered in practice.

24 August 2012

Further written evidence from the National Union of Rail, Maritime & Transport Workers (ROR 24C)

HLOS

Introduction

The National Union of Rail, Maritime and Transport Workers (RMT) welcomes the opportunity to respond to the Transport Committee's Call for Evidence.

The RMT is the largest of the rail unions and organises 80,000 members across all sectors of the transport industry. We negotiate on behalf of our members with some 150 employers.

Network Rail

In the wake of the fatal events at Southall, Ladbroke Grove, Potters Bar and Hatfield, Railtrack, whose infrastructure regime enabled railway assets to be sweated, was condemned by the public, the courts, the unions and the passengers for having accountants determine its safety standards. As a result track maintenance and signalling operations was rightly reintegrated and passed to a not- for- dividend company, Network Rail. Whilst by no means perfect there have been important improvements in recent years in areas such as asset knowledge and the millions of pounds saved after the company decided to bring maintenance functions in-house.

The Rail Value for Money Scoping Study estimated that Network Rail's decision to bring maintenance back in-house delivered cost savings of over £400 million per annum of which £100 million is the result of reduced interface costs. Self-evidently, to take the railways back to the days of the Railtrack era would be a serious error.

We are therefore concerned that the September 2011, Initial Industry Plan explains "The asset management capability developed by Network Rail will allow it to explain the benefits of outsourcing to facilitate the introduction of innovative work practices. Both Sweden and the Netherlands indicate that considerable savings have been delivered by contracting out maintenance activity. Network Rail does not believe that totally outsourcing maintenance is appropriate at this stage but it will increase the proportion of work undertaken by parties outside Network Rail".

RMT is particularly alarmed at this prospect and has serious concerns that such a step taken together with the company exploring the possibility of letting one or more concessions to allow third parties to manage the infrastructure at a route level could see a return to the disastrous Railtrack era.

McNulty Report

Sir Roy McNulty's May 2012, Rail Value for Money report raises some serious issues for the rail industry. McNulty found that the UK rail network is between 30%–40% less financially efficient in terms of maintenance and renewal costs than comparable networks in Europe. These figures are widely disputed, including by RMT.

RMT supports measures to improve the efficient financial operation of the network. We have consistently called for Government to put an end to the fragmentation and waste that has been an overriding feature of the privatised rail network. However, McNulty chose to completely ignore the fact that railways in Europe are cheaper for the taxpayer and farepayer largely because, in the main, they are in public ownership and less fragmented.

Indeed, research for the rail unions by the Transport for Quality of Life think-tank published in 2012 demonstrated that over £11 billion has been lost from the rail industry as a result of fragmentation and payments to shareholders since privatisation.

In terms of private sector driven waste and Network Rail, over £150 million is wasted annually in excess interest payments on company debt, £290 million on interface costs between the company and the train operating companies and £200 million on the cost of outsourcing renewals and enhancements to the network.

Our view is that in order to begin to put an end to fragmentation and waste Network Rail should be brought into public ownership and made directly accountable to Ministers and Parliament. Such a move would also help to resolve some important concerns that have been raised in relation to the Network Rail's governance and accountability would probably be best described as opaque.

Concretely, McNulty advocates the further fragmentation and privatisation of the railway by recommending the breakup of Network Rail and the sale or leasing of its assets to the private train-operating companies. These proposals, if implemented, will increase costs and reduce efficiency leading to poorer services and higher fares. Further fragmentation will also have an adverse impact on the ability of the railways to contribute to strategic objectives such as helping economic growth, moving freight from road to rail and reducing carbon emissions.

The breakup of Network Rail, which deep alliancing must be considered to be a precursor to, will be accompanied by massive reductions in safety critical operational, maintenance and renewals staff, resulting in the loss of even more skilled rail jobs. Re-introducing the profit motive, coupled with fragmenting track maintenance and signalling operations, will create a Railtrack Mark II and is inexplicable given the woeful safety record of Railtrack.

Efficiency Savings

McNulty also maintains that Network Rail could deliver efficiency savings of up to 30% in Control Period 5 between 2014 and 2019. Savings of a similar level are due to be delivered by the company in the current Control Period (the five years to 2014). Efficiency savings of almost 30% were delivered in Control Period 3.

The Rail Value for Money Study states: *"The Study understands that, in order to meet its efficiency targets, NR expects to reduce staff numbers over Control Period 4 (CP4) by 6,300. Much of the reduction could come from the maintenance function, with further reductions from investment projects, and from operations staff (signallers and others). This equates to a 17% reduction in staff numbers and is predicted to deliver a corresponding 21% reduction in staff costs."*

The Rail Value for Money Study recommends: *"NR employed 8,600 signalling and operations staff at the beginning of CP4. This number should be able to be reduced to 7,600 by the beginning of CP5. NR employed 18,000 maintenance staff at the beginning of CP4, which could be reduced to 14,000 by the beginning of CP5."*

RMT has concerns that the drive for efficiency savings, divorced from structural changes designed to end fragmentation and waste will lead to ever increasing pressures on the infrastructure work-force and potentially bring the integrity of the infrastructure itself into question. Track gangs and signal and telecoms teams are already being stretched by the volume of work being undertaken on the rail network. RMT raised concerns in the run up to the current Control Period 4 funding settlement and we remain concerned that the CP5 funding process is being driven by a desire to implement McNulty recommended cuts, which will put jobs at risk and compromise safety.

HLOS & PR13

According to the Department for Transport, "The Secretary of State remains committed to improved rail industry efficiency and value for money for customers, as set out in the objectives of the March 2012 Rail Reform Command Paper. She expects the industry to deliver this through the agenda of transparency, alignment of industry incentives, franchise reform and other measures set out in her Command Paper".

RMT is deeply concerned that this will lead to extensive cuts given our experience of almost 1,400 skilled railway workers leaving the industry as a direct result of cuts introduced in CP4 following the last HLOS.

Whilst RMT welcomes the £5.2 billion for the completion of current schemes, such as Crossrail and Thameslink and £4.2 billion for new projects it must be noted that the vast majority of what are termed new projects were projects which had already been planned, under the previous government, but which were later deferred.

As such RMT maintains that the proposed £4.2 billion is an insufficient sum for a rail network which is in desperate need of serious of investment, in order to meet the objective of providing a quality rail network, moving towards a more sustainable economy and increasing modal shift.

Additionally, adequate provision must be made to ensure that the circumstances do not arise again which lead to mass redundancies such as those at Jarvis, where 1,200 skilled rail workers lost their jobs due to the failure of the contracting regime at Network Rail.

Fares

RMT is deeply concerned that the cost of investment in the railway will be, by and large, carried by the passenger, as recently demonstrated through the inflation busting fare increases of an average of over 6%.

RMT maintains that were the leakages caused by privatisation removed through nationalisation, these fare increases would be unnecessary.

Safety

Where the Secretary of State has made some provision for the reduction of risk at level crossings, RMT believes that the level of provision is remedial and that the Government must announce a programme of work which would remove level crossings from Britain's railway, and thereby eliminate any possibility of a level crossing related accident.

Increasing Capacity

RMT believes that capacity issues can only be truly resolved through a combination of more frequent services and new rolling stock.

The Government must immediately review the current rolling stock regime, with a view to developing a regime which is both financially and environmentally sustainable, and also with the economic benefits of British based rolling stock production being taken into account. This should form a key strategic priority for developing a sustainable rail industry.

Rail Freight

RMT welcomes the announcement for significant investment in the Strategic Freight Network during CP5, and believes it to be a step in the right direction in encouraging modal shift for freight traffic.

Inflation Risk

RMT is opposed to the ORR proposal to increase the financial risk to Network Rail, and has very serious concerns about the impact of such risk on the financial health of the organisation.

Additionally, RMT queries the ability of any organisation to make an "upfront forward-looking assumption" for inflation levels given the turbulence experienced by inflation figures at present.

Illustrative Peak Train Services

In relation to Illustrative Peak Train Services, RMT is shocked that such vital services are being left at the discretion of private industry.

RMT has consistently called for the highest possible level of specification for train services and believes that they should not be subject to the outcome of franchise competition, or what is termed the "value for money" solution which essentially means that such services may never be provided.

Indeed, in the Government's own words "The illustrative peak train services are not what will happen; that will be guided both by the rail industry's response to the HLOS in the Strategic Business Plan for CP5 where the industry will set out how it proposes to meet the HLOS, and by the outcome of future train operator franchise competitions".

This clearly demonstrates the hypocrisy of this Government's approach to investment in the rail network, and to tackling over-crowding at peak times, when ultimately it will be determined by private industry who will naturally prioritise dividend payments above investment. This arrangement has now been formalised through the creation of the Rail Delivery Group.

Environmental Performance

RMT does not believe that the private rail industry "should set itself carbon and energy efficiency objectives" but rather that they should be set by the Government in the public interest.

28 August 2012

Written evidence from the Association of Train Operating Companies (ATOC) (ROR 25)

SUMMARY

1. ATOC represents train operators in Great Britain and provides services for the passenger rail sector, such as National Rail Enquiries and the Rail Settlement Plan. We welcome the chance to submit evidence to the Committee's inquiry into reform of the railways.

2. Our vision is of rail as a thriving business sector which makes an increasingly positive contribution to national life. Much has already been achieved and private sector train operators aspire to do more with others in delivering a better railway in future.

3. The key to rail's future lies in improving its long term financial sustainability. We support the broad thrust of Sir Roy McNulty's findings on lowering industry costs, but continued success in generating revenue is also vital.

4. The industry has already set out plans to reduce costs and a commitment to make progress towards further cost savings. How far these efficiency gains materialise depends on the success of the railways and Government in implementing major reforms.

5. The Government's Command Paper sets out a framework for reform. It needs to go further by converting franchise reform into reality; improving fares and ticketing regulation; and promoting considered institutional and structural reform.

Increasing rail's contribution to national life

6. Our vision is of rail as a thriving business sector which makes an increasingly positive contribution to national life. In *Planning Ahead 2010*, we and our industry partners set out our aim to contribute to the economy, society and the environment in the next 25 years, among other things by:

- working to carry twice as many passengers as today;
- continuing to improve passenger satisfaction levels to at least 90%; and
- moving towards cutting rail carbon dioxide emissions by 50% in the longer term.

7. The Rail Value for Money (RVfM) Study led by Sir Roy McNulty highlighted many of the successes achieved in GB rail since privatisation, for example, on safety, customer satisfaction and operational performance. Private train operators have been key to these achievements and want to play a greater role alongside others in delivering further improvements, building on their role in:

- reducing industry unit costs in recent years: TOC costs per passenger km have been falling in real terms since 2005–06. The RVfM Study (and HM Treasury's subsequent National Infrastructure Plan) showed that costs of GB passenger train operation (ie not including infrastructure and rolling stock costs) compared favourably with the comparator European railways used in the study;
- driving growth in both passenger numbers and revenue, which have increased by respectively 86% and 93% in real terms since 1995;
- leading investment of c £5 billion in rolling stock in the years following privatisation and delivering a range of improvements in terms of timetables, the on-board and at-station travelling experience and customer information; and
- committing to deliver further improvements, individually through their franchise agreements and collectively, for example, through participation on the Rail Delivery Group (RDG), or their work in leading the development of an industry customer information strategy and proposals to improve value for money in rolling stock.

8. We see reform of the railways as an exciting opportunity for Government to create a better business environment in the interests of passengers and taxpayers. Successful reform would empower TOCs not only to deliver value in their own right, but also to work more effectively with NR and others to improve efficiency and prioritise improvements which meet customers' needs and so drive revenue growth.

Improving the financial sustainability of rail

9. The key to rail's future success lies in reducing unit costs and generating revenue to improve long term financial sustainability. The RVfM Study used a "top-down" assessment to identify potential cost efficiencies worth £2.5–3.5 billion pa and to propose that GB rail should aim to achieve the higher figure by 2018–19—a figure since endorsed in the DfT Command Paper.

10. As part of the Study, a "bottom-up" review supported this view based on Network Rail (NR) savings already committed for CP4 or assumed for CP5 (£1.8 billion); additional savings delivered by NR and TOCs/ROSCOs by implementing recommendations in seven areas (up to £1 billion); and bringing GB train utilisation closer to levels which according to the Study are achieved by other European railways (£500–700 million).

11. The Study correctly identified key areas for additional savings (such as asset and supply chain management, and people) and we support many of the proposals aimed at unlocking these savings, such as reforms in franchising, NR and fares/ticketing. However:

— the scale and deliverability of potential efficiency gains should be treated with caution. On train utilisation, for example—which has increased by 24% since 2005/06—further improvements may well be possible but we question the robustness of the comparisons used in the Study. In the case of rolling stock, ATOC's own assessment on achieving better value for money (published in December 2011) suggests lower savings delivered in different ways to those highlighted in the Study; and

— the Study and Command Paper say little about the need to reinforce the industry's ability to generate revenue and so (together with lower unit costs) deliver better value for money to the taxpayer by reducing reliance on the public purse. This ability is key to ensuring the industry can afford future investment and so earn its "licence to grow" in serving the wider transport needs of the economy and society in an environmentally-responsible way.

12. The Initial Industry Plan (IIP) published last September by NR, ATOC, RFOA and RIA set out industry proposals to cut annual costs over CP5 by £1.3 billion by 2018–19—consistent with the low-end McNulty savings, assuming NR delivers its committed efficiencies in CP4. It also assumed growth in revenue to c £10 billion per annum in CP5, by train companies and their industry partners providing improved services at a price which people are prepared to pay, to serve the growing demand for passenger rail travel.

13. The IIP's combination of growing passenger numbers and lower costs creates the headroom for Government to choose the preferred balance between investment, fare levels and subsidy. The plan proposed a £10 billion CP5 enhancement programme to improve services, while potentially seeing subsidy fall to c £1 billion per annum by 2018–19.

14. The decision on future subsidy and fare levels rests ultimately with Government, but the work to cut costs and generate revenue rests with both the industry and Government playing their respective roles. The IIP highlights that:

— NR plans to reduce costs through initiatives such as devolved decision-making and better asset management. TOCs are assumed to continue reducing unit costs by a further c.10% over CP5 as a result of existing commitments in franchise agreements;

— further savings from TOCs, consistent with the low-end McNulty estimates, could be delivered but are heavily dependent on decisions made by DfT (eg on franchising). Greater efficiencies from NR would require a step-change in cross-industry collaboration, which itself can be influenced by the environment shaped by Government and the ORR; and

— the RDG has a key role in exercising industry leadership by looking at barriers to achieving higher savings and is currently looking at a number of the areas highlighted by the RVfM Study.

Creating the right framework for reform

15. The path to unlocking future cost savings and revenue generation, highlighted by the RVfM Study, lies in creating an environment where Government focuses more on strategy and less on detail, and the industry has better, more aligned, incentives to deliver value for money. The Command Paper sets out a framework of potential reform containing many of the right elements needed for the railways' future success. The priority now for Government must be to follow through with effective implementation in three critical areas.

Convert franchise reform into reality

16. Franchise reform is vital to empowering TOCs to deliver greater value themselves and jointly with industry players such as NR. The IIP highlighted how franchise reform could unlock savings identified by the RVfM Study, for example, through:

— longer franchises, which strengthen the incentive to pursue staff productivity gains, build strong TOC relationships with suppliers and build up TOC capacity to play an enhanced role in strategy and projects;

— more flexible franchises, with less prescription of the service specification and how it is delivered, allowing service levels to be better tailored to demand and encouraging more innovation at bid stage; and

— improved risk sharing (eg ending the cap and collar regime), helping to improve incentives to TOCs to grow revenue.

17. The Command Paper embraces such principles, which must now be reflected fully, on a "horses for courses" basis, in franchises due to be let over the next two years: these cover 70% of passenger rail revenue and will define how trains are run over the next two decades.

