House of Commons

Committee of Public Accounts

# Progress in delivering the Thameslink programme

## Twenty-sixth Report of Session 2013–14

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

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## Committee of Public Accounts

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Additional written evidence may be published on the internet only.

### Committee staff

The current staff of the Committee is Adrian Jenner (Clerk), Claire Cozens (Committee Specialist), Sonia Draper (Senior Committee Assistant), Ian Blair and James McQuade (Committee Assistants) and Alex Paterson (Media Officer).

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# Summary

The Department for Transport (the Department) has done well so far to deliver the first phase of the Thameslink infrastructure project to time and under budget. However, progress in securing new trains and letting a new franchise to run the route has been much less encouraging. The award of a £1.6 billion PFI contract for new trains was delayed by over three years, and the Department made changes to its plans for the franchise very late in the day. Prior to 2013 the Department's approach to letting the franchise to operate the new service was not joined up with the rest of the Thameslink programme, highlighting weaknesses in the Department's programme management capability. We remain concerned about the Department's skills and capacity to complete Thameslink by 2018, alongside its ambitious wider portfolio of programmes and projects.

# Conclusions and recommendations

1. The Department is sponsoring the programme to increase passenger capacity on the Thameslink route through central London. The programme comprises three interrelated projects— to improve rail infrastructure, to buy new trains, and to let the new franchise to operate the new services. The infrastructure project to improve tracks and stations at a cost of £3.55 billion (2006 prices), is being delivered through Network Rail. The Department is buying the new trains, with an estimated capital cost of £1.6bn, through a private finance initiative. It is also responsible for letting the new franchise and overall management of the programme.

2. The excessive time taken to get the Thameslink project off the ground means passengers have to wait far too long—over 30 years—for this upgrade. There was clear evidence of the need to upgrade the Thameslink route in 1989 but passengers will only start to see the benefits in the 2020s. Proposals for the route were developed throughout the 1990s and early 2000s by a succession of rail industry sponsors, until the Department became sponsor of the programme in July 2005 and put in place delivery arrangements in 2006. The Department told us that the lessons learned from the slow start on Thameslink show that clear objectives, political consensus and a stable, predictable funding base are important factors in getting big projects up and running quickly.

   **Recommendation:** ***The Department should develop a long term investment strategy for transport projects built on a strong evidence base, including better passenger travel data and more reliable forecasts. This should help to secure political consensus and greater certainty of funding, which will in turn help to get projects up and running much more quickly.***

3. **The Department suffers from a shortage of strong project management skills.** There is a core Thameslink team of just five which seems too small for a programme of this scale, compared with teams for other complex government projects. The programme management skills and the continuity of the current senior responsible owner (SRO) have been crucial to the project so far, but he will now be moving to support delivery of High Speed 2. We are worried about the impact this will have on the Thameslink programme given the scale of what remains to be done to complete it by 2018. The apparent need to move the Thameslink SRO onto High Speed 2 illustrates the scarcity of the project management and commercial skills that the Department has available.

   **Recommendation:** ***The Department must put in place a clear plan to build sufficient, appropriate skills in the organisation to match the scale and ambition of its portfolio of projects. Clear succession plans should be built into project plans taking into account the key points in the project lifecycle when staff moves can be made with minimal impact.***

4. **We are sceptical that the programme will be delivered by 2018 given the delays in awarding the contract for new trains, and have concerns about the Department's choice of PFI for this project.** The delay of more than three years in awarding the

contract to buy new trains means that there will be less time for the trains to be delivered than was originally planned. The Department said that it is confident that the trains can still be delivered on time but was unable to cite any examples of a manufacturer delivering trains early and we are not confident that the trains will be delivered on schedule. The Department told us that the delays are partly down to underestimating the complexity of the procurement and to difficulties in raising finance in the current market. Both of these issues highlight the importance of understanding properly the risks of the chosen delivery model from the start. In this context, it is alarming that the Department only compared the PFI option against another private sector option and did not construct a public sector comparator to understand better the relative costs of choosing the PFI route. Since our hearing the Department has awarded the contract for supplying new trains to a consortium of Siemens and Cross London Trains and we intend to examine this deal further.

**Recommendation:** ***For all future procurements the Department should evaluate all the delivery and funding options and ensure that it fully understands and compares the costs, risks and rewards of each option.***

5. **The Department was too slow to recognise the impact of planned infrastructure works and new trains on its plans for letting the new franchise.** In July 2012 the Department considered and rejected using a ‘management-style contract’ under which the franchisee is paid a management fee for operating the route instead of being dependent on revenue from ticket sales. This would transfer a lower level of risk to the franchisee than conventional franchise arrangements as the Department receives the revenue from tickets but bears the risk that sales are lower than expected. However, in January 2013 the Department changed its view and decided to adopt this approach as the franchisee will have to deal with disruption from planned infrastructure works and focus efforts on bringing new trains into service, rather than on growing passenger revenue on the route. The Department knew about these factors well before 2013 and should have made the decision to use a management-style contract earlier. We are concerned that the change in approach to the franchise indicates a worrying lack of forward planning or integrated thinking across the programme.

   **Recommendation:** ***The Department should focus on integrated planning and aligning decision making across the different elements of complex programmes from the very start.***

6. **We are not convinced that the Department has thought through all the risks associated with letting a new style of franchise for the first time.** The Thameslink franchise will be expanded to bring Great Northern, Southern and parts of the South Eastern franchises together under one operator. It will be the first time the Department has let a management-style contract and it will be a seven-year agreement. The Department acknowledges the challenges of letting a new style contract, and outlined measures it has taken to strengthen its franchising programme as a whole. However, the Department did not explain how it would address the specific risks of letting a management-style contract for the first time. Our report on the cancellation of the InterCity West Coast Mainline franchise shows the mistakes

that can be made if insufficient time and resources are invested in adopting a complex new approach.

**Recommendation:** ***The Department needs to invest sufficient time and resources in considering the details of the management-style contract and develop a clear approach to running the Thameslink competition which identifies the risks and shows how these have been managed.***

# 1 Programme management

1. On the basis of a Report by the Comptroller and Auditor General, we took evidence from the Department for Transport (the Department) and Network Rail on the progress in delivering the Thameslink programme and the risks to delivery that remain.[1]

2. The Department became sponsor of the programme in July 2005. The programme involves:

- Infrastructure work to improve tracks and stations including extending platforms, reconstructing Blackfriars, Farringdon and London Bridge stations and introducing new signalling technology. This work is expected to cost £3.55 billion (at 2006 prices) and is being done by Network Rail, funded by the Department.

- Buying a fleet of new trains and two new maintenance depots, with an estimated capital cost of £1.6 billion, which the Department is financing through a Private Finance Initiative.

- New franchise arrangements for running the passenger service on the Thameslink route.[2]

3. Since the Department became sponsor of the programme it has made most progress in implementing the infrastructure project, with the first phase delivered under budget and on time in December 2011. The Department has, however, deferred its planned completion date, from 2015 to 2018. The procurement of new trains has taken over three years longer than expected and the Department has also revised its timetable and approach for letting the new franchise.[3]

4. The first proposals to modernise the Thameslink route and increase capacity were made in 1989, and were then developed by a succession of rail industry sponsors in the 1990s and early 2000s. The Department told us that the early stages of the programme were dogged with protracted planning issues and a period of unstable funding from 1990-2000. Once all planning issues were resolved in 2006, the Department and Network Rail moved quickly to start main construction work in 2009.[4] However, it will still be some 30 years since the need to upgrade Thameslink was first recognised before passengers see the benefits. The Department told us that it had learnt lessons from Thameslink and that if projects like this are to move quickly in the future they require clear objectives, political consensus and a stable, predictable funding base as well as very strong project planning.[5]

5. The Department's Thameslink team is under-resourced for a programme of this profile, size and complexity. The Department told us that the senior responsible owner (SRO) has

1 C&AG's Report, *Progress in the Thameslink programme*, Session 2013-14, HC 227, 5 June 2013

2 C&AG's Report, paras 2-3

3 C&AG's Report, *Progress in the Thameslink programme*, Session 2013-14, HC 227, 5 June 2013, para 3

4 Q2

5 Qq 1-2

a core team of just five people, down from eight prior to the Spending Review in 2010.[6] The C&AG's report shows that the team is small compared with teams in other Department's such as the Department of Energy and Climate Change for its smart meter and carbon capture and storage programmes. There have also been a number of other external assurance reviews which indicated that the core team is tight for resource.[7] The Department told us that it has many other people across the Department and the industry supporting the delivery of Thameslink and has spent £28 million on consultants since the start of the programme.[8] However, the Department accepted that the small core team raised a 'resilience issue' for the programme and we remain sceptical about whether the Department has the capacity to deliver the remainder of the programme by 2018.[9]

6. The continuity of the SRO has been important to the success of the programme so far but the Department now plans to move the SRO from the Thameslink programme on to High Speed 2. The current post holder has been involved in the programme since 2005 and has been the SRO for the last five years, providing valuable continuity of leadership and much needed programme management skills and experience.[10] The Department sought to assure us that the management of the succession planning has been carefully thought through. The Department believes that the award of the train contract provides a sensible break point at which to change the SRO.[11] The Department told us that the next 'key inflection point' would be 2018 which, recognising the personal dimension to the decision, the Department believes would be a long time to ask an individual to work on the same project.[12]

7. Given the amount that remains to be done to deliver the programme by 2018 we remain concerned about the impact on the Thameslink programme of the Department's decision to move the current SRO. We are worried that the development of individual skills has taken priority over making sure that projects get delivered on time with good value for money. We are also concerned that the current, highly experienced SRO's move to High Speed 2 highlights the shortage of project management skills in the Department to deliver its wider portfolio of projects.[13]

6 Qq 30-33

7 Q 17; C&AG's Report, para 1.20

8 Q34; Ev 21

9 Q 109

10 Qq 23-27

11 Q 24, 27

12 Q 27

13 Qq 25, 27

# 2 Buying new trains

8. The Department has chosen to finance the purchase of over 1000 railway carriages through a complex PFI contract with one supplier to design, build, finance and maintain the new trains, at an estimated capital cost of £1.6 billion.[14] At the time of our hearing the award of the contract was delayed by over three years and the Department was limited in what it could tell us about the procurement as negotiations were on-going.[15] The Department has since awarded the contract to a consortium of Siemens and Cross London Trains, but we remain interested in why this procurement took so long and intend to examine the deal further.[16]

9. The Department told us there were three reasons for the delay in awarding the contract: unsettled financial markets made it difficult to raise the finance required; securing planning permission for the depot at Hornsey took longer than expected; and the scale and complexity of the transaction took all parties by surprise.[17] The Department told us that its decision in March 2008 to use a PFI contract was primarily due to policy at the time rather than a result of any comprehensive evaluation of all the options.[18] The Department could not tell us how the cost of using PFI compares to that of buying the trains up front. The Department told us that it made a comparison of the PFI option against a private sector comparator based on a traditional rolling stock transaction and lease structure, but did not evaluate it against a public sector comparator. We are concerned, therefore, that the decision to go down the PFI route was not based on a comprehensive assessment of value for money.[19]