18. The winning bid for the West Coast franchise will be an early test of how effective the Government's approach has been in promoted value for money. We expect the competition for this franchise to be keenly fought, but we need to see more tangible evidence of Government commitment to franchise reform:

— even though the ITT reflects some greater flexibility on the service requirement, the DfT's specification of a minimum number of station calls per week, combined with the existing rights of other passenger and freight operators, largely boxes bidders in to propose timetables that are very similar to the existing service structure;

— the DfT only considers alternative proposals from a bidder over and above the Department's own specification once that bidder has been selected, instead of as part of the re-letting process. Rather than a narrow focus on getting the lowest cost to operate the DfT's specification, this new approach would allow bidders to put forward better plans that could generate more revenue and actively balance revenue with the use of resources; and

— the detailed design of the GDP mechanism to share economic risk was not as effective as it could have been eg to incentivise revenue generation, while the onerous arrangements for performance bonding and capital requirements will simply increase the cost of the franchise ultimately to taxpayers.

Improve fares and ticketing regulation

19. Much of the regulatory framework affecting fares, ticketing and retailing, has remained largely unchanged since privatisation, despite major changes in passengers' travelling and purchasing patterns. The Command Paper and associated Fares and Ticketing Review (FTR) therefore provide a much-needed opportunity to review how far this area can drive better value for money for passengers and taxpayers, particularly in four areas.

20. First, we support the Government's focus on what can potentially be achieved through smartcards, both in making it easier for passengers to buy tickets and in supporting new types of commuting products which are better suited to modern working life. The introduction of Oyster onto National Rail services in London, has been a major success and has resulted in a roundly 5% increase in rail demand.

21. We are excited by the recent allocation of £45 million by the Department for Transport to fund the extension of smart ticketing to a wider area of the South East around London, and we are working closely with the DfT and Transport for London to roll out this investment. This project is an excellent test bed for new commuter fares products and should provide important insights into the benefits of potentially wider adoption of smart ticketing.

22. Second, Government has also highlighted the potential to improve demand management by using more sophisticated pricing techniques. This includes the use of shoulder-peak, as well as peak and off-peak, prices. Smart ticketing could facilitate such pricing structures and may be effective in shifting demand to less busy services, leading to reduced overcrowding, peak rolling stock requirements and future investment in capacity.

23. This is another area where Government needs to lead, as this issue needs to be considered holistically (eg alongside other incentives which may be used to encourage the adoption of more flexible working patterns by employers and staff), and because Government is best placed to consider the wider socio-economic impacts arising from such a policy.

24. Third, we support the Government's recognition of the value to passengers in having a good range of fares to choose from in meeting their travel needs. The key is to reduce unnecessary complexity and provide better information, which in turn increase passengers' confidence in their buying decisions.

25. ATOC and its members are proceeding with a programme of initiatives aimed at addressing this (including evaluation of a major investment in a new fares database and distribution system), for example, by improving the quality of information on tickets, at ticket vending machines and online. We welcome the FTR as a chance to consider what else might be done.

26. Finally, we welcome the Government's willingness to consider modernising the current regime of fares and ticketing regulation. We fully acknowledge the need for regulation in commuting markets, where rail has a very high market share (as in London), although the new commuter fares products now being considered will potentially require significant re-structuring of current regulation.

27. However, the case for regulation for longer distance off-peak fares is much weaker and this regulation has resulted in unintended consequences, such as overcrowding on some services. Similarly, we believe that it is possible to safeguard passenger interests while introducing a more flexible regime on station booking office opening hours (by reforming the Ticketing and Settlement Agreement) to enable TOCs to modernise how they retail rail travel in keeping with changing customer preferences.

28. All of the above areas bring challenges, but the Government is right to raise them through the FTR. Again, if train operators are to play their full part in both improving industry cost-efficiency and generating revenue, Government needs to follow up its review by making clear and timely decisions to reform the current approach to fares and ticketing.

Promote considered institutional and structural reform

29. An important theme in the RVfM Study is the need for clearer definition of the roles of Government and industry. Franchise reform is key to enhancing the positive contribution to date of TOCs and entails a new approach by Government to specifying and managing contracts. The RDG has also been an important step towards the industry taking greater leadership in its affairs. There are three further areas to address.

30. First, TOCs and NR need actively to be incentivised to work together more effectively, by Government adopting a mature position on how the savings from alliances should be spread across participants. The ORR has been working on an Efficiency Benefit Sharing mechanism, with assistance from ATOC and NR, which ORR and DfT intend to be the minimum default in all future franchises. Under this scheme, train operators would share in any NR outperformance on efficiency. If train operators and NR can agree bespoke arrangements through alliances that are better than this 'default', then they should be free to do so.

31. Second, we think that proposals for an enhanced role for the ORR in managing franchises need to be re-considered. The oversight of the passenger rail market today and in the longer term certainly needs improving, for example, to support better whole-industry solutions to delivering value for money and to end micro-management of franchises.

32. Our concern is that extending the regulator's role risks adding to industry costs, for example, by introducing double jeopardy through the overlapping requirements of DfT and ORR; or by diluting the focus of the ORR on its current core job of holding NR to account at a time of significant organisational change in NR.

33. We favour an approach where the authority accountable for the state's financial stake in the industry (usually DfT) enters into output-based contracts with TOCs and holds them to account without excessive micro-management; and where DfT and ORR (with its primary focus in regulating NR) develop a closer working relationship to promote better whole-industry working. Consideration should be given now to the most appropriate regulatory model for any services which, as essentially commercially-viable in their own right, in future could be let on a different basis (eg as a long term concession rather than as a franchise).

34. Third, decentralising decision-making on franchises to sub-national authorities if done properly has potential merit and rail owning groups will readily bid for well-conceived ITTs to run passenger services let by regional or local bodies.

35. We look forward to engaging further with Government and others in this debate. Key principles for TOCs include having a clear contractual relationship with a lead client with minimal risk of serving multiple masters with potentially conflicting aims; ensuring the commissioning body has the financial authority to resource any contract to run services; and ensuring effective management of any competing demands for scarce track capacity in running services commissioned locally/regionally and those provided under franchises let by national government.

19 April 2012

Written evidence from the Department for Transport (ROR 26)

Letter from Teresa Villiers MP, Minister of State

I welcome the Transport Select Committee's inquiry into rail reform and the opportunity to discuss the Government's plans in further depth.

As you are aware, our recently published Command Paper: Reforming our Railways—Putting the Customer First sets out our ambition to reduce the cost of the railways for taxpayers and farepayers, easing pressure on the fiscal deficit and on hard pressed families. A financially sustainable railway also supports economic growth and our environmental objectives.

Given the recent publication of the Command Paper, and the accompanying consultations on fares and ticketing and on rail decentralisation, I will not at this stage submit further evidence. However, I look forward to contributing to the inquiry later this year.

April 2012

Further written evidence from the Department for Transport (ROR 26A)

LETTER FROM THE PERMANENT SECRETARY TO THE CHAIR OF THE TRANSPORT COMMITTEE

Following your evidence session on 12 September I agreed to write on two points with regards to the InterCity West Coast Franchise competition.

I undertook to respond in more detail about the differences between the InterCity West Coast and Great Western franchise competitions in respect of the approach to assessing risk in the procurement process and the associated financial provisions.

As I said in my evidence to the Committee, there has been no change in the underlying approach the Department is using. In both franchises, the risk adjustment process involves a series of steps which consider the credibility of the proposed revenues and cost of initiatives proposed by each bidder, and make appropriate adjustments.

The guidance issued to bidders for Great Western took account of the particular financial, operational and economic features of this franchise. It varies from West Coast in some respects, for instance by requiring a minimum subordinated loan of £40 million. I hope you will understand that I cannot comment in detail on the InterCity West Coast process at this stage in legal proceedings. However, you will be aware that the Great Western franchise has major differences from InterCity West Coast in terms of train services, markets, rolling stock, stations, staffing and many other features. Great Western will also oversee the introduction of a new fleet of InterCity Express Trains and major infrastructure work, including electrification of key parts of the network.

On new services to Blackpool, Bolton and Shrewsbury, as you noted during the evidence session, First Group's proposal includes contractual commitments for the implementation of these services. These commitments are subject to the necessary track access rights being granted by the Office of Rail Regulation. The answer in the Parliamentary Question you referred to reflects the wording of the contractual commitment in the draft Franchise Agreement, which requires First to use its reasonable endeavours to implement new services, and then to maintain these for at least 12 reporting periods.

26 September 2012

Further written evidence from the Department for Transport (ROR 26B)

LETTER FROM THE RT HON SIMON BURNS MP, MINISTER OF STATE, TO THE CHAIR OF THE COMMITTEE

At the recent hearing of the Transport Select Committee's Rail 2020 inquiry on 12 November, you asked for my views on the 50% real terms increase in subsidy since the days of British Rail. You kindly forwarded the analysis behind this statistic to allow me to respond in writing.

I would agree with the broad thrust of the analysis that your advisers have presented. The Government's March 2012 Command Paper, *Reforming our Railways: Putting the Customer First* acknowledged that while the railway was performing well operationally, inefficiency has meant that subsidy is higher than it need be. The Command Paper highlighted Sir Roy McNulty's finding that unit costs (in real terms, per passenger kilometer) were almost exactly the same in 1996–97 as in 2009–10, despite significant growth in demand.

As you are aware, our rail reform plans set out a range of measures to deal with these costs and the resulting subsidy bill. The measures include alliancing to improve Network Rail and train operators' focus on efficiencies and service improvements. They also include the scope in our fares and ticketing review to encourage more people to travel outside the very busiest times, making the best use of scarce peak-time capacity.

But this is not the only factor at play. A number of those presenting evidence to the inquiry, including myself, have made clear that part of the reason for the lower subsidy bill in the 1990s and before was a longstanding shortfall in investment in the railway. Successive administrations have sought to address this shortfall and the capital investment undertaken accounts for a very significant proportion of the increase in subsidy. As you know, the way the investment is financed means that farepayers and taxpayers meet the costs over the life time of the asset, matching funding to the timing of the benefits.

It is worth also pointing out that while the funding arrangements for rail make clear the cost of subsidy, there are also wider benefits from a growing railway which are harder to capture. The Government's strong support for the railway reflects not just the advantages for passengers, but the wider economic, social and environmental benefits that rail travel generates.

The Department has acknowledged that the franchising situation is a serious setback. Our intention must clearly be to learn lessons and then move forward as soon as possible. Whilst putting in place new, improved franchises is clearly one way of reducing costs, reform is under way on existing franchises, with eight separate alliances in place between train operators and Network Rail. On the infrastructure side, Network Rail is ahead of its savings target in the period up to 2014, and the ORR will shortly give it a further target for 2019 that takes it significantly closer to the forefront of efficiency.

Government's aim is therefore to keep working with the rail industry. Collectively, we want to see a railway that continues to grow, supporting economic growth, our environmental goals, and delivering a better service for passengers and freight.

26 November 2012

Further written evidence from the Department of Transport (ROR 26C)

LETTER FROM PHILIP RUTNAM, PERMANENT SECRETARY, TO THE CHAIR OF THE COMMITTEE

Thank you for your letter of 13 November, requesting information following on from my appearance before the Transport Select Committee on 31 October. Please accept my apologies for the late reply and see my response to your requests below.

The PWC report of September/October 2012 which led to the DfT's decision to cancel the franchise competition. Please also state the date on which it was provided to DfT. (Q678/9)

PwC were retained to support DfT's detailed preparation for handling the Judicial Review. They were instructed by Eversheds LLP, which acts for the Department as legal advisers for the Judicial Review. PwC provided their final report to the DfT on 2 October 2012. Their report was one of a number of considerations that the Secretary of State took into account in reaching his decision to cancel the competition.

I am afraid that I am unable at present to provide you with the PwC report. The PwC report contains sensitive commercial information and one of the interested parties has objected strongly to us sharing the report, even in a redacted form.

We are continuing as a matter of urgency to work through the options for sharing the contents of the PwC report with you, and hope to write to you shortly with a proposed way forward.

The *grounds on which the three OfT staff were suspended in October 2012 and when you expect the HR inquiry to conclude* (Q634)

Three officials have been suspended on full pay while the full facts are established as to their role and conduct in the franchise award process for the West Coast Mainline franchise. The suspension is not a disciplinary penalty and does not imply that any conclusions have been reached on the individuals. The suspensions are precautionary only and are being kept under review while the investigation takes place: a weekly review is taken of the merit of the continuing suspension, and in practice the decision is under constant review.

As I said at the time of the Transport Select Committee hearing, whilst the HR investigation continues, I cannot comment any further on the suspensions. In order to provide an authoritative report to me, I want to ensure that the HR investigation has sufficient time to provide me with a report on which I can rely. I have therefore deliberately not set a deadline for them to meet, but I do expect the investigation to be concluded shortly, which may be early next week. Once the HR investigation has reported to me, it will be my decision whether to initiate disciplinary action. Such disciplinary action may be in relation to the suspended individuals or any other individuals involved in the franchise process. Any such action will take a further period, it will be a confidential HR process, and during this time we will not be able to discuss the action being taken.

Who signed off on the level of subordinated loan facility requested of First and other bidders? (Q622/674)

The question of who signed off the level of the Subordinated Loan Facility is one on which we will need to await the outcomes of the Laidlaw Inquiry and the HR investigation.

Clarification on whether financial consultants were used and, if not, why not? (Q694 etc)

Similarly, we await Mr Laidlaw's final conclusions before I can comment on our use of financial advisers. In answering your specific question about who did the financial evaluations, I should note that DfT has carried out its own financial evaluations of franchises in house since 2009 when we let the South Central franchise.

The DfT budget line from which the £40 million bid compensation payments will come, and the arrangements in place to guarantee the validity of any claims and to ensure that the value for money is secured.

The bid compensation payments (which we have estimated at £40 million) will be funded from headroom in the Department's budget relating to Support for Passenger Rail Services.

We have established a finance project team to manage the financial accounting and budgeting consequences of the cancellation, including the Treasury reporting and Accounting Officer actions required by *Managing Public Money* and the NAO audit requirements. We have fully engaged with the NAO and a member of the NAO is included in the project's Oversight Board as an observer.

The Department's Group Finance function has agreed and documented an internal assurance process to scrutinise claims before payment. This involves the preparation of an audit file and detailed scrutiny of invoices and other supporting documentation using a statistical sampling basis. The process will then be subject to an assurance review by the Department's Audit, Risk and Assurance Team.

We made a request to Treasury for approval in principle to the approach to making payments, and this has been agreed by the Chief Secretary. We will still need to get the Treasury's approval for individual payments once amounts are determined, consistent with the provisions in *Managing Public Money* for making "Special Payments". Before payments are made to bidders, we will provide the Treasury with appropriate details and legal analysis of each claim and the settlement amount.

A Value for Money assessment of claims will be carried out through challenge of and comparison of individual elements of each bidder's claim to check for reasonableness. However, it is not possible to provide an overall benchmark as each bidder will have approached the competition in different ways and were unsuccessful at different stages of the competition process, leaving FirstGroup as the preferred bidder at the last stage.

Whether the DfT has, in recent years, entered into contract negotiations for a sum larger than NPV of the payments involved in the West Coast franchise bids

Bids for the West Coast franchise provided a range of Net Present Values (NPV) of premium payments. The NPV of the FirstGroup bid was £5.5 billion. The Department has a track record of entering into large and complex multibillion pound arrangements. Examples of these include the following (please note that we do not consider NPV is always the right comparator, and there can also be differences in price base):

- The M25 DBFO contract was let in May 2009 and has a NPV of contract payments of £3.4 billion.[1]
- The sale of HS1 in November 2010 raised proceeds of £2.048 billion.[2]
- The Intercity Express Project contract has a NPV of approximately £4.9 billion at 2009 prices, and a nominal value of approximately £17.8 billion over contract lifetime.
- The Thameslink programme (including rolling stock and infrastructure) has an expected capital cost of around £6 billion.
- The new national contract for search and rescue helicopter services is currently in procurement with an expected contract value over its lifetime of up to £3.1 billion (nominal).