10. The delay in awarding the contract has reduced the time available for the manufacturer to build the trains and we remain unconvinced that all the trains will be delivered in time for 2018.[20] The C&AG's report showed that to deliver to the 2018 deadline Siemens will have a timeframe some eight months shorter than originally envisaged to deliver the first trains into service. The Department told us it is confident Siemens can deliver in the shorter time frame.[21] The Department said that Siemens has already carried out some design work at their own risk, and there are a number of financial incentives and penalties in the contract intended to encourage delivery to schedule.[22] However, the Department was unable to point to any past examples of a train manufacturer delivering a new fleet of trains earlier than planned.[23]

14 C&AG's Report, para1.12

15 Qq 42-43

16 Department for Transport press release 27 June 2013

17 Qq 65, 69

18 Q 70, C&AG's Report, para 3.4

19 Qq 76-78

20 Q 47, 171-174

21 Qq 48-50; C&AG's Report, para 3.5

22 Qq 50, 60

23 Qq 53-58

# 3 Letting the new franchise

11. The Department plans to let an interim franchise that will run until 2021, to then be followed by a longer term franchise. The interim franchise will expand the current Thameslink franchise to incorporate the Great Northern, Southern and part of the South Eastern franchises, bringing all services running on the route under one franchisee.[24]

12. The interim franchise arrangements will have to take account of two key factors: the disruption up to 2018 from the infrastructure work and the need for the franchisee to take direct responsibility for bringing the new trains into service.[25] In recognition of these factors the Department is planning to let a 'management-style' contract for the interim franchise, under which the franchisee is paid a management fee for operating the route instead of being dependent on revenue from ticket sales, which would transfer a lower level of risk to the franchisee than conventional arrangements, despite initially rejecting this option in July 2012.[26] At that time the Department considered that a management-style contract did not fit with its policy that franchisees should be responsible for revenue growth.[27] In January 2013 the Department then decided to use a management-style contract, in light of the conclusions in the Brown Review—which led to them giving greater weight to the disruption that would take place during the construction phase.[28] The Department was not able to explain clearly whether the decisions made in either July 2012 or January 2013 were underpinned by sound quantitative analysis.[29] The Department did accept that it knew about likely disruption well before 2013 and that there was scope for better planning in the future.[30]

13. The Department does not have a good track record of managing franchises and has not let a management-style contract before.[31] The Department did not provide enough evidence to satisfy us that it has fully thought through all the risks associated with running a competition for such a contract for the first time. The Department told us that it has taken steps to strengthen management of the franchise programme as a whole including bringing in an interim Director of Franchising with extensive industry experience and making greater use of external advisors.[32] It did not, however, explain how it plans to manage the specific risks associated with letting this franchise as a management contract for the first time. We also have concerns that the short-term nature of the current franchise director's post raises a risk of him ending up back in industry negotiating one of the franchises he advised on granting.[33] The Department was unable to tell us how long the

24 C&AG's Report,para 1.13

25 Q 152

26 Qq 133-135; C&AG's Report, para 3.10

27 C&AG's report, para 3.10

28 *The Brown Review of the Rail Franchising programme*, CM 8526, January 2013

29 Qq 147-150

30 Qq Q133-35, 156-157

31 Q 158

32 Q 158

33 Qq 162-165

interim franchise director will be in post and acknowledged that there was a longer term succession planning issue.[34]

34 Q 161

# Formal Minutes

## Monday 21 October 2013

Members present:

Mrs Margaret Hodge, in the Chair

Jackie Doyle-Price
Chris Heaton-Harris
Mr Stewart Jackson
Fiona Mactaggart
Nick Smith
Justin Tomlinson

Draft Report (*Progress in delivering the Thameslink programme*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 13 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

*Resolved*, That the Report be the Twenty-sixth Report of the Committee to the House.

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

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

Written evidence was ordered to be reported to the House for printing with the Report (in addition to that ordered to be reported for publishing on 9 October.

[Adjourned till Wednesday 23 October at 2.00 pm

# Witnesses

## Wednesday 19 June 2013



# List of printed written evidence

# List of Reports from the Committee during the current Parliament

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

### Session 2013–14

| | | |
|---|---|---|
| First Report | Ministry of Defence: Equipment Plan 2012-2022 and Major Projects Report 2012 | HC 53 |
| Second Report | Early Action: landscape review | HC 133 |
| Third Report | Department for Communities and Local Government: Financial sustainability of local authorities | HC 134 |
| Fourth Report | HM Revenue & Customs: tax credits error and fraud | HC 135 |
| Fifth Report | Department for Work and Pensions: Responding to change in jobcentres | HC 136 |
| Sixth Report | Cabinet Office: Improving government procurement and the impact of government's ICT savings initiative | HC 137 |
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| Tenth Report | Serious Fraud Office – redundancy and severance arrangements | HC 360 |
| Eleventh Report | Department of Health: managing hospital consultants | HC 358 |
| Twelfth Report | Department for Education: Capital funding for new school places | HC 359 |
| Thirteenth Report | Civil Service Reform | HC 473 |
| Fourteenth Report | Integration across government and Whole-Place Community Budgets | HC 472 |
| Fifteenth Report | The provision of the out-of-hours GP service in Cornwall | HC 471 |
| Sixteenth Report | FiRe Control | HC 110 |
| Seventeenth Report | Administering the Equitable Life Payment Scheme | HC 111 |
| Eighteenth Report | Carrier Strike: the 2012 reversion decision | HC 113 |
| Nineteenth Report | The dismantled National Programme for IT in the NHS | HC 294 |
| Twentieth Report | The BBC's move to Salford | HC 293 |
| Twenty-first Report | Police Procurement | HC 115 |
| Twenty-second Report | High Speed 2: a review of early programme preparation | HC 478 |
| Twenty-third Report | HM Revenue & Customs: Progress in tackling tobacco smuggling | HC 297 |
| Twenty-fourth Report | The rural broadband programme | HC 474 |

# Oral evidence

## Taken before the Committee of Public Accounts

## on Wednesday 19 June 2013

Members present:

Margaret Hodge (Chair)

Stephen Barclay
Guto Bebb
Jackie Doyle-Price
Chris Heaton-Harris
Meg Hillier
Mr Stewart Jackson
Fiona Mactaggart
Ian Swales
Justin Tomlinson

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**Amyas Morse**, Comptroller and Auditor General, **Gabrielle Cohen**, Assistant Auditor General**,** and **Geraldine Barker**, Director, National Audit Office, and **Marius Gallaher**, Alternate Treasury Officer of Accounts, were in attendance.

**REPORT BY THE COMPTROLLER AND AUDITOR GENERAL**

**Progress in the Thameslink programme (HC 227)**

**Examination of Witnesses**

*Witnesses:* **Philip Rutnam,** Permanent Secretary, Department for Transport, **Michael Hurn**, Director Rail Projects, Department for Transport, and **David Higgins**, Chief Executive, Network Rail, gave evidence.

**Chair:** Welcome. We have been reflecting, and we always like to get the positives on the table. Those are that once the decision was taken to go ahead with this project, certainly as far as phase 1 is concerned, you delivered a complicated project within budget and, I think, within time. We think that that is good, and we want to explore a little why that happened—probably talking to Michael Hurn a bit about it.

It will have taken us 30 years by the time it is up and running since people first thought it was a good idea to modernise the Thameslink line and stations. Thirty years, Permanent Secretary! Why? What on earth can you learn from that? It is just not an acceptable way. Even when you think about HS2, which we are going to do in a couple of weeks' time, 30 years is a heck of a long time. Why? What do you think are the underlying issues? How are you trying to tackle them? Maybe David Higgins wants to come in on that too.

***Philip Rutnam:*** You are absolutely right, it is a very long time. I assume you are referring back to *The Central London Rail Study* in 1989, which first put forward this idea of enhancing the Thameslink service. A lot of things happened after that study: there was a downturn in the economy and great pressure on public finances. So a number of particular events—

**Chair:** But downturns, booms and busts, are common.

***Philip Rutnam:*** They are cyclical, yes.

The key features to managing very big projects like this successfully are: a clear sense of direction, with a clear set of decisions, ultimately made by Ministers if public funds are involved, setting clear objectives; preferably as much political consensus as you can get around the projects, because even if you condense 30 years to, say, the 11 that this project will have taken, you are still exposed to the fact that there will be general elections during that period, so an element of political consensus is desirable; very strong project planning, because the more effort you can put into the planning stage, before you actually start the excavation and construction phase, the better; and, finally, clear, stable, predictable public funding. Those are the elements I would pick out for how you can condense the 30-year period into something less, but I would say that these projects are always going to be lengthy; they are always going to be challenged; it is always going to take longer than public expectations would want. We have to be realistic, but you are right that 30 years is a long time.

**Q1 Chair:** I still do not feel that you have entirely answered the question. You have said what makes for a good project, but what can we learn from this one? What would you have wanted different so that you could have done this quicker? I don't know why it even has to take 10 years. This is a modernisation; it is different from building a completely new track à la Crossrail or HS2. You have an existing track and you are modernising it and you are modernising the station, so there are not hugely difficult planning permissions that you would have from public inquiries and things.

***Philip Rutnam:*** You mentioned positives. I think there are lots of positives to be taken from this. Obviously we are still part way through, but there are lots of positives to be taken from it. I would say from the point where the Government made the decision in 2007—

**Q2 Chair:** What happened between now and when we first had the report. You answer, Mr Hurn, if you know.

***Michael Hurn:*** As you rightly say, the project has had a lengthy period. It originated in 1989. Throughout

the ’90s it had a very protracted planning process and there were two public inquiries, each lasting a number of years. Also, there was a stop-go approach to some of the funding for the development work for the project as a whole. That impacted on the ability to deliver those public inquiries to certain time scales.
Clearly, the public inquiries had a lot of things to discuss. It is a very big project with lots of work in London and lots of issues to consider in terms of construction and the effect on the local community. By their nature, there is reason to have a lot of discussions with the local community to get agreements on a range of things—putting a new viaduct through Borough market is a significant thing for the local community and had to be handled with a great deal of care, taking account of their concerns, from a construction point of view.
There was a combination of things, with two quite lengthy public inquiries and a lengthy process for the development, because the funding varied in the amount available from 1990 to 2000. The final public inquiry planning powers were confirmed in 2006 and we moved very rapidly into the construction phase of the project, agreeing arrangements with Network Rail in 2008 and starting the main construction work in 2009. When you want me to, I will talk about where we were with key output 1, which was the first phase of the project, and our success in delivering that for the rail industry.

**Q3 Chair:** Do you want to add anything, Mr Higgins?
***David Higgins:*** A huge improvement in the industry now is the Department’s high-level output statement, which is the Government’s requirement for the industry, particularly Network Rail, accompanied by the statement of funds available. That responds to the industry’s submission, which is the initial industry plan, and that ties in to the five-year funding settlements that Network Rail gets. That has provided a huge amount of discipline and a framework from Government.