The Department is also joint sponsor, with Transport for London, of Crossrail. This project has an overall funding envelope—agreed between the Sponsors—of £14.8 billion[3] and the Department is making grant payments totalling £4.7 billion[3] as our contribution to the project.

Whether, and in what way, the Major Projects Authority was involved in assuring the tendering process for this contract?

The Major Projects Authority conducted assurance reviews of both the franchising programme as a whole and the Intercity West Coast franchise competition specifically. They undertook a Gate 2 review in March 2011 and Gate 3 review on the Intercity West Coast investment decision in July 2012. The scope of the Gate 3 review included a review of the evaluation criteria and of the planned application of those criteria to the bidding process.

30 November 2012

References

1 These figures are expressed in 2007 prices.

2 This was a cash transaction.

3 These figures are nominal.

Written evidence from Balfour Beatty (ROR 27)

Foreword

Balfour Beatty is a leading infrastructure group, working extensively across the rail industry in the UK and throughout the world. We are pleased to have the opportunity to contribute towards the debate on the reform of the railways here in the UK.

Rail is a key component of any effective modern-day transport system. It stimulates and supports economic growth, reduces congestion, and is both sustainable and environmentally friendly.

In this paper, we draw on our experience of providing services across the full asset lifecycle (including financing, designing, building and operating railways) to set out our vision for an effective rail system. An "effective rail system" to us means:

A high performing, reliable and safe rail system
… that meets customers' needs
… whilst maximising the capacity of the network
… and minimising the cost (per passenger mile)

You invited the industry to respond on a wide range of topics, including: a vision for the railways in 2020; how to deliver targeted efficiency savings; rail franchise reform; rail decentralisation; the balance in funding between the taxpayer and the fare payer; fares and ticketing reform.

Our response addresses a number of these topics—with the exception of the final two points, which are not considered in this paper.

Summary

Our experience in the UK and around the world suggests that an effective rail system is built on the following principles:

1. *Alignment of interests across the industry*—ultimately driven by customer needs.
2. *Sophisticated asset management*—including consideration of the full lifecycle of the asset.
3. *Appropriate investment*—with the necessary investment in upgrades and new lines, and a flexible approach to funding sources.
4. *Supply chain engagement*—continuing the positive trends in how the supply chain is engaged with, to encourage collaboration, innovation and better results.

Alignment of Interests

Aligning the interests of all parties in the rail industry to the end customers' needs is essential to running an effective network. The system can only be optimised when all the different components of the railway, from train operations, through to network planning and infrastructure provision, are working to the same objectives.

One potential way of achieving this would be to create integrated delivery teams, with full responsibility for running the network, including infrastructure and train operations, in a particular area over a set period of time. This would be an evolution of the current Train Operating Company model, into more diverse, vertically integrated teams. The current franchise duration of approximately fourteen years is appropriate, considering the timescale to undertake asset investment. These bodies could be focussed on delivering services to the end user, making the necessary improvements to the supporting infrastructure to enable that. They will be able to balance the trade-offs between infrastructure improvement and service disruption, minimise the internal transaction costs resulting from delay attribution; and better facilitate the interaction between renewals, maintenance and upgrade work on the assets with on-going train operations. This structure has far fewer interfaces than the current model, which would eliminate much of the current interface costs.

The treatment of risk ownership in a more vertically integrated rail model requires scrutiny. The issue of who owns the risk associated with passenger safety, considering the wheel rail interface; and how do those responsible for the engineering assurance of the infrastructure discharge their responsibility and manage risks on heavily trafficked high speed routes.

As part of the rail industry other key roles are required:

— *The controlling mind*—most likely to sit in Government, responsible for the long term development, procurement of franchises and policy of the rail network; enabling Government to act as the "champion of the rail user".
— *The asset steward*—Network Rail, responsible for assuring the standards, and the capability and condition of the network.
— *Major projects team(s)*—Network Rail, responsible for undertaking major or complex schemes that cannot be considered within the boundary, (either geographic or timescale) of a franchise.
— *Safety Assurance and Regulation*—A regulator empowered to enforce safety performance.

One good example of alignment that we have been involved in at Balfour Beatty is the *Thameslink Programme*. This involves a highly complex rail network change and migration strategy affecting various TOCs and Network Rail assets. A 'route map to success' was developed with the DfT and Network Rail to tie together the programme and provided a joined up vision. It provided an overview of delivering the new railway infrastructure and technology alongside legacy infrastructure, communicating to stakeholders the vision and progress of the programme and associated projects. The Thameslink Programme was commended in the McNulty review *Realising the Potential of GB Rail—Report of the Rail Value for Money Study* (May 2011). This fully aligned integrated approach demonstrates that in addition to the right industry structure the right tools are required to facilitate integration and alignment.

We would be supportive of alignment built on such experience and any proposed decentralisation accompanied with practices and tools that embed alignment at an industry level.

Sophisticated Asset Management

The UK network is developed and, with the exception of the investment in high speed rail, much of the investment in rail is aimed at balancing the needs of improved performance, value for money and asset condition. Sophisticated asset management techniques can generate significant efficiencies in this respect. Two examples of this include:

- *Improved understanding of asset condition*: Better monitoring, data collection and analyses (using appropriate technology solutions combined with industry expertise) enables infrastructure owners to make the right decisions on where and when to maintain, renew or upgrade the network. There is significant data currently being collected across the network, through train based, trackside and remote monitoring for example. The integration of this data with the operational requirements would provide a sophisticated asset management approach to enable performance based decision making.
- *Asset lifecycle costing*: Our experience across a broad range of infrastructure types has highlighted the value in taking the full lifecycle costs of assets into consideration. For significant efficiencies to be realised, the total cost of an asset across its whole lifecycle (from conception, through design and installation, to maintenance and operations) needs to be considered. Only by doing this can decisions be made that optimise total cost—balancing asset replacement with maintenance. For lifecycle costing to work, other changes to the industry would be required. The integrated delivery team concept outlined above would enable one organisation to take this complete view, which could then be scrutinised by the asset steward and validated by the procuring agency. The regulatory regime would need modification so that at the end of a 14 year franchise, franchisees are incentivised to handover assets that still have a reasonable life. As suggested, the asset steward would be the party most qualified to perform this scrutiny.

Appropriate Investment

Running an effective railway in the UK will require investment in new lines (such as High Speed 2) and upgrade of existing routes to ensure the rail systems supports economic development, long term modal shift, sustainability and safety. As part of the investment activity we would welcome a process by which the business case for investment in rail considered a broader assessment of social and economic benefits, as well as the current focus on journey time saving.

To ensure this investment is forthcoming, especially in times of constrained government spending, different funding models should be considered. Two potential models include:

1. Operators invest in infrastructure development as part of a franchise process.
2. Project finance is deployed by the supply chain to design, build and operate (and potentially maintain, outside of the asset steward's remit) rail assets.

Relevant evidence in international markets of alternate funding models applied to the rail sector includes:

The USA—Denver Eagle P3

Internationally, Balfour Beatty is proud to be at the heart of the Denver Eagle P3 project which is part of the Denver Regional Transportation District's plan to expand and build new commuter and light rail lines throughout the Denver metropolitan area. The Eagle P3 project is a public-private partnership (P3), which transfers certain construction and operational risks to the private sector. Balfour Beatty and Parsons Brinckerhoff is a part of the joint Denver Transit Partners team which will design, build, operate, maintain and finance the Eagle P3 commuter rail project. This encompasses a 23 and 11 mile rail corridor plus a connection link and rail maintenance facility. The entire Eagle P3 project is scheduled for completion in 2016.

France—Tours to Bordeaux

An example of High speed rail built through long term concession models is the Tours to Bordeaux project, in which over 300km of high speed rail line will be built by 2017. The project will deliver a 350kph railway by using a 40 year concession procurement route, with funding from the concessionaire and the public purse.

We would be pleased to share in more detail our knowledge of such projects should it be helpful.

Supply Chain Engagement

We have started to see engagement with the supply chain in the UK rail industry utilising innovative early contractor involvement, more collaborative team techniques and a less prescriptive approach to specification. We encourage the developments in this area and believe they have the ability to align objectives and drive real efficiency and performance.

The Infrastructure UK (IUK) Cost Review (2010) considered that developing smarter ways to use competition is one of five key steps to improving the efficiency of construction in the UK. We fully agree with this. Three examples of how this might apply to the rail sector are outlined below:

> *Output specifications that define the operating requirements of the rail asset*, but not the detailed specification, provide an opportunity for the industry to plan, design and execute on a lowest whole life cost basis. At Balfour Beatty we are able to draw on our knowledge from across the asset lifecycle and from around the world to add real value to projects where we are challenged to meet output specifications.
>
> *A longer term planning cycle* gives the private sector and the rail industry supply chain greater visibility and encourages investment and innovation. This was one of the key findings of the IUK Cost Review. We are encouraged by the National Infrastructure Plan and support any actions that provide greater clarity regarding longer term spending plans, in particular the publication of the Network Rail workbank.
>
> *Alliance style arrangements* are a highly credible way to provide a joined up approach across the industry, with the current segregated industry framework in the UK. Alliances are proven in the rail environment and other sectors such as utilities. There are a number of key factors in establishing successful alliances, and we have analysed these across the Balfour Beatty group identifying six success areas:
>
> 1. Stakeholder management.
> 2. Structure and organisational design.
> 3. Processes and systems.
> 4. Risk and Incentivisation.
> 5. Governance and Performance Management.
> 6. Interactions, behaviours and learning.

We would be pleased to share this report if required; however, underpinning all successful alliances is the principle of a mutual desire to succeed collaboratively by all parties. Aligned goals are key to enabling successful alliances.

Crossrail South East Section

This large multidisciplinary project is being delivered by Balfour Beatty and Parsons Brinckerhoff through a design and build process for Network Rail on the Crossrail scheme. The scope includes a station at Abbey Wood. The project has been set up as a collaborative venture from the start, working towards achieving the BS11000 collaborative accreditation, with the project team co-located and operating to joint objectives. The scheme deploys an innovative early contractor involvement mechanism and through this and the collaborative approach tangible savings of £35 million have been presented.

Alliances in the rail sector have the potential to enable TOCs to form longer term relationships (a Delivery Partner approach) with infrastructure development companies, and potentially with Network Rail for maintenance activities, through the current regionalisation structure. This potentially could improve industry alignment.

Closing Statement

Our vision for an effective rail system is built around four principles: alignment of interests, sophisticated asset management, appropriate investment and supply chain engagement.

There are many ways these principles can be fulfilled and above we outline some examples. By citing these specific examples, it is worth noting that we are not implying other approaches (which could meet the same aims) are less suitable. We give these examples to illustrate the importance of these guiding principles and demonstrate how they can make a difference. We believe that by learning from innovative schemes around the world, combined with experience and expertise to meet the four guiding principles, the rail industry can achieve successful reform.

We hope these ideas are helpful to the Transport Select Committee in its deliberations, and would be delighted to discuss them in more detail if that would be useful.

8 May 2012

Written Evidence from Gatwick Airport Ltd (ROR 28)

About Gatwick

Gatwick is the UK's second largest airport and the busiest single-runway airport in the world. It serves more than 200 destinations in 90 countries for around 34 million passengers a year on short—and long-haul point-to-point services. It is also a major economic driver for the South-East region, generating around 21,000 on-airport jobs and a further 20,000 jobs through related activities. Gatwick Airport is owned by a group of international investment funds, of which Global Infrastructure Partners is the largest shareholder. We are home to the busiest airport rail station in the UK, and proportionally more passengers travel to and from the airport by rail than any other major UK airport.

Summary

— Any future rail strategy must take account of how best to extract maximum economic value from the UK's rail network. To do any less would be minimise return on investment for the taxpayer. The Eddington Transport Study (2006) outlined that any modern integrated transport system should seek to ensure the greatest possible level of connectivity between the various modes of transport that it connects if the potential for all modes to promote growth is to be maximised. We have yet to realise this vision in the UK.

— There is clear evidence to show that improved rail links between Gatwick and London, as well as the broader South East region would assist Gatwick's progress in attracting new routes to key emerging economies. China, Vietnam, South Korea and Hong Kong can now all be reached from Gatwick. We are not full. While a hub airport is important, Gatwick can also deliver this connectivity. Our rail links must be improved to facilitate enhanced international connectivity from Gatwick and encourage competition between London's airports.

— To make short term progress to 2020, air passenger needs must be adequately considered in formulating the new Thameslink "super franchise", which will provide nearly all of Gatwick's rail links from 2015. Specifically, this franchise must explicitly detail the level and nature of services that any operator must provide to and from airports within the area concerned- including Gatwick. We would expect a clear requirement to operate non-stop express services to Gatwick, with no ticket gates and fit-for-purpose rolling stock, to be included in the specification. The Government's sustainable transport policy, sustainable aviation policy and South East Airports Taskforce recommendations all suggest these considerations should be paramount.

— In addition, we propose a series of targeted investments in rail infrastructure upgrades by Network Rail over the next two control periods. Our research shows that these improvements would accommodate growth in both air passengers and commuters more efficiently and secure wider benefits for all rail users. A report we have commissioned from leading rail experts, ARUP, outlines a clear plan for delivery. We have requested that Ministers consider the technical studies we have undertaken in formulating their strategy for rail to 2020.

The Need for an Integrated Air-Rail Policy

1. Gatwick is clear that a fundamental reassessment of the way in which public policy caters for effective surface access, and particularly, rail access, to airports needs to take place. Airport Transport Forums and Surface Access strategies provide a valuable starting point for determining how best to meet this need. However, they should be seen as just that- a starting point.

2. Airports can outline the views of their local stakeholders, and outline their priorities. But provision of effective surface access is not within their gift. We look to Government to put in place a specific policy around the proper integration of airports with other transport modes, and, in particular, the UK rail network. Only through a clear policy can a step change in the quality of surface access, and the environmental benefits that could deliver, begin to manifest themselves. Train Operating Companies, Network Rail and Airport Operators need to a framework to drive improvement. That framework is currently lacking.

3. We believe there is a clear rationale for one to be developed. The Eddington Transport Study (2006) established that any modern integrated transport system should seek to ensure the greatest possible level of connectivity between the various modes of transport that it connects if the potential for all modes to promote growth is to be maximised. In practice, this means business passengers should be able to interchange as seamlessly and conveniently as possible between the air link that they have just made use of, and the rail link that might take them to their final destination, and vice-versa.

4. Gatwick is one of the best connected airports by rail in the UK, but we are not convinced that London's rail links currently achieve level of air-rail integration that they might, or that other countries achieve. Whilst our evidence focuses on Gatwick, we are aware that most other UK airports around most other major UK cities share similar views. There is still much for Government to do if Eddington's vision is to be realised. We do need to look at how we can link our airports and our railways more effectively.

5. In our view, any future vision for the rail network for the rest of the decade must focus on this critical need. We note that the recent rail command paper recommends improving rail access to airports. This paper

contains a number of welcome commitments around the new Rail "High Level Output Statement" (HLOS). Specifically, that the rail industry will need to focus on improving access to key international gateways, including airports from 2014–19. Our proposals would help to realise these commitments, and we look forward to seeing further information when the HLOS is published.

Air-Rail, Growth and International Connectivity

6. Gatwick accounts for a significant proportion of aviation's overall contribution to the UK economy. The airport plays a crucial role in stimulating economic growth, boosting productivity, improving connectivity, promoting international competitiveness and encouraging inward investment. Additionally, Gatwick has an important role in supporting the tourism industry, global trade and London's competitiveness.

7. The UK National Infrastructure Plan (NIP) recognises the national role the London's airports have in increasing economic output, and enabling business to access new and larger markets; indeed the NIP has identified our current £1.2 billion capital investment programme as one of the country's top 40 infrastructure projects. It also outlines that the Government will "improve road and rail links to the UK's international gateways to help maximise the efficiency and competitiveness of the whole transport network".