**Q4 Chair:** But that could be challenged by a future Government.
***David Higgins:*** Yes, it could. Both Thameslink and Crossrail are spread over 10 years—two control periods—but they were set out in an initial high-level output statement at the start of control period 4, which was 2009. I think that is very good discipline and a great improvement on where the system was 10 years ago.

**Q5 Chair:** It is interesting, because it shows that for these big infrastructure projects, you need to move forward, probably with cross-party agreement.
***Philip Rutnam:*** An element of political consensus is clearly helpful—and, crucially, clarity around public funding.

**Q6 Chair:** The Treasury accepting that it is a priority.
***Philip Rutnam:*** One thing that the rail industry does have now—David has referred to it—is this multi-year framework for planning the funding that Government will provide to it. That goes well beyond the spending round period, and that is a great help.

**Q7 Chair:** How far does it go ahead?
***Philip Rutnam:*** At the moment, to 2019.

**Q8 Chair:** Not that far ahead, but better—
***Philip Rutnam:*** Better than exists in some other areas, you could say.

**Q9 Chair:** But it would not cover you for HS2.
***Philip Rutnam:*** HS2 is another matter, which I think we are talking about shortly.

**Q10 Chair:** I’ll go to Mr Hurn again. It is a joy for us to see an SRO who has been around for more than two minutes, and you have been there since 2008.
***Michael Hurn:*** I have.

**Q11 Chair:** We will ask Mr Rutnam why on earth he is moving you, but from all that experience—2008 to 2013, so you’ve been at it for five years—what have you learned? What would you do differently?
***Michael Hurn:*** The real headline is that the more you can plan up front, the better. You learn the lessons from other projects and benchmark to other projects, not just in the UK but around the world. You do the thinking, the planning and the scenario testing up front, so you get right not just the construction, but the sequencing of the work and how that links in with realising the benefits—it’s all about benefits realisation—and the systems integration between train and the infrastructure. All that planning work pays huge dividends in terms of getting confidence about delivery to time and to budget.
In terms of the first phase of the project, it is fair to say that we did not do enough up-front planning work. A lot of work was done in preparing the planning permissions, but in terms of moving into the construction phase, it took a bit of time in terms of shifting the mindset to much more focus on how it would be built, in terms of detail phasing and moving away from the planning.
We have applied a lot of those lessons to the second phase of the project, which is really about rebuilding London Bridge station and the signalling interface between the train and the infrastructure. A lot more work was done on how London Bridge would be planned, and the NAO Report talks about resequencing of the work at London Bridge—a longer period to build the works. Our initial view was that the programme would be undeliverable in the end, because it had not been fully tested with the train operators as to how you do the construction work while keeping the station fully open. There is a real balance to be struck. It is one of the busiest stations in the UK. It does not just serve London Bridge; it serves Cannon Street and Charing Cross—two other very big termini.
Overall, huge amounts of lessons were learned, not just by the Department for Transport, but by the rail industry as a whole. This project is very much about coming together as a rail industry and delivering as a rail industry, and being quite can-do about that—overcoming obstacles and having that mindset. We are

applying that to the second phase of the project as a way of ensuring confidence about delivery, which I am sure you will want to ask questions about later. But the real learning is about better planning and better integration with our delivery partners. That is our real focus.

**Q12 Chair:** Okay. Anything from the other two witnesses on that? What have you learned? What would you do differently?
***David Higgins:*** I have only been in the role for two and a half years. I think the issue is that this is a high-profile and political project as well, so it requires strong co-ordination—both the Department and the Mayor. You talk about planning. It took two years to get planning approval for London Bridge and there were lots of legal challenges. There had to be close determination to make sure that we got through the planning process and satisfied all the issues of local communities, particularly community engagement and local employment.

**Q13 Chair:** How many people are there in your team looking at this?
***Michael Hurn:*** It is worth talking about the different elements of my team. There are five in my core team.

**Q14 Chair:** Out of how many people working on rail in the Department?
***Philip Rutnam:*** Roughly 250—something like that.

**Q15 Chair:** Only five?
***Michael Hurn:*** I have a core team of five, but I have many other people across the Department who are providing support from a legal, technical and financial perspective and who supplement that team. Very importantly, I also have a range of external consultants providing support on a whole range of issues—not just rolling stock procurement, but, for example, assuring ourselves on Network Rail's costs in terms of the infrastructure work. Also very importantly—I touched on this earlier—we have our rail industry partners working on this. It should not be seen as just about the Department for Transport: it is very much a case of First Capital Connect, as the incumbent train operator for Thameslink, working in partnership with us, as well as, obviously, Network Rail and the wider rail industry—train operators that run, for example, the Southern train company and the Southeastern train company. They are absolutely integral to the success of this project. I don't see it as just a group of people within the Department for Transport. Yes, they are very important, but there is also a huge range of other people from across the rail industry, and the success of this project is very much down to them, as well.

**Q16 Chair:** Given that it is one of your higher profile projects, I am astounded it is only five. How long have they all been there? Just run through them quickly.
***Michael Hurn:*** It ranges from about six months to about four years for those individuals. We have recently brought in a very experienced deputy director who will look particularly at the systems integration work for the second phase of the project. It is also very important to get across—

**Q17 Chair:** That was after you had been told off by the gateway review?
***Michael Hurn:*** That was in the summer of last year, yes. There have been a number of assurance reports that have indicated that the core team is tight for resource, but as I mentioned, I am not just managing it thinking purely about the core team; it is about all those other categories of staff resource.

**Q18 Chair:** How much have you spent on external consultants since you have been there—since 2008?
***Michael Hurn:*** Since May 2010, about £28 million on external consultants.

**Q19 Chair:** And since 2008—actually, since we had the go-ahead, which you said was 2005?
***Michael Hurn:*** I'm afraid I don't have those figures to hand. I have the number from 2010, which is £28 million. I can provide that figure to you in a written answer.

**Q20 Chair:** We would be grateful for that. Of your core team, how many know about railways?
***Michael Hurn:*** All of them know about railways.

**Q21 Chair:** And you? Were you born and bred—
***Michael Hurn:*** I have been involved in projects since I left university.

**Q22 Chair:** In?
***Michael Hurn:*** First, I had 10 years in London Underground working on very major projects—for example, the Jubilee line extension project and the East London line extension project, which I led and got the planning permissions for. I also spent four years at the Strategic Rail Authority; the most significant part of that was the east coast main line upgrade project, a big, multi-billion pound project.
I joined the Department for Transport in 2005, when the Strategic Rail Authority folded into the DfT. Ever since then, I have been doing London projects. My involvement in Thameslink has actually been since 2005, but I have been the SRO since 2008. I spent a lot of time on the King's Cross programme, which a major upgrade of King's Cross station and the underground works, and a big property development there—I did a lot of negotiations with a whole range of third parties to do a big property deal. Last year, I was promoted to director, with responsibility for a number of other projects—Crossrail and the intercity express programme. So my professional background is projects and rail.

**Q23 Chair:** Why on earth are you moving him, Mr Rutnam?
***Philip Rutnam:*** There are two factors—
**Chair:** We don't approve.
***Philip Rutnam:*** Michael has obviously been SRO on this programme for five years, and everybody needs a fresh challenge at some point.

**Q24 Chair:** We strongly disagree with that. You should be able to reward him in his job, and he should see it through.

***Philip Rutnam:*** I think there is a key moment associated with the Thameslink programme attached to getting the rolling stock project to contract award. That is a key milestone.

**Chair:** We will come back to the rolling stock.

***Philip Rutnam:*** The two factors in my mind are these. First, everybody deserves to have a fresh challenge from time to time. Five years is a long time to be doing one role. Secondly, in terms of the calls on the Department as a whole, I am keen that Michael, given his depth of experience, which you have just heard about, turns his abilities to the challenges we face on HS2, where the same sorts of disciplines are needed.

I am pleased to say that we have appointed a successor to Michael—a very talented and capable lady, who, I am sure, will do a very good job in leading the team that Michael has led to date. We have arranged a considerable handover period, so it is not as though Michael will be disappearing from the project one day and Becky Wood will pick it up the next day. Also, they will be within 30 feet or 50 feet of each other—in great proximity—so the opportunity for making sure that transfer of expertise continues will be there.

**Q25 Jackie Doyle-Price:** In a nutshell, what you have just said typifies the attitude in Whitehall to project management. You have approached this question on the basis that everyone needs a fresh challenge. From our perspective, our priority is making sure that projects get properly delivered on time with good value for money. There is a massive philosophical challenge within Whitehall to get to grips with this, because until the machine does it we are going to be looking at failure over and over again.

***Philip Rutnam:*** I do not think that is fair, actually. First of all, as you will have seen, Michael has been in the role of SRO for five years and has been involved in the project for eight years. The Chair's opening words referred to the fact that there has been a lot of continuity there. Taking that approach, having continuity in our SROs, having expert SROs and building capability in our SRO community are right at the heart of the way in which I am trying to manage the Department.

I do not want to go into too much detail, but there is also a human dimension to this in terms of making sure that people can continue to develop their skills as well as making sure that the organisation as a whole is deploying its finite resources in the very best way.

**Q26 Chair:** Did you ask to leave?

***Michael Hurn:*** I did ask to move on at the appropriate time—that's right. I am very passionate about this project.

**Q27 Chair:** We just think it is bad. If you have the opportunity, you ought to be able to reward him there. Tell me if I am wrong, but I would suggest to you that this is more to do with the fact that you have a massive investment programme—we are going to be tackling other stuff in a couple of weeks—and you have not got sufficient skills. So here you are with somebody who—I am going to flatter you, Mr Hurn—since he has been managing the project has got it in amazingly on time and in budget. You ain't got enough of those skills elsewhere to do all the other big things you want to undertake.

***Philip Rutnam:*** You are right that we have a massive programme; I completely agree with that. It is a very big challenge, but I can assure you that with the change of SRO in this case, the management of the succession planning has been very carefully thought through. There is a key inflection point now, with the prospective contract award for the rolling stock. The next inflection point is 2018, to my mind. So you either say to somebody, "You have been on this project since 2005 and you can stay on it till 2018," or you make a change now. These are complex things and you have to balance a number of different factors, but we have been very candid with you about the two key factors we have in mind.

**Q28 Jackie Doyle-Price:** What interested me about you, Mr Hurn, when you gave us your potted professional history, is that you obviously have brilliant project management skills but they have been learnt outside Whitehall. Can I ask what the background of the new SRO is? Is she a Whitehall person or is she somebody with a good project management background as well?

***Philip Rutnam:*** I think Michael is probably better placed to answer. I can say something, but he can probably give you more detail.

***Michael Hurn:*** She has an extensive background in project management. She has been involved in the Crossrail project, not last year, but for about three years beforehand. She has extensive experience in managing partners—for example, Crossrail Limited and Transport for London—as part of that project, and understands very well the need to engage with stakeholders and the issue of working with the industry as a whole. So she is a very experienced individual.

**Q29 Jackie Doyle-Price:** Has that experience come from the Department, or does she have experience from outside?

***Michael Hurn:*** She was at the Strategic Rail Authority for a period of time as well, outside the Department. She also has private sector experience from beyond the Strategic Rail Authority.

**Q30 Chair:** How big was your core team in 2008?

***Michael Hurn:*** My core Thameslink team was about eight people in 2008.

**Q31 Chair:** What did you reduce to in 2010, when Mr Devereux, the previous Permanent Secretary, cut staffing by a third?

***Michael Hurn:*** The team of eight had a few vacancies. Some of them were not people already in place; there were a couple of vacancies. In 2011, we did not fill some of those vacancies. We lost one or two posts and maybe one vacancy. I cannot remember the exact details, but we did lose a few people.

**Q32 Chair:** What were you down to?

***Michael Hurn:*** We went down to five.

**Q33 Chair:** You went down to five, and you have stayed at five, so all the stuff about strengthening your team—

***Michael Hurn:*** No, we have had a number of people leave over the past couple of years, and we had to recruit for those posts. Also, we have had to change the skill sets as well, focusing very much on the systems integration side of things that I mentioned earlier. It is not purely about staff numbers; it is about having the right skill sets.

**Q34 Chair:** The rumour was that nobody, or only one person, knew about rail in the Department for Transport. How many people have you now got? How strong is your rail cohort?

***Philip Rutnam:*** From memory—I am not sure the number is absolutely right—the rail group in the Department is about 250. That includes a good many people who have got an industry background or have worked with the industry in a context other than just being in the central Department for Transport. If you were to meet a cross-section of our people from the rail group, you would find many people with not a policy background but a very practical background as project managers or commercial managers who in one way or another have grown their professional career in this industry.

**Q35 Meg Hillier:** Welcome, particularly to Mr Hurn. I think it is your first Public Accounts Committee hearing. As you can hear, we are very pro good senior responsible officers in this Committee.

Apart from what the Chair has already raised, we want to focus today on some of the other issues around procurement, rolling stock and the franchise. I am going to kick off on some of the further issues on procurement. The Department took over this responsibility in 2006—sorry, 2005. Why did the Department take it over at that point? What criteria should apply for a big project like this to be taken over by the Department rather than run by other bodies? What criteria would normally apply? What made the Department think that this was a project that should be led by the DFT?

***Philip Rutnam:*** I think Michael is probably best placed to speak.

***Michael Hurn:*** I will answer your question, if I may, in terms of the project as a whole rather than just the rolling stock, but of course I will address the rolling stock.

**Meg Hillier:** Talk about the project as a whole.

***Michael Hurn:*** The simple fact is that in 2005 the Strategic Rail Authority, which at the time was responsible for this project, folded into the Department for Transport, so the responsibilities of the SRA were taken over by the Department for Transport, including major projects. The Department for Transport became what we call a sponsor of Thameslink, responsible for the outputs of the projects in terms of what it means for benefits, securing of funding, agreeing with Network Rail the scope of the infrastructure works and obviously working with the rail industry to commence the procurement of the trains as well.

We took over direct responsibility for the project, and it was very much about co-ordination of the infrastructure, the trains and the franchises: those three elements all need to be integrated. Obviously, the train franchise for the train operator is the way to actually realise the benefits of the project commercially and contractually. You have to have alignment of the franchise, infrastructure and trains to deliver the overall benefits for the project.

**Q36 Meg Hillier:** Was it particularly helpful having all that co-ordinated by the DFT rather than by another body, even though the SRA had existed before then?

***Michael Hurn:*** The SRA had that responsibility. As I said, in 2005 it moved to the Department for Transport. Being in the Department for Transport gave it greater focus, because we had control of the funding very much closer within the project, rather than its being at arm's length with the Strategic Rail Authority. It gave a lot more focus and clarity about the project and its objectives and time scales.

**Q37 Meg Hillier:** In your professional opinion, and maybe in Mr Rutnam's as well, is it better when a complex project like this is run by the DFT, bringing together all those complexities? Maybe you can comment about that?

***Philip Rutnam:*** One other observation, which is perhaps just stating the obvious, is that the Government of the day had decided to abolish the Strategic Rail Authority and to fold its functions into the DFT, so there was no obvious way of continuing the project outside the DFT. Michael has also outlined the benefits we think have come from having co-ordination within the DFT.

The point I would make is that there is a real challenge for us, as a Department of State, in doing these things. There is a real challenge—we have touched on it already—in making sure that we assemble the commercial skills and commercial insights necessary to manage and oversee large, complex projects. I think Thameslink, and I could cite other examples as well, shows that we can do this successfully, but I am not going to pretend that it is not a challenge for a Department of State. Often you will find that the dominant skill sets in Departments of State are oriented more towards policy than project management and commercial. As a Department we have to recognise that we need policy skills but, critically, we need these other skills as well. To be frank, far more of my management time and attention goes on making sure that we acquire and retain those skills than on the purely policy skills.

**Q38 Meg Hillier:** This was a very complex project. Mr Hurn laid out lots of different strands. In the current climate, without an SRA and with Network Rail and the other operating bodies, do you think there are other bodies that could, in your professional opinion, manage this process as well as it has now been managed by the DFT? Is there an equivalence in the private sector?

***Philip Rutnam:*** In the present industry structure, the DFT has to do it. The funding ultimately comes from taxpayers, and we have to account for that. Critically, we are the only party that has the relationship with the franchise on the one hand and the providers of infrastructure and rolling stock on the other. So at the moment, in the present industry structure, we have to do it. One could always imagine alternative structures in which roles were different, but at the moment we have to do it. I suppose I would point not just to the record of Thameslink but other wider evidence on the rail industry to show that overall nothing is perfect but a number of things have gone in the right direction in the last 10 years.

**Q39 Chair:** We are going to come back to the rolling stock, but I do not understand why you have to buy it. I cannot for the life of me understand why that is within the DFT. The evidence from this project is that if there is one thing that has gone really badly wrong, it is the buying of the rolling stock. We have the MOD talking about outsourcing the procurement of defence equipment, which is scary for all sorts of other reasons, but this would seem to be an area where I am not sure the skills exist within Government to do it properly. Why are we carrying on pretending that we can do it well when even here we cannot?
***Philip Rutnam:*** Do you want us to say something on that now or come back to that later?
**Meg Hillier:** I was not going much more into procurement myself. I do not know whether other members might want to do that.
**Chair:** Let's just deal with that.
***Philip Rutnam:*** Why are we procuring the rolling stock? That is a good question. I have been in the Department a bit over a year and I have asked that question a number of times myself. Pragmatically, the answer to that is that this is rolling stock which in the present structure will be used by several different franchises. It is not as though one franchise alone has a need for the rolling stock, so it spans multiple franchises in the present structure. It is also on a scale that exceeds the capacity of any of the individual rolling stock companies, so it is a transaction on a scale that just exceeds what the private sector itself would be able to procure and commission. Michael, do you want to add to that?
***Michael Hurn:*** Just to say that the scale of this procurement is over 1,000 railway carriages—a very significant procurement. Most private sector transactions are of a much smaller order. As Mr Rutnam has been saying, the ability to raise the finance for this large order is why the Department of Transport is involved.

**Q40 Chair:** Who buys their rolling stock in France?
***Philip Rutnam:*** Principally SNCF—

**Q41 Chair:** In-house?
***Philip Rutnam:*** No, I do not think they make the trains themselves but I think they buy the trains. Equally, Deutsche Bahn in Germany has a different industry structure where there continues to be one very large, state-owned railway operator which has a very large capital base. We have a different industry structure in this country. One consequence is that perhaps paradoxically since privatisation, the central Government Department responsible for funding railways has played in some ways a bigger role in terms of specifying what is needed from providers and making sure that certain key assets are provided. It may not have been quite what was intended but it is, if you like, a paradoxical result.

**Q42 Chair:** Shall we stick to rolling stock? Why the hell has it gone so wrong? This bit of the project has taken you three years, and you have not signed the contract yet. I completely understand that you are in the middle of a contractual negotiation so you are limited in what you can say to us; nevertheless it seems to be the one area that I do not think will be finished by 2018. We might call Michael Hurn back if it is not. It is the one area that has gone badly, badly wrong. Three years is crazy.
***Philip Rutnam:*** I have to say that I do not accept everything you have said. Let us start with the facts in relation to the extent of delay. You said that there has been a delay of three years. You are right that there has been a delay of three years in terms of getting to contract award.

**Q43 Chair:** The Report says that there has been a delay. There is a chart in the Report that you signed off, which talks on page 30 about a three-year delay. It is not something that I have got off the top of my head.
***Philip Rutnam:*** No, but can I just make one or two observations on that chart? The three-year delay is compared with the timetable that was set in the invitation to tender in 2008. If you look at the first column, "Planned delivery (set in the ITT)", the ITT was issued in 2008, with contract award in March 2010. You are right. We are more than three years on from that point. In fact, we are three years and three months on from that point. However, in the interim, as the Report also observes, in 2010 the whole project was reset because of the spending review, but also because of the need to set a new timetable for the infrastructure works. As part of that reset, the planning date for getting to contract award was moved from March 2010 to October 2011, which is 19 months difference.

**Q44 Chair:** I think that is a bit pedantic. Given that we started this conversation saying that it has taken you 30 years, you are now saying, "Part of the delay"—
***Philip Rutnam:*** Can I continue?

**Q45 Chair:** I hear what you say. No doubt if we look to 2012, your delay will be even less.
***Philip Rutnam:*** It is important to be clear about the facts in relation to the extent of the delay that really has occurred on the rolling stock project. When the project was reset in 2010, a point that elsewhere the report praises as realistic, the date for awarding the contract for the rolling stock was also moved back. Indeed, in terms of the real delivery of the trains—the date that actually matters—at the point when we were replanning the project in 2010 we expected the last train to be delivered in, I believe, July 2017. Our present expectation is that the last train will be

delivered in June 2018. I will accept that there has been a delay, but I have to say that it is not fair to accuse us of a three-year delay. The delay that I see in relation to the delivery of the rolling stock compared with the dates that were planned in 2010 is about a year or, to be precise, 11 months.

**Q46 Chair:** Let me just challenge you on that. First, it depends on whether you meant the last train, not the first train. For the first train, I see three years, three years, three years. You signed off on this report, Mr Rutnam. I have to keep reminding permanent secretaries when they appear here that they cannot challenge the facts. If you thought that that was unfair, you should have challenged it at the time the report was being written. I challenge you on it. You have taken a different baseline. That is pedantry; I am much more interested in reality.
One of the reasons why you are being optimistic and saying that they will all come by 2019—
***Philip Rutnam:*** December 2018.