8. Gatwick Airport is not "full". Between February 2011 and May 2012, we saw fifteen consecutive months of passenger growth. Under new ownership, we are investing £1.2 billion in the airport. From 2014, we want to invest a further £1 billion. Our strategy focuses on growing international long-haul services and short-haul leisure and business traffic. Based on our available capacity, and with no current plans to build any new runways or terminals, we forecast that our passenger numbers will increase from around 34 million per annum (mppa) today to 39.1 mppa by 2020–21. A 12% growth in flights is likely over the same period. Looking further ahead, we believe that even with our current one-runway, two-terminal configuration, Gatwick could increase its passenger numbers to 45 mppa by 2030.[48] There is a great deal of growth potential at the airport.

9. If Gatwick were to grow to 40 mppa, the airport would add at least £2.05 billion of Gross Value Added (GVA) to London and the South East, an increase from £1.97 billion today.[49] This excludes indirect benefits to businesses or inbound leisure travellers, as well as the substantial direct contribution that local business associated with Gatwick make to the Exchequer.

10. Gatwick is successfully attracting new business, and vital direct routes that promoting enhanced connectivity between the UK and its key trading partners, including economies including China, Hong Kong, South Korea and Vietnam. We want to attract more of these routes, fulfilling our ambition to become a "gateway to Asia".

11. There is no doubt that Gatwick faces a competitive disadvantage in taking on Heathrow to deliver this connectivity. We are not a "hub" airport. We concur that, in pure economic terms, "hub" airports are more attractive to airlines than point to point airports. Neither could, under current market and capacity conditions, Gatwick become a "hub". But we are competing and we are supporting routes that, traditionally, it has been seen as for Heathrow to serve. To suggest that that there is no alternative in terms of enhancing the UK's international connectivity to emerging markets because Heathrow is full is, at best, an overly simplistic analysis and at worst, fundamentally inaccurate.

12. Travel to and from the airport is an important part of the passenger experience. We want Gatwick to offer a wide range of high quality services. In order to maintain and continue to attract new direct, high-value, routes to and from the UK to maximise the airports value to the local and national economies and to ensure the UK remains "open for business", improved rail links to Gatwick are critical.

13. If Gatwick is to grow, and effectively use the capacity that we have available, we need to show airlines from emerging economies that we can meet the needs of their customers. Our investment in the airport itself has gone a long way towards achieving this. That investment must be complemented by a more comprehensive understanding from Government of the nature of the rail connections that airports need in order to grow. In real terms, this means that rail franchises and infrastructure investment plans must be designed with a clear understanding of what airports require to deliver the connectivity we all want to see.

Rail Services to and from Gatwick

14. More than 10 million Gatwick passengers arrive and leave the airport by rail every year. This is the highest proportion of any major UK airport, and demand is growing. Indeed, Gatwick is already home to one of the UK's 25 busiest rail stations. On present trends, the number of passengers wanting to travel to and from Gatwick by rail could grow by 30% over the next 10 years.[50] Growth in peak-time trips to London could be as high as 50% in the same period. Already, the Express is posting record passenger growth numbers, with 17% growth in the last year alone.[51]

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[48] Gatwick Airport Masterplan
[49] Gatwick Airport Master plan
[50] Ibid
[51] http://finance.yahoo.com/news/gatwick-express-celebrates-17-increase-110000399.html

15. Our research shows that airlines operating scheduled flights cite surface access, and onward connections to their passenger's final destination, as one of the top three criteria that shape their decision to locate at a given airport. However, passengers' impressions of Gatwick's rail links lag behind other London airports.[52] International comparisons also show the Gatwick Express at the bottom of league table of express rail links, behind Heathrow, Hong Kong, Kuala Lumpar and Stockholm.[53]

16. In recent years, Gatwick has lost direct rail links to Oxford, Birmingham, Manchester, Watford and Kent. Most importantly, the status of the Gatwick Express is under threat. *Not only has on-board ticketing been discontinued, but 25-year-old carriages (not* designed for air passengers) have replaced newer ones. Furthermore, Network Rail have recommended that the "Express" nature of the service be discontinued completely.[54] Gatwick's rail links are degrading, not improving. Insertion of a stop on the express would effectively discontinue our express link as a dedicated service and act as a real inhibitor to our continued efforts to attract new airlines that fly to emerging markets. We urge Ministers not to take forward any recommendations from Network Rail in this vein. There are alternative solutions to the issues they are seeking to resolve.

17. Improving rail links, and in particular retaining and improving a non-stop and high-quality Gatwick Express, will help us to improve the attractiveness of Gatwick to airlines who can provide the connectivity to emerging markets that our economy needs. At the same time, improved connectivity will lead to wider economic benefits including:

— *Growth in Exports and enhanced competitiveness*—through the influences that airport accessibility has for the competitiveness of UK businesses.

— *Encouraging company location decisions in the UK*—through the influence of accessibility to the airport on location decision of companies. Already we know that 51% of international corporations believe that international transport links are a critical in factor in deciding where to which country to locate and invest in.[55] The location decisions of firms will in turn influence the level of economic activity in the areas that they serve.

— *Enhanced Business productivity*—though the impact of accessibility on journey times for business air travellers. Today, the estimated saving to business travellers from reducing journey time on the Gatwick Express is over £6 million per annum. Improved links can drive further improvements.[56]

18. We acknowledge that the line supporting Gatwick's direct rail links into London is important for both air passengers and local commuters. We are not suggesting that the needs of the airport outweigh those of the everyday user and that supporting our needs should be at their expense. We note that the Office of Rail Regulation has projected that, independently of air travel, passenger numbers on the main line running in and of Gatwick could grow by 29% by 2026.[57]

19. Likewise, we do note that the Thameslink upgrade programme will improve connections north of London, with new services to Cambridge and Peterborough coming on stream. The number of services from Gatwick to central London will also double. These are very welcome developments. At the same time, a consistent implication from Ministers has been that these improvements are sufficient to deliver the improved rail connectivity that Gatwick needs in future. In our view, a far more holistic approach to improvement needs to be taken and, in particular, one that takes into account just how central a high-quality express service from Gatwick into Victoria is to our development. Good "North-South" Links are important. But it is a dedicated, high-quality and properly designed express rail link that matters most to a large airport—and particularly Gatwick in the light of how reliant we are on rail access.

20. With this in mind, we have developed solutions that we believe will accommodate growth in commuting and air travel on the rail network in the South East to 2020, and secure wider benefits to all rail users. In short, a "win-win" solution is there to be implemented. A range of targeted infrastructure improvements and timetabling improvements, over the next control period, form the basis of this solution. A summary of these improvements is outlined in paragraph 21–28. We urge Ministers and the rail industry to take them forward.

Delivering Improved Rail Access

21. Rail travel to Gatwick is growing. The key issues to be addressed now relate to how best to provide adequate capacity for growth in both commuters and air passengers and how to deploy rolling stock on the Gatwick Express suited to the needs of passengers on the route. The opportunities for development fall into two categories—short/medium term involving timetables and new rolling stock and longer term enhancements requiring new infrastructure.

[52] Autumn 2011 Passenger Survey, Passenger Focus
[53] Arup, *Supporting UK Growth and global market access: the case for high quality services to Gatwick Airport,* (March 2012)
[54] Network Rail, London & South East Route Utilisation Strategy (RUS),
[55] Cushman & Wakefield, *European Cities Monitor,* (December, 2010)
[56] Arup, *Supporting UK Growth and global market access: the case for high quality services to Gatwick Airport,* (March 2012)
[57] Sussex Route Utilisation Strategy, January 2010.

Short Term

22. The Department of Transport has recently published plans to merge the Thameslink and Southern franchises by 2015. A new longer term franchise will be introduced. This decision provides a unique opportunity to improve the efficiency and quality of services between Gatwick and London.

23. The series of changes expected also provide an excellent opportunity to take a holistic view of the whole Brighton Main Line timetable. The removal of complexity of service planning across the interface between two large train operating companies should make the process for achieving timetable changes more straightforward.

24. Preserving Gatwick Express is a priority. It should be recreated as an all-day dedicated service between Gatwick and London to support Gatwick's role as a key economic driver for London the South East and the UK economy as a whole. To guarantee its success, we believe that bidders for the franchise should be required to outline a vision of how both the quality of journey and the range of direct routes to and from Gatwick can be improved, with specific franchise "benchmarks" to ensure it is delivered.

25. How an operator meets this requirement should be a criteria on which a franchise is awarded. In parallel there must be a requirement in any invitation to tender for bidders for the new franchise to include direct, express rail services to London from the airport.

26. Similarly, there must be also be a clear requirement for fit for purpose rolling stock that caters for the needs of air passengers to be introduced. It is clear from our research that the current rolling stock used simply is not suitable for air passengers or designed for their needs. There is inadequate room for luggage. There are no visual passenger communications systems. Seating is highly dense. Passengers with restricted mobility cannot board or get off easily. Added to the fact that many peak time trains to London are already full when they reach Gatwick, a significant degradation in our most important has taken place at the exact time when improvement is most needed.

27. Any new timetable could also provide additional capacity for commuters and re-introduce direct Brighton to Clapham Junction peak services. Capacity utilisation can be improved, to ensure that Gatwick Express and commuter trains are evenly loaded. The allocation of services to different South Coast destinations should also be reviewed in order to ensure the most efficient use of capacity.

Long Term

28. For air passengers and commuters, a solution is required for the constraint of 20 trains per peak hour already running on the fast lines though East Croydon. Otherwise, the current very high capacity utilisation will lead to problems beyond 2020 in developing effective service patterns as well as accommodating growth.

29. The rail industry should prepare an industry enhancement plan for the Brighton Mainline for implementation in Control Period 6 (2019–24). Our research outlines the form this plan could take, and suggests that Ministers work with the industry to:

- Fully exploit the current enhancement to Gatwick Airport railway station.
- Enable Gatwick Express to remain as a dedicated Gatwick to Victoria four trains per hour service.
- Provide additional route and platform capacity at East Croydon.
- Unlock capacity constraints at London Victoria station throat. This would enable more trains to operate into Victoria, which combined with cross-London Thameslink, would accommodate commuter growth.

18 June 2012

Written evidence from Alliance Rail Holdings (ROR 29)

1. I welcome the Government's acceptance that in the past the Department for Transport has become too involved in the detail of the rail industry on too many occasions. As was highlighted in Sir Roy McNulty's Rail Value for Money Study, many observers consider this involvement is now greater than it was under a nationalised British Rail. My concern is that there is little evidence yet that the Department for Transport is prepared to relinquish any of this control to industry participants.

2. The Rail Value for Money Study rightly focuses on the need to reduce costs throughout the industry. Unfortunately, although it identifies targets for cost reduction, there is very little indication of how these savings can be achieved in practice. Much store is set by closer industry co-operation, for example through alliances, to drive down costs. Little or no evidence is provided in the Command Paper to demonstrate that this approach will provide results. It seems to be an act of faith that it will happen: history suggests that this is not enough.

3. The Command Paper "Reforming our Railways: Putting the Customer First" acknowledges (in paragraph 4.42) that open access brings benefits such as greater choice and lower fares. However, rather than seeing this as a benefit and a way of driving down costs, the Minister appears to accept the Department's view that fares need to remain high to deliver rail upgrades—upgrades that cost far more than they should because there is no pressure on Network Rail to reduce costs. This does not appear to be "putting the customer first", which is

supposed to be the theme of the Command Paper. I suggest that without proper competition in the passenger market, a 30% reduction in industry costs is purely wishful thinking.

4. A report[58] produced for the ORR study referred to in paragraph 4.41 of the Command Paper shows that in certain circumstances higher levels of open access could actually reduce the cost to the Government rather than increase it. In any case, the increase in subsidy required for any affected franchised operators is minimal compared with the significant benefits for passengers or compared with the industry and Government costs—which are largely hidden—of running franchise competitions. All arguments are based on modelling done before open access competition commences. I am not aware of any evidence that has been produced after services start to demonstrate the revenue loss. Our own evidence suggests that providing an inter-city service at stations which previously did not have one also stimulates demand for local travel.

5. The Department's view of competition for passenger services seems to be in marked contrast to its view of the freight sector. Paragraph 4.45 of the Command Paper notes that *"The competitive environment has also forced rail freight to find significant efficiencies over recent years, and it has encouraged Network Rail to do the same."* It then goes on to say that *"Government seeks to repeat this approach with similar success for passenger services."* How will this happen without competition?

6. It seems that the Department's view, as expressed by the Minister, can be summed up as "freight competition reduces industry costs but competition in passenger services increases the need for subsidy". I would urge the Select Committee to challenge the Department on these apparently contradictory views.

21 June 2012

Written evidence from Professor Chris Nash, Research Professor, Institute for Transport Studies, University of Leeds (ROR 31)

1. My evidence specifically concerns the way of assessing the value for money provided by regional rail services.

2. If we assume that intercity and London commuter services will continue to operate, then the appropriate way to assess the value for money provided by regional railways is to compare their avoidable cost with the additional revenue and other benefits they bring. These benefits include benefits to users over and above what they pay, reduced congestion, accident and environmental costs caused by road users where they are not fully paying for them, option values and wider economic benefits.

3. Avoidable cost is the most appropriate approach for assessing the costs of regional railways. That is to say that we should estimate the additional costs caused by the presence of regional railways trains given the assumption that the long distance and London commuter networks would be there in any case. An avoidable cost approach would load all costs on routes used only by regional railways on to them, but only marginal costs (including the cost of using scarce capacity that would otherwise be used by other services) on shared routes. Where regional railways share services with freight, there is less certainty as to whether the infrastructure would exist in the absence of regional railways services, but if so, then the same principle should apply.

4. The existing calculation of fixed charges for franchises uses a rather arbitrary approach to allocating fixed costs based on train km and revenue. Past allocations by ORR have also allocated the government grant to Network Rail on the same basis. Therefore it is difficult to know how reasonable the results are. The McNulty report gives an allocation which appears to load far more of the costs on to regional services, but does not explain how these are derived. I do not understand what McNulty did and I am surprised he did not use the existing allocation.

5. Given that rail services are subject to strong economies of traffic density, and that density tends to be lower on regional railways than on other parts of the network, there is little doubt that costs per passenger kilometre are higher on average for regional services than for inter city or London commuter services, even though regional services do not generally require as high a standard of track as these services. But there are great doubts as to the accuracy of current estimates of the extent of that difference.

6. There is also an issue concerning revenue. When considering the revenue produced by regional railways services, the revenue they contribute to other services should be included. There is evidence that for rural routes this may be 50–100% of direct revenue, and that a large part of this would be lost to the rail network if the service ceased. To the extent that such additional traffic adds to costs on the rest of the network, that also needs to be taken into account.

7. Methods of valuing the reduced congestion and environmental pollution from diverting traffic from road exist and are set out in WEBTAG (the Department of Transport's on line system of appraisal guidance); these benefits will be greatest for service bringing peak travellers into large cities.

[58] Modelling the Impacts of Increased On-rail Competition Through Open Access Operation, MVA and University of Leeds, July 2011

8. There is also evidence that the population at large are willing to pay to retain the option of using a rail service should they need to do so in the future. Again the evidence is in WEBTAG; this option value is likely to be greatest where people may become heavily dependent on the rail service, for instance, if there is a risk that they might have to commute to the nearest big city for employment.

9. The wider economic benefits of rail services are more difficult to measure. There is evidence that providing rail services helps create jobs, but the results are very uncertain and in any case the jobs concerned may just be relocated rather than genuinely new. There is also evidence that rail services produce agglomeration benefits, both by allowing a greater concentration of jobs in high productivity locations and by improving accessibility. There is little doubt that rail services are important to the economic success of large cities, even if this effect is difficult to measure.