**Q47 Chair:** Well, we will come back to 2018. I take that with a pinch of salt. You have reduced the length of time that you expect to deliver each train. Originally, you thought that it would take more than three years for each carriage to be delivered? Am I right—three years and three months? Now you are saying, “Two years and seven months”. What is the basis of that?
***Philip Rutnam:*** Just to be clear, when you say that I am taking a different baseline, I am saying that the delay that we have experienced should be compared with the reset of the project in 2010, which was to put it on a realistic basis.

**Q48 Chair:** Yes, but one of the reasons why you are saying that it is only a year overall is that you think each train will be delivered more quickly. Well, given that everything else has been late, where on earth do you get the confidence that each train will come in eight months earlier than you said you thought it would? I do not know quite where it is in the report, but somewhere it talks about “three years and three months” and “two years and seven months”.
***Philip Rutnam:*** Yes, it says that Siemens and Cross London Trains have assured us that they can deliver in two years and seven months.

**Q49 Chair:** But where is your confidence? You are running the project. I don’t want to hear what Siemens says, I want to hear what you say—you are the project manager.
***Michael Hurn:*** I am very confident that Siemens can deliver those trains within that timetable.

**Q50 Chair:** Why? What has changed?
***Michael Hurn:*** They have done some design work at their own risk—I stress, at their own risk. In terms of their technical advisers who are helping with lending from the banks, they are also very confident that Siemens has the capability to deliver these trains within those time scales.
It is also important to get across the way the structure works. When a train is accepted into use, there is a lease payment arrangement. That lease payment only kicks in when the train is accepted, so Siemens are on risk for that train in terms of delivery and will not get paid by the train operator until the train is delivered. There is huge incentive for Siemens to deliver the train within those parameters.

**Q51 Chair:** Have they ever delivered anything in a quarter less time? It seems to me that they have told you that they can do it, but answer this question: have they ever delivered anything early?
***Michael Hurn:*** I do not have those facts available today.

**Q52 Chair:** You would know, wouldn’t you? That would be my first question when they suddenly said, “It won’t take us three years and three months to deliver a carriage”—is that for a carriage?—“but two years and seven months to deliver each carriage.”
***Michael Hurn:*** One point of clarification, if I may. They are saying that it will take 36 months for around the first 100 carriages. Before, that was about 39 or 40 months. It is just about making sure that we have an apples-with-apples comparison. It is true that the first train is within that December 2015 period, which is the first time that you referred to. But the first 100 carriages, which equates to the original 39, in terms of an apples-for-apples comparison, has gone from 39 to 36 months, so it is three years.

**Q53 Chair:** And have they ever delivered early on anything?
***Michael Hurn:*** I am very confident that Siemens can deliver this train.

**Q54 Chair:** Why?
***Michael Hurn:*** Because they have a huge pedigree, along with all the other main train manufacturers—it is not just Siemens—for delivering high-quality products to the time specified. Siemens are entirely capable of doing that.

**Q55 Chair:** Give me an example—where?
***Michael Hurn:*** For South West Trains, for example.

**Q56 Chair:** Was that delivered early, on time, or late?
***Michael Hurn:*** I don’t have the information to hand.

**Q57 Chair:** Well, you must know.
***Michael Hurn:*** Yes.

**Q58 Chair:** Was it early, late, on time, on budget?
***Michael Hurn:*** They delivered—

**Q59 Chair:** You said that they have a pedigree and have done really well. All I am really asking you for is an example. You say to me, “South West Trains”, but I haven’t a clue; I am not a train expert. For South West Trains, were there carriages as well? Do you know, Mr Higgins? Somebody must know.
***David Higgins:*** Yes. That was Desiros. This is the third series—the 700s. They have had a long history in manufacturing trains. They have also done London

Midland—they are all Desiros—so we should have a lot of confidence that they know what they are doing.

**Q60 Chair:** What is the penalty if they do not? I understand that they do not get paid until they deliver—I should bloody well hope not—but there is a difference. What is the penalty?
***Michael Hurn:*** I can't tell you the financial elements because it is obviously sensitive at the moment, but in terms of cost headings there are liquidated damages for late delivery. Also, they will not be paid in terms of a rental payment—the lease rental payment that I mentioned earlier.

**Q61 Chair:** That is income forgone, which is different from a penalty.
***Michael Hurn:*** There are also liquidated damages that will arise if there is a late delivery. Very importantly, even when the trains are accepted into service, there is a performance regime whereby if a train performance is not good or deteriorates—we set the threshold at a certain number of miles per casualty—there is a deduction in the rental income due to Siemens. So they are highly incentivised, both during the construction phase and for the operational phase, for delivery. It is worth remembering that there is a long-term maintenance contract attached to this. It is not just a design and build contract; it is a long-term maintenance contract. Siemens are very incentivised to maintain a very high-quality performing product throughout that maintenance period.

**Q62 Chair:** I hear your confidence, and we will test it over time. So the first one will be in by when?
***Michael Hurn:*** For the first train, assuming that the contract is awarded in June of this year—

**Q63 Chair:** June 2015—just at the general election.
***Michael Hurn:*** Sorry, no, June this year. It is December 2015 for the first train arriving.
***Philip Rutnam:*** Assuming the contract is awarded June 2013, the first carriage would be December 2015.
**Chair:** Do you want to come in, Megan? I was going to move to the PFI element.

**Q64 Meg Hillier:** I was going to touch on that as well. I have a couple of other questions on rolling stock. I still cannot quite understand, as a humble politician, why, if Siemens was named as the preferred bidder two years ago, it has taken so long to get here. Perhaps you can talk me through what negotiations have taken place that mean that it has taken that long to do the commercial negotiations.
***Philip Rutnam:*** You are quite right. It has taken longer than we expected, and longer than I hope will ever happen again.

**Q65 Meg Hillier:** So why and what lessons have you learned?
***Philip Rutnam:*** There are three factors I would identify. The first is that this transaction involves raising a significant amount of finance. You will recall that since June 2011 the financial markets have sometimes been in a state of turmoil, particularly in the eurozone, so the financial market conditions have, at times, been very difficult, if you recall the successive episodes of doubt about the euro, Cyprus and so on. There has been quite a lot of discussion about the availability of long-term finance.

**Q66 Chair:** Are you saying that people are not willing to lend to a company underwritten by the UK Government? I find that hard to believe. This is a UK Government contract. Is it that it has been costing you a bit much? I do not get that.
***Philip Rutnam:*** I can only tell you in outline the advice that we have received. I came into this in the middle of 2012.

**Q67 Chair:** This is UK Government-underwritten.
***Philip Rutnam:*** It is not just a matter of the UK Government. It is not guaranteed by the UK Government.

**Q68 Chair:** It jolly well is.
***Philip Rutnam:*** Obviously the fact that the UK Government are the customer is a very important factor and is helpful, but it is a complicated, long-term piece of infrastructure finance. The professional advice that we received during 2012 often cast serious doubt on the availability of sufficient long-term finance to fund this large complicated transaction, which stands out in a European context in terms of the scale of the finance needed.

**Q69 Meg Hillier:** Mr Rutnam, my question is on the lessons that can be learned from that about what to do when we have a big Government project to deliver in difficult financial times.
***Philip Rutnam:*** You asked about the causes and we identified two others. The first is that the planning process around the depots, which is very important, took longer than we expected. Michael can talk more about that. The depot at Hornsey is large and significant, so planning permission took longer and a set of planning conditions had to be worked through. The third factor was that the complexity of the transaction was greater than we expected and greater than any of the other parties involved in the transaction expected. The number of parties involved, the scale and complexity of the documentation and the range of issues to be resolved were all greater. In terms of lessons, one is: do not underestimate the scope and complexity of transactions. That was a clear lesson.
Lesson 2 is to allow for planning risk. There was a lot of thought given to planning risk in relation to the infrastructure works on Thameslink around London Bridge and other major sites, but there was planning risk from the depots, and we need to learn from that.
Lesson 3 is on the availability of finance. We have been living through rather extraordinary times. It may seem calmer now, but if you remember the atmosphere in the eurozone in the second half of 2011 and early 2012, they were extraordinary times. That is an element of risk that needs to feature in our risk registers. When we are thinking about transactions like this, we need to recognise the risk attached to the availability of private finance, perhaps a bit more than we have in the past.

**Q70 Meg Hillier:** Talking of risk and PFI, can I first ask why a PFI approach was taken? Will you outline the thinking behind that?
***Philip Rutnam:*** Can I ask Mike to talk to that, because he was involved in the decision? Having reviewed it, the thinking was around what will be the best value solution to getting the outcome.
***Michael Hurn:*** The simple answer is that it was policy at the time, in 2008, for privately financed rolling stock transactions. That was the private sector norm and we wanted to follow that policy.

**Q71 Chair:** So it is not best value; it is just policy.
***Michael Hurn:*** We would argue that there are very strong incentives in the privately financed funding structure to achieve good value for money for this programme. It is all about transferring risk: performance risk and acceptance risk. Remember, this is a very high frequency train service through London. To give you a feel for it, there is a train every 2.5 minutes going through the core section, both north and south. We want to have the best-performance train. If that train does not work properly or breaks down, it will cause significant disruption to the network because of its frequency. So having the performance regime within the contract structure delivers that, and a private finance structure is part of that. It was policy back in 2008. Clearly, we structured the invitation to tender and the evaluation criteria to achieve best value for money.

**Q72 Meg Hillier:** We know the historical background. What are the advantages and disadvantages to the taxpayer of this approach and who really bears the risk? You are sitting here before us today, on the model that we have now, with the winning tender being finalised in three days' time.
***Michael Hurn:*** In a way, the question is—dare I say it?—a bit hypothetical. That is the structure. That is what was set out. That was the policy at the time.

**Q73 Meg Hillier:** So who bears the risk?
***Michael Hurn:*** Siemens, in accordance with the original proposition, are bearing very significant risks for this transaction, both during the construction phase of the trains themselves, the acceptance phase, and finally the long-term maintenance. There are a whole series of performance—

**Q74 Meg Hillier:** Can you explain the maintenance clause, because that is quite interesting?
***Michael Hurn:*** Again I need to explain the concepts rather than the financial elements. There is a performance regime such that if the train is not maintained to acceptable standards, there are penalties from a maintenance payment that the train operator pays to Siemens as a sort of daily maintenance charge. For example, if the toilets are not working, if the interior is not done to the right satisfaction or if the passenger information system is not working correctly—those are just examples to give you a flavour—there are deductions in that maintenance payment. Therefore, Siemens are strongly incentivised to maintain that train.
Also, importantly, it is worth understanding that the whole of our assessment of this project has been on a whole-life cost arrangement that takes into account the construction cost as well as the long-term maintenance cost, and even the reductions in damage to a track by a lighter train, or even less electricity charge generation as a result of it being a lighter train. All those are taken into account as part of the evaluation criteria. They were published as part of the invitation to tender. So we take a whole-life, long-term, 30-year view of the benefits of this project, rather than just thinking about purely the train manufacturing or a maintenance proposal separately. There has been a whole-industry approach to this, as I mentioned earlier.

**Q75 Chair:** Did you compare it with what you are doing for Crossrail? What if you had bought it up front without PFI-ing it? I know it is a bit apples and pears, but I have a cost here per carriage. What is this cost per carriage? Somebody did a calculation for me that came out at £1.25 million per carriage.
***Michael Hurn:*** It is difficult for me to comment on the numbers. Apologies if I come across as obstructive—I do not mean to be—but I cannot comment on the commercial elements of the transaction.

**Q76 Chair:** We will have to come back to it. I hear what you say, but see whether you can answer this. Everything else that we have looked at with PFI involves a cost over time. I accept that there are whole-life costs, but the costs over time are so enormous they outweigh, from the taxpayers' point of view, the benefit of not having to raise the cash up front to buy the product. What I am really asking is whether, when you did your comparison analysis, you looked at how much it would cost to buy up front, and can you give us any indication of the differences?
***Michael Hurn:*** In 2008, the policy was not—

**Q77 Chair:** I understand. That is why I said it is driven by policy and not value for money. I understand that. We have had it said before that the policy was everything by PFI, so you would not have the up-front costs. What we uncovered when looking at really boring, but really important, documents such as the whole of Government accounts, is that there is a huge legacy for future taxpayers.
***Michael Hurn:*** I am probably not answering your question fully, but the comparator we had was actually from the private sector and was a traditional rolling stock transaction and lease structure, based on a more conventional rolling stock company lease. Our whole point was to move away from that and have greater risk transferred for at least some of the components I mentioned earlier.

**Q78 Chair:** Is it cheaper?
***Michael Hurn:*** It comes back to what type of train service you want to operate. This is a very unique service in terms of the metro frequency I mentioned earlier. We are looking not just at train cost, but at the whole-life cost over and above the train. Even if you ignore all the maintenance, we are taking the project

as a whole. For that reason, we wanted to have the best-performing train in its class and to have an incentive for some further risk transfer about performance, because the concept—

**Q79 Chair:** Why did the Mayor of London breathe a sigh of relief when he was told that he could buy the trains for Crossrail up front?

***Philip Rutnam:*** Crossrail is a different proposition again. Just to be clear, the trains are being procured by Crossrail Ltd, not by the Government or by the Mayor. Transport for London and the Department for Transport are joint sponsors of Crossrail Ltd, so we had a certain role in approving key decisions, but the procurement is by Crossrail Ltd and is currently in progress, so I will not say too much about it.

The Government's reasons for supporting or agreeing to the request to change the way that Crossrail went about buying its trains are essentially related to minimising the risk of delay associated with the back end of the project. Critically, no other trains will go through Crossrail's tunnels. The trains are unique and essential to the operation of that service. In Thameslink's case, the current trains, which are not ideal, can continue to operate, but if we want the enhanced service, we need to invest in the new trains. Crossrail has a different set of circumstances, particularly connected with the fact that there are no other trains that could deploy that service.

**Q80 Chair:** Does that mean there is no competition?

***Philip Rutnam:*** No, there are a number of different potential builders of the trains, but we need new trains in order to operate any service through the Crossrail tunnels.

**Chair:** So you could not have delay.

***Philip Rutnam:*** We cannot have the risk of having the tunnels but no trains. It was about managing that risk down.

**Chair:** We will return to this when you can release to us the details of the contract.

**Q81 Stephen Barclay:** May I first apologise for being late? We had a remarkable statement on our health regulator covering up deaths of babies, so I was in the Chamber for that.

I want to return to an issue raised at our last hearing. Can you clarify, Mr Rutnam, whether Network Rail is a body that exercises functions of a public nature?

***Philip Rutnam:*** Is that a reference to a particular piece of legislation?

**Q82 Stephen Barclay:** That is right. The Freedom of Information Act refers to bodies that exercise functions of a public nature. I just wondered whether Network Rail exercises such functions.

***Philip Rutnam:*** I am no expert on the Freedom of Information Act. My understanding is that the law as it stands does not extend to Network Rail and that the Freedom of Information Act does not apply to Network Rail. It falls outwith whatever the relevant definition is. David may know rather more.

**Q83 Stephen Barclay:** I do not know—hence the question. You are absolutely correct that it does not apply now, but—a little like our exchange with Mr Hartnett on whether he was prevented or had discretion—the question is whether you have the power to designate it as a body to which the Freedom of Information Act would apply.

***Philip Rutnam:*** I am afraid that I would have to write to you on what the powers—

**Q84 Stephen Barclay:** The issue was raised at our last hearing and it was a recommendation of the Committee that you turned down. I would have thought that, given that you turned down a recommendation of the Committee, that would be something with which you would be familiar.

***Philip Rutnam:*** This was a hearing with Lin Homer?

**Stephen Barclay:** It was indeed. It was only last year.

***Philip Rutnam:*** Okay. The Government's policy, as I understand it at the moment, is that the Freedom of Information Act does not apply to Network Rail, so—

**Q85 Stephen Barclay:** No, we have covered that. I fully understand that. I may be wrong on the law, but you rejected the recommendation of the Committee even though Mr Higgins and Mr Emery both said in their evidence that they were perfectly happy for FOI to apply. It seemed odd that the senior executives of the body were happy for FOI to apply, the Prime Minister has given a very clear policy direction to Departments on his commitment to transparency and yet officials within the Department were saying that FOI should not apply.

FOI section 5 says, "The Secretary of State may by order designate as a public authority for the purposes of this Act" a body if it exercises "functions of a public nature". I wanted to clarify, is there something elsewhere in the Act that precludes you from designating Network Rail?

***Philip Rutnam:*** I have not had notice of that question. I am afraid that I am not an expert on that legislation, nor was I given any notice on questions about the application of FOI to Network Rail. If you would like us—

**Q86 Stephen Barclay:** There was a leader in *The Times* as well. It had as a leader and a front-page story last week its desire for FOI to apply. Did that not trigger anyone within the Department to have a look at this?

***Philip Rutnam:*** Is your question about what the law allows Ministers to do—whether the law allows Ministers to designate Network Rail?

**Stephen Barclay:** Yes.

***Philip Rutnam:*** Okay. Or is your question about what the Government's policy is?

**Q87 Stephen Barclay:** The Government's policy is clear; it is not to designate. What I am trying to understand is whether without primary legislation you are prevented from doing so, which appeared to be the answer in the Treasury minute, or whether you have the discretion to designate, but are, for policy reasons, opting not to. That is what I am trying to establish.

***Philip Rutnam:*** That is clear. Thank you for that. If we may, I will write to the Committee on that point, because I am afraid that I do not have the answer in my head.

***David Higgins:*** Could I offer a comment on that? You are right that when I appeared here some two years ago, I said that if FOI is the Government's desire, that is fine. I have been chief exec of two other organisations subject to FOI.

We have not sat around doing nothing. We launched resourced-up transparency because, for me, transparency is more important than FOI. FOI zeros a particular area, but the obligation on organisations is to release substantial information after having consulted with a wide range of media and stakeholders as to what is available.

In the last year we have released thousands of documents, and the result of that is that you have got websites and applications now that have sprung up from the industry. Every three months we release a lot more, and we are working closely with our train operating companies and partners. We would like to release a lot more information and will consistently push that line.

**Q88 Stephen Barclay:** One of the issues around that was compromise agreements. Could you update the Committee on how many compromise agreements have been paid in each of the last two years?

***David Higgins:*** I will come back in writing, but there are none that I am aware of.

**Stephen Barclay:** Because you know that there was a substantial number prior to your taking over.

***David Higgins:*** Correct. I remember that.

**Q89 Stephen Barclay:** So, as far as you are aware, since the start of your tenure, no compromise agreements have been paid by Network Rail?

***David Higgins:*** I will write back to you. Certainly, I remember the concerns that were raised here last time. I am not aware of any, but I will respond if it has gone through a system that I am not aware of.

**Q90 Chair:** We want to come on to the franchise issue, but I will ask a few things before Meg comes in on that. I should have covered this earlier, so apologies for this. The cost-benefit you have done on this project, which is 1.4:1, looks to me to be pretty low, although I am told that about 1.4 or 1.5 is pretty regular for railway investment projects. Is that right?

***Philip Rutnam:*** No. Rail projects have a range of benefit-cost ratios and some are definitely higher than 1.4 or 1.5. I can think of some examples. It is—

**Q91 Chair:** Which examples? HS2?

***Philip Rutnam:*** I was going to mention HS2 'Y' network, for example, but we can come back to that at another time as that is not the only example. It is a very large project, which has lots of benefits in terms of reducing crowding—

**Chair:** I understand that.

***Philip Rutnam:*** The way that the appraisal methodology works, those benefits do not necessarily come out as very large, it seems to me. The other point is that the 1.4 that is quoted in the Report excludes—in line with the methodology handed down from the Treasury—the £1.3 billion of benefits that we foresee in terms of the wider economic impact from the project. That is that the project is expected to lead to higher productivity in the economy and it is expected to make labour markets work a little bit better. All those things are, of course, at the margin but it affects so many people.

**Q92 Chair:** Do you mean that because people get to work on time they will deliver more productivity? In layman's terms.

***Philip Rutnam:*** It is well documented—bringing things closer together.

**Q93 Chair:** Okay, I hear that. It is an interesting issue. Do we take a punt, or do it basically because it is an overcrowded line? We all know that, so do we decide that it is desperately overcrowded, so we are going to invest here? Or do we do a serious cost-benefit? I just want us to be open. Are we saying this is because it is overcrowded; we are going to do it anyway because of the overcrowding? Or are we are pretending there is a cost-benefit ratio that works?

The reason I ask the question is that most of the benefit comes from the value you place on people's time. We had a very interesting discussion when we looked at HS2 and will no doubt have it when we come back to HS2, on how you value commuters' time as being less valuable than that of inter-city travellers. I don't think you were the Perm Sec at the time; I don't think any of you gave evidence at that. I remember being slightly gobsmacked.

If you live in Surrey and commute into London your time was worth something like £8 an hour. Whereas, if you went from London to Birmingham it was four or five times that amount in the methodology.

***Philip Rutnam:*** I think the distinction is between those who are seen as business travellers and those commuting or those on leisure travel.

**Q94 Chair:** What is a business traveller? You are a business traveller from Godalming in Surrey.

***Philip Rutnam:*** I'm afraid I don't have the figures in my head.

**Chair:** They are very different.

***Philip Rutnam:*** The value attributed by the methodology to time that is saved on business travel—that is, where people are travelling for work—is greater than if they are commuting or going on a day trip.

**Q95 Chair:** It's scary if you have not changed it. Are we talking about commuter time here or business time?

***Philip Rutnam:*** There is a mix. There are business travellers here, commuters and some leisure. I think they are all in there.