10. Few cost benefit analyses of existing rail services have been published in recent years. However, Jackson (2011) analyses the Leeds-Morecambe service (which one would assume was not one of the better performing regional services, since it operates at low frequency and with low patronage, and only shares part of its route with other services) and finds its retention to have a benefit-cost ratio above 1.5.

19 July 2012

REFERENCE

Jackson, J (2009). Appraising rural railways: are they a special case? Unpublished PhD thesis, University of Leeds

Written evidence from the Association of Train Operating Companies, Network Rail and the Railway Industry Association (ROR 38)

2012 HIGH LEVEL OUTPUT SPECIFICATION

1. INTRODUCTION

This submission to the Rail 2020 inquiry on the Government's High Level Output Specification (HLOS) for rail for 2014–19 is provided jointly by Network Rail, the Association of Train Operating Companies (ATOC) and the Railway Industry Association (RIA). It follows and complements their earlier individual submissions.

2. CONTEXT

2.1 Over CP5 (2014–19) passenger demand is forecast to increase by 16% and freight demand by 23%.

2.2 The industry set out last year in the Initial Industry Plans (IIP) how the industry can accommodate this demand increase and deliver a more efficient and better value railway that can play a key role in driving sustainable economic growth.

2.3 The IIP was a key milestone in the efforts of the industry to take up the challenge to improve efficiency posed by the Rail Value for Money Study, led by Sir Roy McNulty and published in 2011.

2.4 The IIP represented the first time the industry had worked closely together to produce a joint plan specifically focused on providing options that both deliver a more efficient and more affordable railway but also which could contribute further to the achievement of sustainable economic growth.

2.5 The Rail Delivery Group (RDG), made up of the Chief Executives of the passenger and freight train operating owning groups and Network Rail, has been established to provide leadership to Britain's rail industry on cross-industry issues. The RDG will enable the industry to respond to the Government's High Level Output Specification by collaborating effectively to deliver a higher performing, more cost effective and sustainable rail network for Britain's rail users and taxpayers.

2.6 The industry is already developing proposals to tackle costs and develop greater partnerships between train operators, Network Rail and their supply chains. Change and collaboration is required by all parties involved in the specification and delivery of the rail system.

3. HIGH LEVEL OUTPUT SPECIFICATION

3.1 The rail industry welcomes the HLOS as a signal of the coalition government's ongoing commitment to rail and as an important announcement that has strategic implications for the long-term future of the railway, not just for the next five years.

3.2 The HLOS investment commitment is a real vote of confidence in the rail industry but we do not underestimate the task laid down and are committed to working together to deliver the rail network needed for the future.

3.3 The industry welcomes the recognition in the HLOS of the importance of continued investment in rail infrastructure as a means of driving sustainable economic growth.

3.4 The industry also welcomes the recognition of the important role the railway has in a prosperous low carbon economy as a greener transport option than road or aviation.

3.5 The industry welcomes the acknowledgement in HLOS that continued investment in rail is important both to accommodate the recent growth in demand and to attract increasing numbers of passengers. This will drive the revenue growth necessary to improve significantly the affordability of the railway.

3.6 We welcome the acknowledgement in HLOS of the safety of the railway and emphasise that delivering the highest possible levels of safety across the network will remain the industry's first priority.

3.7 *Efficiency*

3.7.1 The industry understands that the extensive investment programme announced in the HLOS rightly comes with the expectation that the rail industry will improve its efficiency and value for money.

3.7.2 The Rail Value for Money Study challenged the industry to reduce costs without reducing the outputs delivered by the order of 20–30% by the end of Control Period 5 compared to 2008–09. The industry remains determined to take up this challenge.

3.7.3 The industry is already focusing its efforts on identifying and delivering efficiency opportunities through:

- — Collaboration in asset, programme and supply chain management.
- — Co-ordinated industry planning.
- — Production of a rail technical strategy.
- — Updating working practices by embracing advances in technology and innovation.
- — Improvements in train procurement and utilisation.

3.7.4 The industry believes that efficiency gains from these workstreams will be greater still if the Government reforms the contractual and regulatory environment, and fulfils its ambition of ceding more control of the railway to the industry. Reforming regulated incentives, franchise agreements and fares and ticketing policy is central to this.

3.7.5 The greater confidence in future workloads that HLOS has given, such as the commitment to a rolling programme of electrification, will help suppliers to invest strategically in people and equipment and deliver upgrades as efficiently as possible.

3.7.6 Investment in electrification of the network, including the Electric Spine, will also help to deliver cost savings because of the lower purchase, maintenance and fuel costs of electric rolling stock.

3.7.7 By becoming more efficient and making every pound of investment go further the industry recognises that it will provide government with the opportunity to consider the choices—and the appropriate balance—between fares, investment and subsidy.

3.8 *Investment in rail capacity and economic growth*

3.8.1 The significant capital investment in the rail network announced in HLOS is a major boost for the rail network and the extent to which the railway can help drive sustainable economic growth.

3.8.2 Given the tough performance targets set out by Government in the HLOS, and the challenge to deliver record numbers of services on Victorian infrastructure, the pledge to invest in projects to improve, update and transform our railway is not only welcome but essential.

3.8.3 The completion of the Northern Hub and the commitment to tackle overcrowding on key routes into London and Bristol will support increased commuter travel into major urban areas and help more people to get to work faster and more reliably. This will also expand labour markets and give more people better access to jobs.

3.8.4 While the efficient utilisation of existing resources, particularly rolling stock, will help, we welcome the recognition in HLOS that there is a sound business case for investment to support the growth of the regional economies via capital investment.

3.8.5 The industry also welcomes the recognition in HLOS that investing in fast, reliable links between core towns and cities makes those places more attractive to businesses and spreads the benefits of economic activity across the country.

3.8.6 Improving rail links, including freight links, to major ports and airports is also a core part of helping rail maximise its potential to support economic growth.

3.9 *Passenger experience*

3.9.1 The improvements to the network set out in HLOS enable the industry to build on recent improvements to provide yet better services for passengers.

3.9.2 The provision of ring-fenced investment funds for improvements to passenger journeys and stations will be important in helping the industry to continue to improve the passenger experience.

3.9.3 The industry particularly welcomes the Government's recognition in HLOS that peak crowding needs to be addressed following the sharp growth in demand for rail over the last decade in commuter markets.

3.9.4 The sharp growth in commuter rail travel is a response to the concentration of employment in urban centres, increased road congestion, and the increase in the relative cost of commuting by car which have all made rail a more attractive choice.

3.9.5 The industry recognises the important role of good passenger information to passenger satisfaction, particularly during disruption, and Network Rail has already released real time data on train running and timetable to enable new rail information services.

3.9.6 The industry welcomes the recognition in HLOS that demand management can help to spread travel out during the day and make journeys more pleasant for passengers.

3.10 *Summary*

3.10.1 The industry welcomes the investment commitment set out in HLOS as a real vote of confidence in the rail industry but does not underestimate the scale of the task set out and is committed to working together to deliver the rail network needed for the future.

3.10.2 The industry welcomes the investment commitment in HLOS as recognition of the role that rail can play in delivering sustainable economic growth in a low carbon economy as a greener transport option than road or aviation.

3.10.3 The commitment to invest in providing capacity for commuter travel to major urban centres and between key towns and cities is a vital part of this.

3.10.4 The industry re-emphasises its commitment to providing better value for money and making the railway more affordable. Under the leadership of the Rail Delivery Group, the industry has already made significant progress in working together to achieve this, and the Government's reform programme has the potential to unlock even greater savings in the future.

3.10.5 The industry also acknowledges the importance of improving passenger satisfaction and will continue to work to improve passenger information provision, particularly during disruption.

3.10.6 The provision of ring-fenced investment funds for passenger journey improvement and station improvement will be important to helping the industry continue to improve the passenger experience.

24 August 2012

Written evidence from Passenger Focus (ROR 40)

HLOS 2014–19

1. Introduction

1.1 Passenger Focus is the statutory watchdog for rail passengers in Great Britain; and for bus, tram and coach passengers in England (outside London).

2. Funding

2.1 Passenger Focus welcomes the continuing emphasis on investment within the HLOS announcement—something we believe is essential given the ever increasing demand forecasts for rail and the contribution that rail travel makes to the economic well-being of the country.

2.2 Alongside specific/nominated capital schemes we note that HLOS contains a series of ring-fenced "pots" of money that the industry can bid for but which must fit certain criteria:

- East Coast Connectivity (£240 million)—designed to improve capacity and reduce journey time.
- Passenger Journey improvement (£300 million).
- Station Improvement (£100 million).
- Access for All (£100 million).
- Level crossing safety (£65 million).
- Early development of schemes for 2019–24 (£140 million).

2.3 Passenger Focus is supportive of these initiatives and of the flexibility given to the industry to allocate/manage expenditure. However, it will be essential to demonstrate that the investment is truly additional rather than something that ought to be provided for out of existing "business as usual" funding. We would also argue that schemes must take into account the impact on passengers—the more that the investment is targeted on passengers' priorities the bigger the "passenger dividend" from the investment.

3. Strategy

3.1 HLOS sets out four main priorities:

(a) Electrification: the creation of an "electric spine" consisting of high capacity passenger and freight corridors running from the South Coast through Oxford, Bedford and via the Midland Main Line to the East Midlands and South Yorkshire, with a link from Oxford to the West Midlands and the North-West.

(b) More capacity and faster journey times between key cities.

(c) More capacity for commuter travel into major urban areas.

(d) Improved railway links with ports and airports.

3.2 Passenger Focus has long argued that the starting point must be to focus on what matters to passengers. Our research continually emphasises the importance of the "core product": a punctual, affordable service on which you can get a seat. To this end we particularly welcome the emphasis on capacity.

4. Targets/Metrics

Safety

4.1 We note that the original HLOS (2009–14) set a specific target for safety/risk and that this is not to be continued within the next HLOS. However, we recognise and accept the argument that rail safety is already defined within a legal duty to keep safety/risk "as low as is reasonably practicable". Delivering this legal duty will ensure that rail safety remains of utmost importance.

Reliability

4.2 HLOS requires reliability, as measured by the "public performance measure" (PPM), to achieve an overall level of at least 92.5% moving annual average by the end of 2019. We note, however, that HLOS only seems to set a national target and is not broken down to sector level as per the first HLOS. It is also noticeable that the previous HLOS targets are London south east 93%, long distance 92% and regional 92%. In theory at least this could mask a reduction in the London and South East target.

4.3 Passenger Focus is a strong advocate of greater disaggregation of performance data. We believe that a single performance figure can mask pockets of poor performance. The more that passengers can monitor the performance of their train(s) the more they can hold the train company to account for the level of service provided: greater transparency breeds greater accountability. To this end we would have liked HLOS to set disaggregated performance targets rather than just a general (albeit welcome) commitment to focus on/target the worst performing routes. In saying this, however, we note and welcome recent announcements about increasing the transparency of performance data—including releasing right time performance figures. Ensuring genuine, easy access to disaggregated performance data will help keep the pressure on performance in place of any formal targets.

4.4 Our research into passenger priorities[59] and passenger satisfaction[60] shows the overriding importance of punctuality in forming passenger attitudes. This applies irrespective of sector and journey purpose. Passenger Focus has also demonstrated the importance of "right time" arrival in determining passenger satisfaction.[61] This analysis mapped passenger satisfaction with punctuality against the actual delay experienced by 12,000 NPS respondents. This showed that:

— passenger satisfaction with punctuality declines on average by between one and three percentage points per minute of delay; and

— commuter satisfaction with punctuality declines on average by around five percentage points per minute of delay.

4.5 Given this we would have liked HLOS to set a trajectory to improve "right time" punctuality over the course of the control period—either as a formal regulatory metric or as an internal operational target arising from the Periodic Review process carried out by the Office of Rail Regulation. However, as above, we recognise and welcome the commitment to providing right-time performance data and the role that this additional transparency will have on improving performance.

4.6 We also welcome the continued operation of the Cancellation and Significant lateness target (CaSL).

Capacity

4.7 HLOS sets out the number of passengers to be accommodated at London Birmingham, Leeds, Manchester, Bristol, Leicester, Liverpool, Newcastle, Nottingham and Sheffield in the three-hour morning peak and across the one-hour high-peak.

[59] Passengers' priorities for Improvements in rail services. Passenger Focus. March 20109

[60] National Passenger Survey (NPS). Passenger Focus

[61] What passengers want—Towards a "right time" East Anglian railway. Passenger Focus. 2010

4.8 We welcome the emphasis on capacity within the HLOS announcement. We would, however, urge that there should be much greater public access to loading/crowding data. Not only will greater transparency help passengers hold the industry to account but this could also help journey planning (ie helping passengers decide when to travel).

Customer satisfaction

4.9 Traditionally franchise targets have tended to focus on the relatively "hard" measures of punctuality and crowding. We have argued that service quality is also important—and becomes even more so in the context of longer-franchises. For instance, it is possible for a train company to meet its punctuality and cancellation targets whilst offering a poor passenger experience eg dirty trains, unhelpful staff, not keeping passengers informed. Our strong preference is for targets based on what passengers think—the best judge of quality being those who use the services.

4.10 To this end we welcome the statement within HLOS that the Secretary of State "seeks an improvement in passenger satisfaction, as measured by Passenger Focus's National Passenger Survey". While HLOS did not contain a specific target for passenger satisfaction we are pleased that targets are being embedded within individual franchise agreements—with the latest being the new West Coast franchise. We will continue to work with the DfT on the greater use of NPS results within the franchise framework.

4.11 We also welcome the emphasis placed by the Secretary of State on providing better information for passengers, particularly during disruption and the impact this can have on passenger satisfaction. Our research continually emphasises the importance of providing passengers with accurate and timely information.

Engineering work

4.12 We know from our research that engineering work is viewed as something of a necessary evil—passengers understand the need for regular maintenance but still do not like the disruption caused, especially when a bus replacement service is required. There have been some improvements: Network rail has a regulatory target to reduce the disruption that its engineering works cause to passenger services; and the Association of Train Operating Companies, jointly with Network Rail, announced in December 2009 a package of measures to reduce the use of bus substitution on key routes. Nonetheless, we feel that mentioning this issue within the HLOS announcement would give it more prominence and help reinforce the message to the industry.

Costs

4.13 We welcome the fact that the Government has resisted calls to set a cost reduction target within HLOS. This isn't to ignore the issue—high costs clearly have a direct impact on the range of service offered to passengers and the fares charged—and an indirect impact on funds available for investment. However, it is essential that the debate does not get lost in a narrow assessment of cost. It must also look at efficiency (doing the same for less) and at the benefits of rail. Change needs to be focused on, and driven by, the needs of the passenger as well as by the issue of cost.

4.14 We recognise that HLOS does not address the issue of fares. However, existing fares policy explicitly looks to pass a greater share of the costs of the railway onto passengers with the increase from an RPI+1% formula to one of RPI+3%. With the recent announcement of July's inflation figure we know that this means an average increase of 6.2% in January 2013—with some individual fares increasing by up to 11.2%.[62] For hard-pressed passengers, especially those who rely on the train for work, the prospect of another significant increase is a worrying one. Passengers in Great Britain already pay some of the highest fares in Europe and our most recent passenger survey showed that just 42% of passengers felt they had got value for money on their ticket.

4.15 In 2011 the Government postponed the planned move to the RPI+3% formula and kept it at RPI+1%. We would urge them to consider a similar move for the coming increase. We would also reiterate our concerns about the flexibility given to train companies to increase some fares above the average. As we argue in our recent submission to the Governments Fares and Ticketing Review,[63] limiting the "flex" to two percentage points rather than five (as in the South Central franchise) would reduce the lottery in the way price regulation applies for individual passengers.

24 August 2012

[62] Fares regulation allows some fares to increase by 5% points above the average. However, the average increase cannot increase beyond the RPI+3% formula so any increases above the average in one area must be balanced by decreases elsewhere.