***Michael Hurn:*** By far the majority would be commuter, though.

**Chair:** Commuter time, so cheapo, cheapo.

***Michael Hurn:*** Because of the nature of the railway.

**Chair:** When people get to work, they are not very—

***Michael Hurn:*** I would also add that the growth assumptions in the appraisal are relatively modest. For example, demand is capped at 2031. Off-peak growth is also very modest. Some of the assumptions—

**Q96 Chair:** I was going to ask you that. Given that this project started 30 years ago, are we now building something that is already redundant by the time it is open, in terms of demand and overcrowding?
***Michael Hurn:*** Certainly, the station designs are very much planned for the longer term. They have a lot of demand growth built into them in terms of robustness for future growth and capability. Take London Bridge, for example. A very large concourse is going to be rebuilt for the station; it is almost the size of Wembley stadium. There are escalator provisions, lift access, open circulation space. That is planned for very long-term demand growth, recognising that these are once-in-a-generation projects. They need to withstand.

**Q97 Chair:** It has taken you a generation to build it. You decided this in 1989 for now. We are now building it for the next 30 years.
***Michael Hurn:*** They need to withstand long-term demand growth. That is right through.
***David Higgins:*** In the three-hour morning peak there are 42,000 going through today. When it opens, 105,000 will be in the three-hour peak. That growth is going to come. That is more than a doubling, with 100,000 through there. You will remember that during the Olympics we had to shut down parts of London Bridge because we were concerned from a safety point of view. We could not allow the public to come in and go from London Bridge to Greenwich, just because of safety requirements. If we did not rebuild London Bridge now, that would very soon start to occur all the time in peak periods in years to come.

**Q98 Chair:** I was going to ask about London Bridge. So you are pretty confident that this will be sufficient for the next 25 or 30 years. That would be your view.
***David Higgins:*** Absolutely.

**Q99 Chair:** On London Bridge specifically—because it is one of the areas where you cut your plans to meet the financial constraints of the project—how much did you save by cutting?
***Michael Hurn:*** Back in 2010, we had a £600 million cost overrun on the project as a whole.

**Q100 Chair:** How much did you save by cutting what you were going to do at London Bridge?
***Michael Hurn:*** We saved several hundred million pounds.

**Q101 Chair:** How much?
***Michael Hurn:*** If I can explain, overall we have a project within the Thameslink programme called key output 2, which is the whole London Bridge works. It is not purely the station; it is the approaches to the station in terms of track and infrastructure, some power supply works elsewhere and the provision of some stabling for the trains. All of that, taken together, had a £600 million overrun, and we worked very hard with the rail industry to say, "Look, that cannot be tolerated. There is no more money for this project. We want to have the same functionality, with 24 trains an hour through the centre of London, by the end date of December 2018. Go away and work out a scope that delivers that." We were utterly ruthless across the rail industry to get back within budget. We made significant savings in the area of stabling. We also looked at London Bridge station itself. There was a lot of work beforehand to think about an overhead development, which made a lot of the engineering more complex. We stripped all of that out and got rid of the overhead development.

**Q102 Chair:** That is all in the Report. It is very interesting, but it is all in the Report, which we have read. I really want to get from you what the financial saving was from that changed plan for London Bridge. The figure was about what?
***Michael Hurn:*** I need to go away to double-check, but, broadly, the figure was about £100 million.

**Q103 Chair:** The reason I ask is because, according to the Report, you will lose £0.9 billion.
***Geraldine Barker:*** I would just refer you to paragraph 2.13, which states that the plans for London Bridge were revised and developed but that the cost is still more expensive than anticipated in 2007.

**Q104 Chair:** But you are losing £0.9 billion in lost revenue.
***Michael Hurn:*** Yes, but that was mostly the overhead development and retail.

**Q105 Chair:** Is that a sensible decision? I can understand how you got to the decision—you get to the decision because you have a cash limit, so you have to chop something—but you then lose revenue over time, and I do not know how you get to the £0.9 billion. The Report somewhere states that £0.9 billion—everyone is looking puzzled, but I got it from the Report—will be lost in revenue because presumably it is less attractive so fewer people will come to shop there.
***David Higgins:*** Can I answer that one? The £0.9 billion figure is more theoretical, because it involved a heavy high-rise structure with a podium area above the station itself. Since then, of course, the Shard has been developed on leased Government land. To put more high-rise and heavy structure above London Bridge would mean extensive piling, and the only way to do that is to shut and demolish. Some of the biggest things that had to be resolved in London Bridge were in the construction sequencing. Money was saved by being able to extend the programme a bit and progressively demolish the station from the Guy's hospital side across. The idea that you could shut the station, demolish large parts of it and pile very heavily to build a superstructure above it is unrealistic. I do not think anyone could have afforded to shut London Bridge for the time it would have taken to do that.

**Q106 Guto Bebb:** I apologise for missing half an hour, but I had to attend a Delegated Legislation Committee. I would rather have been here, to be perfectly honest.
I want to go back to the benefit-cost ratio, which the analysis says is 1.4:1. When asked by the Chair whether there is an example of something better, you mentioned HS2, but are there examples of actual

projects that have been delivered that you would have scored at a higher level than 1.4:1?

***Philip Rutnam:*** I think Crossrail has a higher benefit-cost ratio than 1.4:1, for example.

**Q107 Guto Bebb:** But Crossrail will primarily be looking at like-for-like, because it will be looking at commuters, rather than business travellers.

***Philip Rutnam:*** It will principally be commuters, but with some business travellers and some leisure, too.

**Q108 Guto Bebb:** Just a quick question on those ratios. When a project is actually implemented, do you go back to check whether the delivery is providing the value that was anticipated?

***Philip Rutnam:*** At each point where we are facing a major decision in the project, the ratio is recalculated—that is discussed in the Report—on the basis of both leaving out costs already incurred and sunk costs, so that you are looking only at the future cost to be incurred, to make sure that the decision makes sense, and also adding sunk costs back in. We do that when we come up to key decision points during a project.

Then, when a project has been completed, we should do an evaluation. There is a question about when exactly is the right point to do an evaluation. In fact, I think that when I came to see you to talk about High Speed 1, we talked about the need to do an evaluation of HS1. Since I have been to see you, we have developed our evaluation programme and methodology. We have a programme of evaluations, which is still being developed. You should do evaluations on key projects and programmes. It is not going to be realistic to do every project, but you do need to do a representative group of them, in particular to pick out the most important ones. That is a part of the Department's approach. Putting it into practice is always a challenge, but it is a part of the approach.

**Q109 Chair:** Amyas, do you have a question?

***Amyas Morse:*** Can I just check something about the last little bit of discussion about the London Bridge decision? By the way, I, too, can perfectly well see why you made the decision. My understanding is that you decided to change the development pathway in London Bridge around 2010. Is that about right?

***Michael Hurn:*** That is correct.

***Amyas Morse:*** I was listening to Mr Higgins' comments about how this did not make sense and that we have been deep-piling and all that stuff. Surely you knew all that beforehand? I am just trying to distinguish between what I would describe as perfectly understandable, agile and ad hoc decision making, and presenting it as being all part of a deep-laid plan. This was, to my mind, an understandable and appropriate adjustment in-course because of the pressures that you were under on the programme; that is right.

***Michael Hurn:*** Can I also use the opportunity to clarify that the savings that I mentioned about London Bridge were mostly about the track around it? Forgive me if I inadvertently misled anyone.

In terms of your question, going right back to the beginning here, we did underestimate the work at London Bridge as a rail industry; there is no question about that. Using the lessons that we learned in the first phase of the project, we have applied better planning of the scope and, importantly, how we are going to build it. It is a major operation to get London Bridge built. That all came out of the 2010 review. At the same time, we had the cost overrun of around £600 million. But there were a lot of things going on during that period, and we have reset that element of the project much better as a result of it.

***Amyas Morse:*** I am really not arguing; I am just trying to elucidate. May I ask one more thing? I just wanted to visit another bit of testimony that we had earlier on. When you were asked about the size of your team, you said, "Well, but it's not so much the size of the team; it's what you get out of it"—things like that; skills and everything. But isn't it fair to say that when you described things not being done earlier and the speed of the response, your team must have been under enormous pressure at such a size? When you were looking at method, you underestimated the PFI—I am not blaming you; I am just drawing out what you said—and here we have the complexity of the project. Isn't it true that you must have been operating at the limit of the size that was viable for a team like this? Is that a fair comment?

***Michael Hurn:*** As I mentioned before, it is not just that. I do not see it as just that team of five people.

***Amyas Morse:*** I appreciate that, but what I would like you to do is to tell me about the size of the core team. You have talked about all the extension. I am not denying that; I am just trying to understand. I think there is a wider question about how much pressure your specialist teams are under in the Department. I listened to everything you said about empty posts and everything else, but none the less, being run on a five-person core team, does that not put you under great pressure if anything happens that is not according to plan?

***Michael Hurn:*** My answer to you is that having a small core team you

have to plan very carefully ahead and use your resources very ruthlessly, by focusing on the big picture and the most strategic issues affecting the project, and by delegating to others as much as you can the smooth running and delivery of the project; not just within a Department but, as I mentioned, to all my other delivery partners. However, it requires iron discipline for thinking ahead and planning ahead, and being of that mindset. Having small, highly-focused teams actually has a number of advantages, because they give you that mindset. Clearly, however, there is a resilience issue, which you rightly raise, and having the right balance there is my answer to you.

**Q110 Chair:** You had a "Mr EC Harris" helping you. Who is he?

***Michael Hurn:*** EC Harris is a quantity surveying company, which has provided assurance to us—the Department for Transport—of Network Rail's costs of the infrastructure. We have used the company particularly to look at the cost estimates of Network Rail for the second phase of the project—key output

2—and especially for London Bridge. So it has taken Network Rail's estimates, which have been verified by its own quantity surveyors, and we have used it as our quantity surveyor to double-check that the estimates are robust and accurate.
Using that information, we can then sense check the extent to which Network Rail's costs are deliverable for the programme as a whole. It has been part of our assurance process for agreeing a target cost with Network Rail for the second element of the programme, which folds the first phase target cost into an overall target cost for the whole programme. In essence, EC Harris is a quantity surveying company that provides a cost assurance to us as a Department.

**Q111 Chair:** And it cut your contingency by nearly £300 million, Mr Higgins. Is that right?
***David Higgins:*** During the planning process, yes. That is the correct figure.

**Q112 Chair:** So your contingency as a proportion of your budget for this second phase is what?
***David Higgins:*** I don't know the exact amount of the contingency. What I do know about the project, however, is that we have tendered it and we have brought on delivery partners—Costain, Invensys and Balfour Beatty—some 18 months ago. So they have been fully engaged. We only started construction in May—only a month ago—so for 18 months they have been looking at all the construction planning and sequencing. We are tying them into a gain-sharing agreement between the three different parties to carry out that work. I am confident that we have got the right partners on board and that we have the right planning.