[63] Passenger Focus response to the Government's rail fares and ticketing review. July 2012

Written evidence from FirstGroup plc (ROR 43)

INTERCITY WEST COAST (ICWC) FRANCHISE AWARD

About FirstGroup

1. FirstGroup plc is the leading transport operator in the UK and North America. We employ approximately 124,000 people and we transport more than 2.5 billion passengers every year. Our company is comprised of five divisions—Student, Transit and Greyhound in America and Rail and Bus divisions here in the UK.

2. In rail, we are the UK's largest operator with almost a quarter of the market. We are the only operator to run every type of overground rail service in the UK, from high speed inter-city trains and overnight sleepers to local branch lines, regional, commuter and open access services. We operate four franchises (First Capital Connect, First Great Western, First ScotRail, First TransPennine Express) as well as Hull Trains, an open access service, and Tramlink, for TfL.

3. Our four franchises have received more than 250 awards since 2005, including First TransPennine Express, the current Rail Business Awards Train Operator of the Year. We carry over 300 million passengers a year, an increase of 40m passengers since 2006–07. Passenger volumes increased by 3.8% in 2011–12.

4. We employ 13,000 people in UK Rail and have nearly 2,800 rolling stock vehicles, with around 740 additional vehicles introduced to our franchises by FirstGroup. We have put in over £650 million capital investment into our franchises since 2006.

Commitment to the ICWC Franchise

5. We believe in railways, we want to serve more customers, run more rail services, employ more people, and grow as a business. We are a long term investor in UK railways—we have been involved since privatisation and have chosen to pre-qualify for all franchises in the current wave of re-letting. Any suggestion we may walk away from our West Coast bid is misplaced. We would not want to risk the damage to our reputation of doing so, nor being barred from being shortlisted for other franchise competitions, which would follow (as non-default is a pre-requisite of the pre-qualification process).

6. We want to stress from the outset that many critiques of our bid are based on a false assumption: that we would walk away from this franchise. Nobody forces us to bid for franchises, nor enter into the franchise commitments that we enter into; we aren't looking to escape them at the earliest opportunity.

7. To reinforce this, as part of our bid we are required to put up a bank guaranteed subordinated loan facility (SLF), which is designed to ensure the parent company stands behind the TOC and funds properly what it has promised in its bid. The calculation of the SLF is designed to equalise the risks the DfT attaches to each bid to make sure each can pay the premia offered. For the majority of the franchise, our premia levels are broadly similar to Virgin's. Our SLF and capital contribution for this franchise bid is £200 million; we understand that Virgin's was £40 million. We are satisfied that we are giving a good level of comfort to Government and taxpayers over our commitment to this franchise. The commitment is fully backed by cash and bank guarantees to government.

8. It is worth adding that our critics are wrong to allege that we walked away from the Great Western (GW) franchise. Government structured the GW franchise from the outset on the basis that the franchisee had a voluntary choice over a final three year extension. The franchise also was let on the basis that the IEP fleet, being procured by the DfT, would be introduced during the franchise lifetime. However, this is not now the case and the route is also about to undergo massive infrastructure upgrade, with Reading remodelling, Crossrail and electrification. Against this backdrop, we decided not to take up the extension. This extension was not part of our franchise commitment and we did not incur a penalty for not taking it up. We bid on the basis that we had a choice over the extension, and the Government accepted our bid on that basis. We are pleased to have pre-qualified for the new Great Western franchise competition and will be submitting a competitive bid.

ICWC Franchise Bidding Process

9. FirstGroup was chosen by the Government to operate the Inter City West Coast rail franchise on 15 August. This followed an extensive, robust and thorough bidding process overseen by the Department for Transport which ran over 18 months.

10. We are also involved in three other live franchise competitions, having pre-qualified for Essex Thameside, Great Western and Thameslink. We currently operate both the Great Western and Thameslink franchises (although the latter is being refranchised on the basis of an expanded network, to incorporate services currently run by Southern, and some run by Southeastern).

11. The procurement process is governed by extremely strict rules, covered by the Franchise Process Letting Agreement (FPLA), the Invitation to Tender document and the published set of Franchise Evaluation Process Charts which mapped out how the evaluation process would be conducted. The process is anonymised so that senior officials making the final decision have no idea who has submitted each bid. The Secretary of State is only involved at the final stage when all bids have been evaluated and a winning bid has been selected.

12. We have played by these rules and have stuck by the letter of the FPLA, despite there being times when it would have suited us to ignore these rules and comment on press speculation or publication of inaccurate or selective details of our bid taken out of context, for instance. We believe it is clearly in both the public interest, and in the interest of bidders for these rules to be in place and to be followed. They ensure that all bidders can compete on a level and fair playing field and that bidders submit the most competitive tenders (which in turn helps ensure value for the taxpayer, in the shape of high premium payments). Having bid for a number of franchises, we understand that after a time for consultation, the Department for Transport sets the rules for the franchise competition. These are the rules bidders sign up to, bidders and government then have to abide by them, or there is no validity to the process at all.

13. We were not aware of any fundamental challenge to the franchise bidding process or this franchise competition being made to the DfT (nor was there any call for the Committee to review this franchise competition) at the time the rules were published or whilst the competition was live. There was consultation and different views expressed by a range of parties: this is normal. As far as we can see, the DfT considered its policy, made the process clear and followed the rules. Formal claims against the process appear to us only to have been made very late, at the final stage around award.

Growth and GDP Assumptions

14. Virgin has not seen our bid and we have not seen theirs. Everything thus far said in public is based on limited information and their view of what the bid should look like.

15. We aren't trying to recreate what Virgin has done over the past 15 years. It's time to look to the future. We are taking an exciting, fresh look at the InterCity West Coast franchise and how best to serve the fast growing cities along the route. Franchise bids should not always follow the same style or model and our bid is firmly focused on investing for growth.

16. The route serves five of the top seven largest conurbations in the country and these cities are set to keep on growing. With no major road building programme currently planned the demand for rail will rise. Compared with other corridors, ICWC has a lower share of the total number of journeys made. There is considerable scope to take share from road and air—our bid will deliver the environmental benefits which accrue from encouraging people to take the train rather than planes or cars.

17. Over the past 15 years the amount of passengers on the route doubled—despite major disruption through the upgrade works and the impact of the global economic slowdown—and we will do the same. Network Rail's own forecasts show that the line will be full by the mid-2020s and the Government is now looking at plans for HS2 a new high speed line to run in parallel with the existing services.

18. Thus, our bid does not rely on a growing economy to generate greater passenger volumes and revenues. However, if GDP turns out to be worse (or better) than is anticipated, then there is a support (and sharing) mechanism in place. This is part of the DfT franchise agreement proposition, applicable to all bidders. It uses GDP forecasts provided to all bidders as part of the tender process and which are the March 2012 Office of Budget Responsibility (OBR) figures. Using the OBR figures, the average GDP growth from April 2013 to March 2026 (broadly the life of the franchise) is predicted to be 2.48% (but often rounded for convenience in releases to 2.5%), including 0.5% for population growth, but we will begin with a lower predicted figure. If the cumulative difference from the GDP figures in our bid reaches +/– 4%, then we will share the impact with the DfT. (The precise details are in the DfT's specified form of franchise agreement.)

19. The figure of 1.94% GDP growth since 1830 which has been quoted in some places reflects a period of world history which included the Crimea War, two World Wars and a great depression. Using the same dataset and method,[64] the increase over the last 60 years (1950–2010) is 2.40% per annum and from 1982 to 2010 is 2.47%.

The West Coast Main Line (WCML)

20. Over recent years, taxpayers have invested more than £9 billion in upgrading the West Coast Main Line (WCML). Given this lengthy and expensive route modernisation of the WCML, we feel it is right to point out that Government, passengers and taxpayers alike should be given the maximum return for that £9 billion investment—which both we and the DfT think our bid delivers. This investment will provide increased capacity and network reliability on WCML; this gives us the confidence that our growth figures can take advantage of this work.

21. We recognise that there will be further infrastructure work on the WCML. Indeed, speaking to analysts on 15 August our Chief Executive Tim O'Toole said:

> *"We shall be bringing forward in partnership with Network Rail numerous relatively minor investments in track and layout that will materially improve performance over time."*

[64] The figure is a CAGR from 1830 to 2010, in 2008 constant prices, from the website www.measuringworth.com.

22. As part of the bid process we worked with Network Rail to hear their plans for the routes. Examples of work to the WCML that we factored into the bid include:

- — Power supply upgrade—Northern section of the route.
- — Signalling renewals and improvements—Various points all along the route.
- — Grade separation—Norton Bridge, near Stafford.
- — HS2 works.

23. We have built in works such as these into our franchise forecasts in later years meaning increased speed limits and a more attractive route for passengers.

24. We don't deny the significance of these works and we are well used to working with very major schemes, like Thameslink, Crossrail and Reading remodelling. However, they must be put in the comparative context of the scale of upgrade challenges facing other routes on the network, like the Great Western Main Line, and the scale of the work already carried out on the WCML.

Delivering for Passengers

25. Our plans are predicated on passenger growth; it follows that we need to offer an enhanced customer service to deliver this. By 2016 we will deliver the following enhancements:

- — Timetable and trains:
  - — Transforming the on-board environment with a major refurbishment of Pendolino and Voyager interiors with new seats throughout and improved luggage space.
  - — 11 new six-car electric trains for Birmingham-Scotland service will deliver 12,000 more seats per day with the cascade of existing trains to bolster other routes, in addition to the 106 extra "Pendolino" carriages currently being introduced which deliver 28,000 extra daily seats..
  - — Improved journey time by 15 minutes for trains between London and Glasgow.
  - — Introducing new direct services from London to Blackpool, Telford, Shrewsbury and Bolton providing a new direct link for >500,000 people.
  - — Doubling frequency of London to Preston services, and more capacity to North Wales.
  - — Improving connectivity with more stops at Nuneaton and Milton Keynes.
  - — Reliability and punctuality improvements through targeted investment and a new Alliance with Network Rail.
- — Fares and ticketing:
  - — Reducing Standard Anytime fares by 15% on average.
  - — Automatic ticket gates installation at 21 stations, including the major terminals of London Euston, Manchester Piccadilly, Liverpool Lime St and Glasgow Central (currently only 8% of ICWC passengers pass through automatic gates).
  - — Investment in greater yield management capability to help grow demand at off-peak times, increased marketing and introduction of new customer loyalty programme.
- — Enhanced customer offering and innovation:
  - — Smart ticketing introduced.
  - — Free upgraded high speed Wi-Fi, and enhanced mobile phone coverage.
  - — Enhanced catering service offered, with increased at seat catering for customers.
  - — Improved information systems including new customer mobile apps.
  - — Station investment—improving accessibility, security and passenger information.
  - — Commitment to high quality service with emphasis on visible customer service staff on trains and at stations.

Fleet Capacity

26. An important part of our bid is our commitment to add 11 brand new electric 125 mph trains to serve Birmingham-Scotland services, delivering 12,000 more seats per day with, unlike some other bids, existing Voyager trains re-deployed to provide additional new services. This is all on top of the 28,000 new seats that will be provided by the additional 106 Pendolino carriages that will enter service at the start of the new franchise. Thus, we have 66 new carriages from 2016, to meet the latent demand for rail travel on WCML (which clearly the Government, like us, believes will continue to grow to the end of the franchise and beyond, given their plans to build HS2). We note that, from the information made public, Virgin would acquire a new electric fleet like us but not keep the Voyager fleet in service. This means they would have a net increase of only 24 new carriages (as opposed to 66 under our plans).

27. This means that, by 2016 we will be able to offer a total of 40,000 more seats than in 2011. We are confident that this means we will be able to meet the latent demand we know there is on the route. Furthermore,

by keeping the Voyager fleet, in addition to acquiring new train sets, we are able to offer more frequent services and new services to new destinations. This along with greater marketing, lower fares and better onboard services and environment will enable us to drive greater revenue growth.

Staff and Catering

28. We recognise that there have been specific concerns raised in the media and elsewhere about the staffing levels and catering standards under our plans.

29. We can categorically deny rumours that we are planning to slash staffing levels. Our plan for this franchise is to grow by expanding services and improving the quality of our services—clearly customer-facing staff will be central to achieving this. Our plans will see an increase of staff on trains and an increase of visible customer-facing staff on station concourses.

30. There is no plan to close ticket offices, although we will encourage and promote greater use of technology such as mobile ticketing. We recognise that a shift in sales to the internet is inevitable, especially for this railway.

31. For the same reason, we will enhance on-board catering, with increased at-seat catering for customers, and transform the on-board environment with a major refurbishment of entire existing Pendolino and Voyager train fleets.

32. All but a handful of the 3,000 staff working on the franchise will automatically transfer under TUPE regulations, with protected terms and conditions, as part of franchise transfer. The exceptions are chiefly senior management who we expect will want to stay with Virgin Rail Group. Any delay in the transfer of the franchise may well have a negative impact on staff morale; something we are very keen to avoid.

Looking Ahead

33. Our focus is to ensure a smooth transition with continuity for staff and passengers alike. We intend to continue with our preparations to start the new franchise on 9 December 2012 so that we can deliver the many benefits and improvements that we are offering to customers and taxpayers without delay or disruption.

7 August 2012

Written evidence from Merseyrail (ROR 44)

Introduction

Merseyrail is a 50–50 joint venture between Serco, the international service company and Abellio, the international arm of Nederlandse Spoorwegen (Dutch Railways).

Mtogo is Merseyrail's chain of combined ticket offices and convenience stores. There are now nine, the first of which was built six years ago. Five are on our underground stations in the centre of Liverpool and four, out of town. The Mtogo concept is based on similar schemes implemented in the Netherlands, as well as on Dutch best practice, brought to the UK by Abellio.

Within three years of the creation of the first Mtogo, another two had been developed. The last one to open was a second at Moorfields in the centre of Liverpool in the spring of this year. Mtogos are all built on old-style booking offices. Now, most passengers using the Merseyrail network either travel to or from a station with an Mtogo. Funding for the stores was secured from a variety of sources.

Mtogo remains a unique concept in the UK rail market. Merseyrail's main aim was, and remains, to enhance the customer experience while covering the business's operating costs. It has indeed proved successful in improving passenger satisfaction and is popular with Merseytravel, the transport authority with whom Merseyrail has the concession, and also, with other stakeholders.

Mtogos are a significant component of the end-to-end journey experience for rail users, providing a one-stop-shop for all passenger needs: tickets, information and convenience products. While they have been successful in bringing about improvements in customer satisfaction for both ticketing and service provision, it's worth emphasising that Mtogo was not designed to be a significant revenue generator, but as an initiative to enhance the overall passenger journey experience.

Merseyrail was well placed to introduce the Mtogo concept, thanks to:

- Dutch experience and best practice in this area.
- Our long concession agreement of 25 years.
- Being the principal operator on the stations where we provide a service.
- Our capacity to roll out a critical mass of stores, enabling economies of scale.
- The relatively low volume of long-distance ticket sales on our network.

Rationale

— Improve customer satisfaction.
— Improve station security for passengers.
— Make ticket purchasing simpler and more convenient.
— Provide flexibility over peak periods.
— Promote cultural change and staff satisfaction.
— Use staff time more effectively.
— Enhance station appearance.

Benefits

Mtogo continues to meet our financial goals and covers its operating costs, however we measure its success on customer satisfaction, based on the National Passenger Survey, Passenger Focus's bi-annual poll. In the last NPS, conducted in spring 2012, Merseyrail scored 76% in the overall environment station category, an increase of 19%. Customer satisfaction for ticket buying facilities went up to 90%, a rise of 12%, and station facilities and services saw a 22% increase, from 31% to 53%. These scores are compared with figures from 2006, the year in which the first Mtogo was built.

31 August 2012

Written evidence from Virgin Rail Group (ROR 45)

Introduction and Background

1. On 15 August, the Department for Transport announced that the West Coast Main Line franchise would be let to FirstGroup (FG) from Sunday 9 December 2012. The franchise will operate for a core term of 13 years and four months, with an option to extend to 15 years. Importantly, this option is solely at the discretion of Government, and not FG.

2. Virgin Rail Group (VRG) has operated the franchise since 1997 and has achieved the top satisfaction levels of any long-distance franchise at 91% and the highest growth levels, taking the line from 13 million passengers a year at the start at the franchise to 31 million passengers this year—more than doubling customer numbers in the last seven years. A franchise that was once a laughing stock has become highly successful and this been achieved by a strong management team which has made the huge improvement once referred to as "Mission Impossible".

3. Our bid for the next franchise was aggressive but realistic and prepared for further growth, taking the annual number of customers to 49 million by 2026, making good use of the additional capacity provided by the 106 new Pendolino vehicles, which we are currently bringing into service. It also proposed premium payments to Government of £4.8 billion during the core term.

4. In contrast, FG bid £5.5 billion during the core 13-year-four-month franchise, based on carrying 66 million customers per year by 2026. We believe this relies on unrealistic forecasting of demand and results in premium payments loaded heavily towards the end of the franchise. If the franchise is extended by Government to the full 15 years, these payments become even more unrealistic, with FG projecting to pay some £500 million more than VRG in premium to Government in just one year, 2027.

5. This level of undeliverable bidding has happened twice before on the East Coast Main Line where VRG has been runner-up to unrealistic bids from GNER and National Express. On both occasions, the winning operator fell far short of its revenue forecasts and ran into financial difficulties, which forced it to hand the franchise back to avoid making their premium payments.

6. The Commons Transport Committee has frequently raised concerns about franchising. In its report on franchising in 2009 it said that "*the process for awarding franchises along with the relative absence of significant risks for franchise holders tend to fuel very optimistic bids. The two failed contracts on the East Coast Main Line where operators had offered the Government £1.3 and £1.4 billion respectively to run the franchise are clearly cases in point*."

7. This has been shown elsewhere. In the case of Great Western, FG bid for the franchise with high premium payments totalling £1.2 billion loaded towards the last three years. It recently withdrew from the franchise under agreement with Government before its payments of £830 million were due to be paid.

8. The Public Accounts Committee has also previously criticised the procurement policies of the Department for Transport, and especially the ability to forecast realistically. In its report on the East Coast process, in July 2011, the PAC said*: "The Department did not undertake sufficient due diligence on the bid by National Express for the East Coast franchise."*

9. We believe the same is about to happen on the West Coast Main Line franchise, and that taxpayers and customers will suffer significant losses as a result of a franchise that is unable to deliver the committed benefits expected over the full course of the franchise.

10. The inherent failings of the process used to assess the bids have produced an outcome which is bad for the taxpayer and bad for the rail passenger. This is particularly worrying on the West Coast line, in view of its importance as a vital link between key economic centres.

Passenger Revenue, Numbers and Premium Payments

11. FG is forecasting that it will carry 66 million passengers in the final year 2026, compared to our 49 million, and achieve revenue of £3.2 billion compared to our £2.6 billion in that year. FG's numbers are beyond any rational projection of growth levels.

12. Moreover, even if such demand did materialise, it would lead to large numbers of overcrowded trains on such a scale that would not be accepted by passengers on the long-distance services which the West Coast franchise provides. The growth in passenger numbers forecast by FG is out of all proportion to the additional seating capacity it would provide, which is of a similar level to that which would be offered by VRG.

13. In the bid evaluation, we outscored FG on accommodating demand by a large margin, suggesting that our bid reflected the reality of capacity more accurately. We also outscored on deliverability, suggesting greater confidence in our ability to match the bid forecast.

14. Even the CEO of FG has acknowledged that VRG offers higher cumulative premium payments to Government over the first 10 years. However, FG makes extraordinary assumptions in the final three years, when there is no basis for additional growth in terms of new timetables or capacity improvement. On the contrary, it is rational to expect the growth in passenger numbers to slow down towards the end of the franchise, as capacity becomes more constrained.

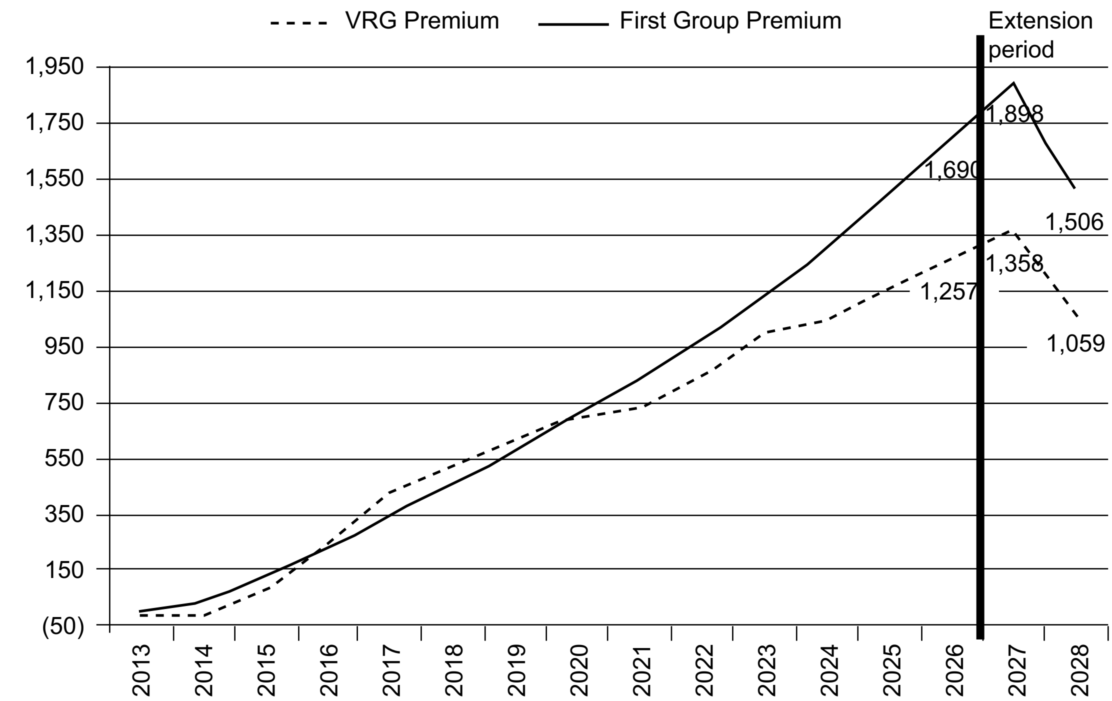
15. Furthermore, FG's assumptions ignore the risk of substantial disruption expected by Network Rail in the coming five years as they continue renewal of major sections of the infrastructure and then followed by preparation for HS2 at the end of the franchise.

16. To demonstrate the different attitude to risk, the premium profiles of the two bids show clearly that VRG pays £133 million more than FG in the first half of the franchise (2013–20); but that in the final six years, FG pays £1.3 billion more with no credible evidence of how this could be achieved.

17. The graph overleaf shows the gap in premium payments over the course of the franchise, including the extension period.

Graph 1

VRG AND FG PREMIUM PROFILE (£M)



18. First Group has justified this high future growth by linking it to historical growth over the last 10 years of the current franchise, when annual growth rate in revenue from 2003 to 2012 was 10.2%. However, this

analysis is fundamentally flawed as it selectively starts the clock at the point when the current franchise began to grow, whilst ignoring the stagnation of the early years. In contrast, VRG's bid was based on comprehensive historical revenue analysis, in order to have a realistic view of what is achievable in the future.

19. Specifically, the FG analysis ignores the following key events during that decade of high growth:

— Recovery from the heavy disruption of the Hatfield rail disaster.

— Recovery from heavy disruption following Network Rail improvement work.

— Benefit of WCML upgrade and new Pendolino trains, to enable faster journey times.

— Effects of two major timetables improvements in 2004 and 2008, to increase frequency.

— A much stronger economy during much of the last decade.

— Transfer of new services from CrossCountry to West Coast (Birmingham-Scotland services).

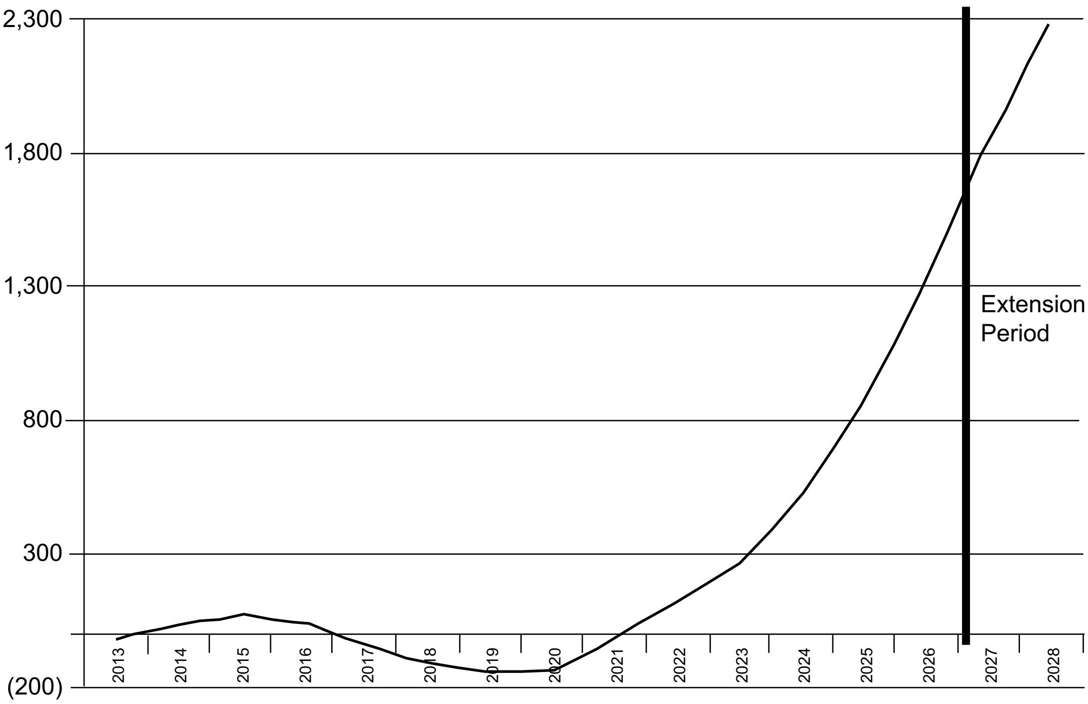
20. These combined changes, which transformed the West Coast service, were instrumental to delivering strong growth, but there is nothing on this scale planned for the next fifteen years. Instead, only incremental improvements to WCML are envisaged by DfT in the expectation that investment will be concentrated on the new High Speed line, HS2. In turn, the works for HS2, particularly at Euston station, pose a substantial risk to the level of service which can be provided on West Coast, and therefore to the revenue, in the later years of the new franchise.

21. In the face of all these issues, FG has predicated its bid on substantial growth in the last few years. See Graph below showing cumulative difference between the bids. The red line above the axis shows FG making higher cumulative payments than VRG, and below the axis VRG making higher cumulative payments than FG.

22. The variance between the two bids is even greater in the 20-month extension period, which is at the discretion of Government and cannot be opted out by the operator.

Graph 2

CUMULATIVE PREMIUM VARIANCE OF FG BID (£'M)



Key Flaws in the Bid Process

23. For a number of years, especially since the collapse of the East Coast for the second time, VRG and other bidders have consistently expressed concerns over the robustness and effectiveness of the franchising process.

24. In the case of the West Coast line and in the absence of any detailed information from the DfT, VRG believes:

— As FG bid substantially more than any other bidder, the process did not subject their bid to a direct comparison of deliverability and an overall risk.

— DfT has not properly risk adjusted bids as it says it would do in the Invitation to Tender (ITT) documents.

— DfT has therefore used a flawed process, that naturally picks the most risky bid.

— DfT has not treated bidders consistently or rationally in calculating the additional funding required of bidders.
— DfT has failed to act transparently or provide adequate reasons for its decision.

25. During the short period after the announcement on 15 August, VRG asked for clarification about this evaluation process, and failed to receive any answers. It was only at this point that we embarked on the legal process in order to challenge the decision-making process.

26. Contrary to suggestions that we only made our views known in recent weeks, we had voiced concerns over the franchising system and West Coast ITT for more than four years and met with three successive Secretaries of State and senior officials at DfT.

27. Immediately after the decision, an e-petition calling for reconsideration was created by one of our customer Ross McKillop, and quickly attracted more than 170,000 signatures and coincided with increasing interest from MPs of all parties on the West Coast route.

VRG Bid

28. To recap with an overview of our bid, we have promised to invest £800 million to help deliver our planned growth, by providing customer benefits, contrasting with only £350 million by FG.

The VRG investment includes:

— 21 new 6-car tilting Pendolino trains and Vossloh rescue locomotives (£385 million).
— Infrastructure work to improve performance and journey times (£125 million).
— On board service, including interiors refresh, state of the art WIFI and systems to facilitate at seat ordering in first and standard (£109 million).
— Stations, including gating, 1,938 car park spaces, improved information systems and improvements to accessibility and security (£99 million).
— Developing a new booking and customer experience systems (£39 million).

New Services:

— Direct services to Telford, Shrewsbury, Blackpool and Bolton.
— Enhanced services to Liverpool, Gobowen, Chirk, Ruabon and Wrexham.
— Faster hourly services to Glasgow, some in sub 4 hours, stopping at a new South Scotland hub at Motherwell station.
— Direct services connecting Milton Keynes to Rugby, Stafford, the North West and Scotland.
— Increased stops at Tamworth and Lichfield.

Conclusion

29. We remain unconvinced that FirstGroup can match many of the commitments we have made in our franchise bid, and West Coast customers have yet to receive detailed information on FG's commitments, as evidenced by the lack of detail on key issues below.

Services

— The DfT has stated that FG must only use "reasonable endeavours" to introduce new services to Shrewsbury, Blackpool and Bolton, so there are no guarantees of these services. Are journey time improvements between London and Glasgow guaranteed?

Investment

— Is the £350 million investment suggested by FG guaranteed, or only conditional on customer numbers improving?
— Will FirstGroup match the £99 million investment committed to by Virgin Trains at stations, including £20 million on better car parking?

Revenue factors

— Why does FG believe GDP of 2.5% a year is realistic, when HM Treasury and other forecasts are lower?
— Tim O' Toole, FG CEO has stated that the West Coast franchise is easier to operate *"because it does not face the delivery risk present in almost every other franchise, because of the need elsewhere to accommodate extensive renewal and enhancement work. This investment is already in place. The railway is whole."* Is Mr O'Toole aware of the major impact on revenue that Network Rail work will have in the next five years?

Redundancies

— Will there be any compulsory redundancies under FG's franchise plans?

30. In view of the lack of detail about these issues and the evaluation process, we believe there is a clear case for greater transparency and a review by an external body to establish whether the best value bid for taxpayers and customers has been chosen.

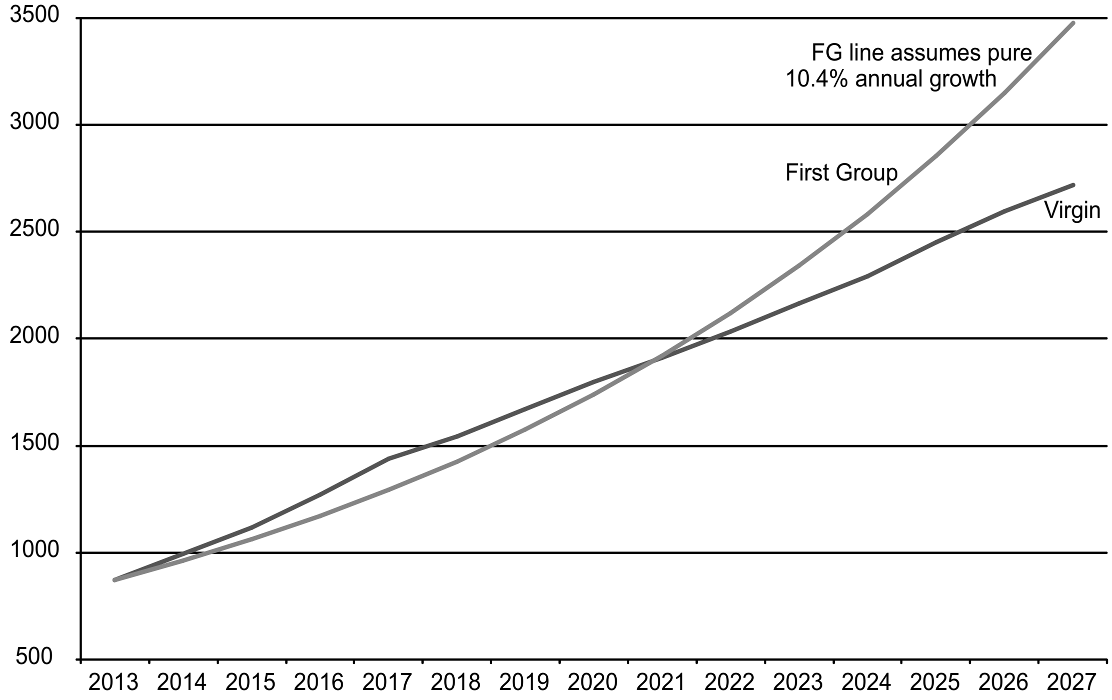
10 September 2012

Further written evidence from Virgin Rail Group (ROR 45A)

FG Assertions in Bid		*Contrary Evidence*
Historic Revenue & Growth	— VT have underperformed being in cap and collar. It had little incentive to invest [in marketing] while under these arrangements	— VT year on year revenue growth in last 3 years is: — 7.9% 2011–12 — 11.0% 2010–11 — 10.1% 2009–10 These results are above any other long distance operators, including FGW The 16% growth rate discussed in the hearing for 2011–12 includes an extra period's revenue due to a change in accounting year. The effective annual rate is set out above VT has invested £9m p.a. in marketing up till 2011 and not, as suggested, done "very little" to promote growth while being under the cap and collar arrangements
	— Historic growth has just come and FG could maintain it	— Significant one-off events that, if adjusted for, reduce the historic 10.2% growth rate over the last 10 years. These are: — Upgrade disruption Recovery (0.6%) — XC service transfer (0.7%) — Faster Pendolino trains (0.7%) — Increased timetable frequency (1.3%) This gives an underlying historic 6.9% annual growth rate compared to 10.2 % used by FG to justify their future revenue growth.
	— First TPE Customers Identical to WC	— TPE customers do not travel to/from London, so they are not similar to WC's. 80% of WC revenue is linked to London travel, as stated in FG's investor presentation.
Future Revenue & Fares	— FG did not recognise 22% real fare increase — FG will increase fares by RPI only	From FG investor presentation: — £824m 2012 revenue and 30m passengers — FG passenger revenue average annual growth is 7.3% (excl RPI) — FG passenger journeys average annual growth is 5.8% — £2.2bn divided by 66m is £33 average fare
	— 3rd class will give choice to "trade up" thus average fares increase	— We reviewed this option in our bid and rejected it as, in our view, this is likely to lead to more down trading than up trading especially when more standard capacity is introduced
	— VT bid flat lines in last 3 years	The VT bid real revenue growth (excl RPI) in the final 4 years of: — 3.4% in 2022–23 — 3.1% in 2023–24 — 4.0% in 2024–25 — 3.0% in 2025–26

FG Assertions in Bid		Contrary Evidence
	— Deliverability scores were "close" 64 vs 60	The scores for the key revenue growth plans to "accommodate current and future demand" had VT scoring 72 vs FG's 54
	— Loading to hit FGW and TPE levels of 45%–50%	— Average load factor across all trains in First and Standard will be 37.5% following full introduction of 106 new Pendolino vehicles (cf 35% quoted in FG investor pack).
	— No more seats in carriages	— It is natural that average load factor will be relatively low immediately after this 19% increase in capacity.
		— By 2026, 66m passenger journeys would mean that average load factor would increase to around 70%, even allowing for the 11 additional trains which FG would introduce.
		— Average load factor in standard would be around 80% by 2026.
		— Around 25% of trains would be full and standing in standard by 2026.
	— Start to sell cheaper Advance fares out on services from Euston on which Off Peak fares are restricted.	— We have been doing this for the last two years.
	— £350m investment quoted by VRG was only over first 5 years—more investment in later years will be made on customer service	— VT would commit to invest £800m in the first 5 years in a range of capital projects and more operational spend to ensure customer service improvements. The ITT stated that investments must pay back within the franchise term
	— VT making guesses about FG revenue growth	— Compound Annual Growth Rate is quoted in investors' statement. This is what we have used.
	— The increases in revenue at the back end of the franchise are merely compounding	
	— Services to Blackpool, Bolton and Shrewsbury are "firm commitments"	— Simon Burns, the transport minister, confirmed in the Commons last week that FG were only required to "actively consider and use all reasonable endeavours" to implement them
Risk	— FG negotiated on the Shareholder Loan Facility (SLF) reducing by a "small" amount	— There is no provision for negotiation to occur in the DFT process charts or the ITT—it is formulaic
	— SLF guaranteed for 3 years only	— This is stated in the Funding Deed documents
	— FG understand how £600m could be calculated	— In calculating the £600m, we have applied the same methodology used by the DFT for VT using the information available on growth rates, premium and margin. An independent firm of expert advisors concluded the same
Other Comments		
	VT would have defaulted on EC	— This is pure speculation as VT's bid is a private document
		— VT would have paid the committed premiums to DFT to date of circa £500m. Using Directly Operated Railways (DOR) payments for the same period of circa £450m as a benchmark, we would have earned a lower margin than expected but would still have paid the premium to DFT in full

FG Assertions in Bid	*Contrary Evidence*
Margin of 7%	The profit margin is there to make the bid robust and deliverable and to protect the taxpayers' premium. The premium comes out first. We only make a profit after that and to make 7% margin we need everything (economy, revenue ideas etc and cost control) to go in our favour. If not the margin disappears and then look to the SLF for the taxpayer protection. This approach was endorsed by the DFT in several communications between us as a way of managing their key objective in the bid of ensuring franchises remained sustainable and robust in economic downturns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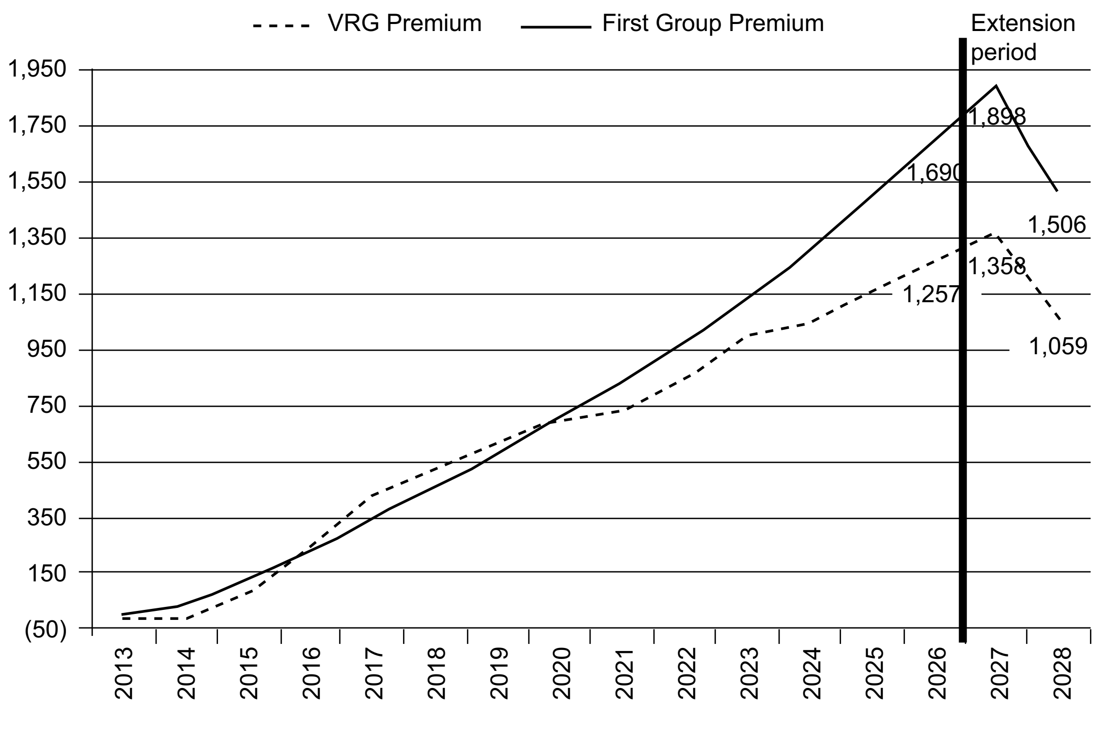
FG line assumes pure
10.4% annual growth
First Group
Virgin


VRG Premium
First Group Premium
Extension
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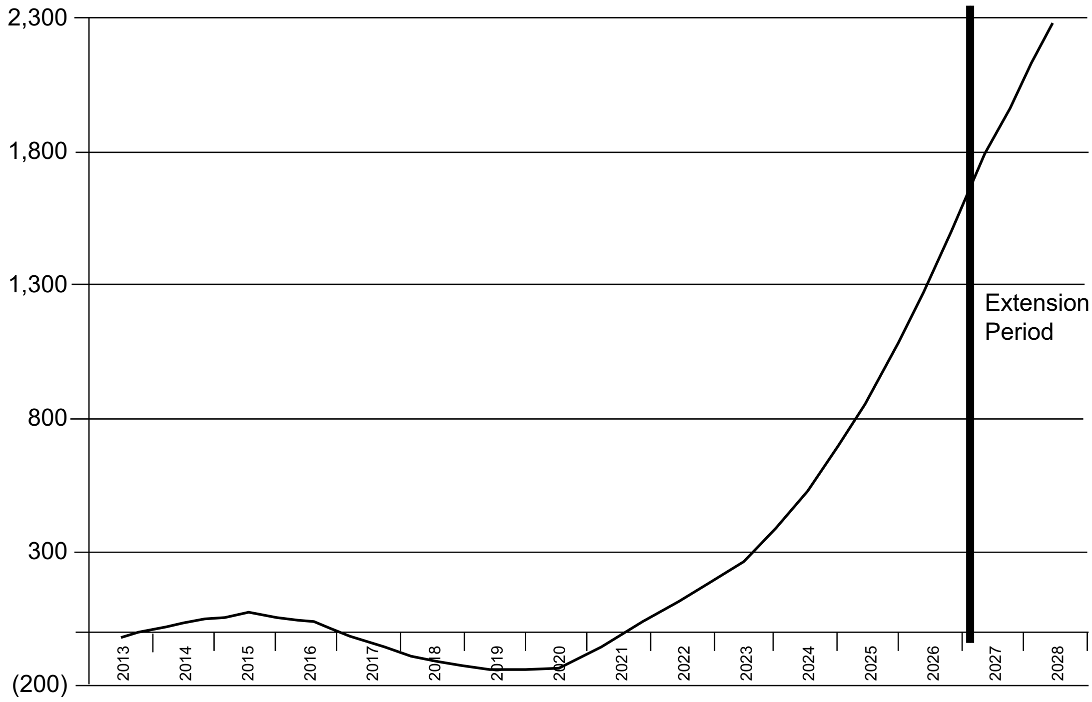


Written evidence from the Office of Rail Regulation (ROR 47)

LETTER TO THE CHAIR OF THE COMMITTEE FROM ANNA WALKER, CHAIR OF THE OFFICE OF RAIL REGULATION

Thank you for the opportunity to appear before your committee on 12 November 2012, to give evidence as part of your Rail 2020 inquiry. On reflection, there were a couple of points of further information and clarification on which I thought I should write.

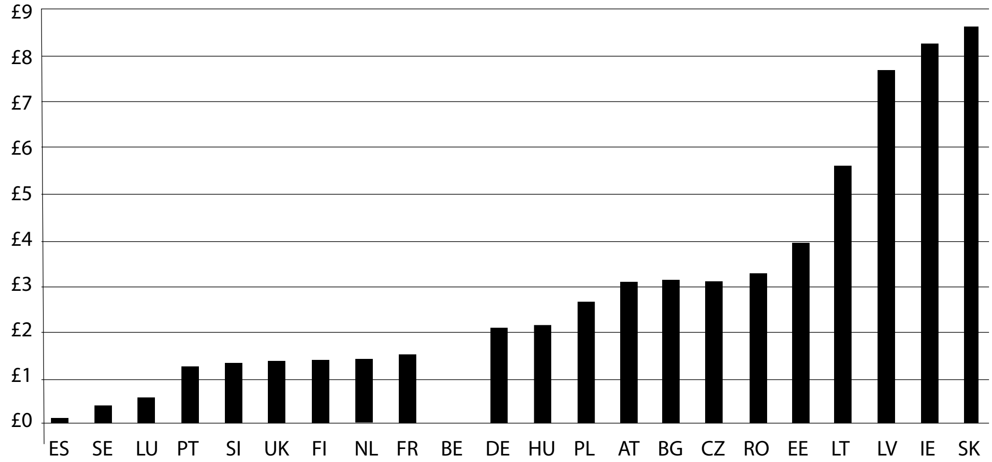
The first point concerns international comparisons of freight charges. Mr Stringer asked me at one point whether we had international comparisons for freight charges, and, referring back to evidence the committee has received in relation to a previous report, whether it was still the case that freight charges in Britain were still "twice the industry's best worldwide". We realised that Mr Stringer was referring to comparative charges for infrastructure costs- not freight charges- but I did not have the international freight charge comparators to hand. I can now let the Committee have these. The chart in the attached annex shows average freight track access charge per train km across the EU at 2012 prices. The data show that average freight track access charges in the UK were the sixth lowest in the EU.

Secondly, I thought I should clarify what I said to your committee, again in response to a question from Mr Stringer, in relation to our current position on reaching decisions on freight charges. As you are aware, our freight consultation raised a large number of issues and concluding on the issues has, and will, involve our board in taking a number of decisions. We are currently engaged in that process, which will ultimately lead to our publishing our decision document in a few weeks. As part of that process, we have in fact taken some decisions at board level and we expect to take others before we have a final package that we can publish. On reviewing the transcript, I realise that I said that no decisions have been taken in relation to the freight consultation document published in May 2012, and that I did not make clear that we are in the process of making our decisions. I hope this clarifies what I meant by that and apologise if my choice of words caused any confusion.

Once again, thank you for the opportunity to contribute to the work of your committee. We would of course be happy to come back for further discussions if that was helpful to you.

26 November 2012

Average freight track access charge, EU—E/train km at market exchange rates



Average freight track access charge/train km £ (2012 Prices)—assumes 1,000 gross tonne freight train

This data is based on a 1,000 gross tonne freight train and is expressed in 2012 prices using an exchange rate of Euro 1.25:GBP1.00. It comes from the "Report from the Commission to the Council and the European Parliament—Third report on Monitoring development of the rail marker" [COM(2012) 459 final].

List of abbreviations

ES—Spain
SE—Sweden
LU—Luxembourg
PT—Portugal
SI—Slovenia
Fl—Finland
NL—Netherlands
FR—France
BE—Belgium
DE—Germany
SK—Slovakia
HU—Hungary
PL—Poland
AT—Austria
BG—Bulgaria
CZ—Czech Republic
RO—Romania
EE—Estonia
LT—Lithuania
LV—Latvia
IE—Ireland

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