**Q113 Chair:** You are confident that you will live within the contingency?
***David Higgins:*** Yes, I expect us to deliver on that and we have certainly delivered on stage 1—

**Q114 Chair:** Despite the fact that there are a load of provisional costings still around the place?
***David Higgins:*** In terms of provisional costings, we tendered 18 months ago, we had cost plans and we accepted Costain when it put in cost plans. So I am confident that we have good coverage of that.
The key issue now is really the integration of everything. The physical work at London Bridge is complicated enough—getting access—but it is now about the integration, because we all think of the physical redevelopment but we are now moving all the signalling system for this whole area down to Three Bridges. So we are building a new state-of-the-art control centre. We are relocking, interlocking and changing the interlocking on the whole of the railway system progressively. Then we are introducing automatic train operation—on what will be one of the most advanced systems in Europe—progressively through to the end of 2019.

**Q115 Meg Hillier:** I just wanted to ask some quick questions and the answers can be quick too, so don't take it amiss that we are just doing things quickfire. I will ask a bit more on the rolling stock, and then on some of the issues around the interim rolling stock. First, on the rolling stock—I think this question is to you, Mr Hurn—why has the rolling stock been commissioned on fixed-car models, that is eight-carriage trains and 12-carriage trains?
***Michael Hurn:*** A lot of analysis was undertaken when we were looking at the specification for this project, to look at whether we would have fixed-car formations; that is taking a 12-carriage train, all joined together, so you can't split the train up. That is what it means, obviously.
The main reason is that we want to have, as I mentioned earlier, a metro frequency through London. There are operational risks of having multiple-formation trains joining up elsewhere in the country. There is a delay issue with that potentially, which can delay performance through the centre of the railway in London. The other really important factor is that, with the type of train we want to have, its characteristics are very quick dwell time. The train comes into the platform, spends a short amount of time at the station and moves on again to get that frequency and that reliability of performance. To do that, we have had to have wider doors and more stand-back areas. We have therefore had to take out some seats. To compensate for that, by having a fixed-formation train you do not have so many driver cabs, and therefore you can provide more seats. In answer to your question, there is a lot of analysis into that, but those are the two main reasons driving it.

**Q116 Meg Hillier:** I get your point about flow. Are there any cost advantages to this?
***Michael Hurn:*** There are some cost advantages. You have less maintenance because you have fewer cabs to maintain. Clearly, there are some disadvantages to having the trains run in fixed formation. You need longer trains than necessary, even during some of the off-peak periods. That is understood.

**Q117 Meg Hillier:** You've analysed that?
***Michael Hurn:*** Yes, we analysed that. We looked at the balance of all that, and concluded that it is in the best interests of the project to have fixed-formation trains. It was put into the invitation to tender, and it has been there all the way through in terms of the specification. The other important thing to say is we will have a new, much larger, train franchise from September 2014. Clearly, we will be encouraging innovation from that train franchise to use the fleet in the best possible way.
**Meg Hillier:** I'll stop you there because we are going to be moving on to the franchise, and I know that Steve wanted to come in.

**Q118 Stephen Barclay:** It is just a quick question that flowed from an earlier hearing. Will all the new rolling stock have the capacity to scan passengers on and off?
***Michael Hurn:*** Do you mean from a ticketing perspective?

**Q119 Stephen Barclay:** No, from a passenger forecasting and usage perspective.

***Michael Hurn:*** I will need to check, but I think there are some arrangements for looking at the weight of the train when it is loaded with passengers, which gives an indication of loading. But I will need to check what is in the technical specification for it.

**Q120 Stephen Barclay:** It distinguishes between passengers with lots of bags and passengers travelling light, does it?
***Michael Hurn:*** I'm not sure it is as sophisticated as that. Certainly, the train will know the extent of loading on each carriage, and will give an idea of that.
***Philip Rutnam:*** We get good data on passenger flows from ticketing systems and ticketing information.

**Q121 Stephen Barclay:** That wasn't the evidence we had previously, Mr Rutnam. What has changed?
***Philip Rutnam:*** That's my understanding. I don't know which bit of evidence you are referring to.

**Q122 Stephen Barclay:** I am a constituency MP for a rural area. One of the issues that the NAO looked at is the overestimation of travel from cities and the underestimation of travel from rural constituencies. Take a small station, such as Littleport in my constituency. Cambridgeshire has the fastest growth, and there has been significant increase in willingness to travel, because of iPads and other technology, so the willingness to travel from a station like Littleport—which has totally inadequate parking, if I can add a constituency point—has increased exponentially, but it often gets recorded as travel from Cambridge. That was the evidence we heard at a previous hearing. One of the issues we explored was the lack of rolling stock's ability to scan people on and off. It surprises me, if we are buying new rolling stock, that we are not buying it with the latest technology.
***Michael Hurn:*** As I said, I would need to check, but my understanding is that the trains will be able to understand the loading per carriage in terms of the number of people on the train.

**Q123 Stephen Barclay:** It sounds a bit like a blunderbuss approach, but the NAO can perhaps clarify.
***Amyas Morse:*** Well remembered. I think you are referring to our study on increasing passenger rail capacity, primarily inter-city or rural to city centre. Certainly, those points came out of that study, because you have this attrition rate in loading. I remember we brought all that up. I suspect that it is a bit different in metropolitan areas.

**Q124 Stephen Barclay:** It just seems odd, Mr Hurn, that we are buying rolling stock that does not have the latest technology on it.
***Michael Hurn:*** As I said, I don't have the information to hand. I can follow up with a detailed description of what is in the technical specification that allows that.

**Q125 Stephen Barclay:** So we can have a small number of people with big bags, and estimate that as the equivalent to lots of passengers?
***Michael Hurn:*** I will be able to tell you what's in the specification for assessing loadings on the train.

**Q126 Stephen Barclay:** The wider charge, which I am sure will be disputed, is that there is a perception in rural communities like mine that the focus of investment has been very much on city to city travel, and the ability of those travelling from rural stations to get to those city hubs has been neglected. That is a separate debate and I am sure to an extent you would dispute that, but I struggle to understand how you base your investment decision without clarity as to the traffic flows from each of the stations. Certainly, they don't have Oyster scanning at Littleport station.
***Michael Hurn:*** Our whole appraisal for the project is based on a transportation model that looks at demand, population and employment predictions. I would say that Thameslink also has a lot of investment outside London. It is not purely about the main termini. Yes, lots of work has been done at Blackfriars, Farringdon and London Bridge but we have undertaken lots of platform extensions outside London. The midland main line and the east coast main line are both examples. It is all about a commuter service into London and through London.

**Q127 Stephen Barclay:** With respect, that is a different point. In a way it makes my point because the platform that has been extended—and very welcome it is too—is around Cambridge where there has been significant work, but there has not been elsewhere on the line. What I am trying to tease out is that at a previous hearing it was very evident that the modelling that the Department does on passenger forecasting and even on existing passenger travel from city stations compared with rural stations was flawed. That was the evidence we had. That was two years ago. What comfort can you give the Committee that it is no longer flawed?
***Michael Hurn:*** The comfort I can give to the Committee is that the Thameslink route network, which includes the east coast main line elements, clearly covers very crowded rail routes. In terms of the demand model, this project calibrates very well with the crowding of today. We are very confident that this projects deals with that overcrowding and provides capacity for growth. It calibrates very well—

**Q128 Q128 Stephen Barclay:** What do you mean by calibrate? Could you just explain that?
***Michael Hurn:*** Of course. You have a run of the demand model based on today's network and today's demand and you compare it with the projected demand and the projected solution, which is Thameslink and the capacity improvements for the future. The difference between the two are the benefits of the projects. So the base—the first thing I talked about—is today's demand and today's network. In the model, a demand matrix of the model calibrates very well with today's demand—

**Q129 Stephen Barclay:** Yes, but if you can't have an accurate assessment of what the starting point is won't your model be flawed? You are doing a comparison between a projection which is not known.

Let us look at the record of the Department: the projection on the east coast and the west coast lines were both flawed but for opposite reasons—one was too high and one was too low. By their nature, projections are going to be difficult. Events happen, such as the 2008 financial crash, which drive a coach and horses through projections, but you have to do your best with them. What concerns me, however, is the ability of the Department as of today to say, “The passenger flows from different stations are X and that is our starting point.” Forgive me, but what I appear to be hearing is that two years on there has not been a significant change on that.

***Michael Hurn:*** As I said, the demand model, the base demand model, calibrates very well with the existing observed demand patterns. We then have a forecast for the future based on the relative conservative growth assumptions, both peak and even more conservative, off-peak. We still have a very defensible business case for this project which is all about relieving congestion on some of the busiest rail commuter markets in the UK. I am absolutely confident that we have a very solid business case for this project.

***Geraldine Barker:*** I was just wondering in relation to Mr Barclay’s question whether the nature of the Thameslink routes—

**Q130 Chair:** Can you speak to the Committee please? You all tend to speak down there and we cannot hear it down this end.

***Geraldine Barker:*** Sorry. In relation to Mr Barclay’s question, I was just wondering whether the nature of the Thameslink route and the number of season ticket holders or commuters gives you better data than from some of the other routes.

***Michael Hurn:*** Yes. By its very nature it is a commuter railway so we have that information in terms of season ticket sales. To repeat my point, this is a very crowded railway of today and on the investment and the projections, I am very confident that we have a business case which supports the investment.

**Q131 Stephen Barclay:** Is not the point of Thameslink that it runs to Cambridge? It does not run on the line up to King’s Lynn. The sort of passengers I am talking about would be captured from Cambridge, and—surprise, surprise—our gripe in Cambridgeshire is that all the funding goes to Cambridge; but if you are travelling from Littleport, you are not captured. To take Ms Barker’s example, that would be recorded as increased travel from Cambridge. The frustration is that we seem to be entrenching an existing problem while buying rolling stock that does not have the technology that the NAO flagged as beneficial several years ago. The solution appears to be taking the weight of the train, but it is unclear to me—other members of the Committee may understand it—how the weighing of the carriage will distinguish between those that take a big packed lunch and a rucksack and those who are smaller and somewhat lighter.

***Philip Rutnam:*** If a passenger from Littleport has a valid ticket and he or she changes train at Cambridge, the fact that there is a passenger flowing from Littleport to King’s Cross or wherever will be captured in the data. Provided that there is a valid ticket held for the journey, we get good information about passenger flows across the network.

**Stephen Barclay:** But you will not know which trains they are on.

**Q132 Chair:** You have to go back and look at the Reports, because previous Reports have it as a great criticism that you were unable to pinpoint overcrowding, because the technology was not there.

***Philip Rutnam:*** I can look at that. There are many other data sources, such as surveys of trains to look at the level of crowding. There are many information sources.

**Q133 Chair:** I am going to move us on, because we are getting nowhere on this. I suggest that you look back at previous Reports.

Moving on to franchising, you rejected a management-style contract in July 2012. What has changed?

***Philip Rutnam:*** The truth is that we looked at the issue again in the light of the Brown review, what happened with the west coast main line and lessons we could learn from that—

**Q134 Chair:** So you got it wrong in 2012.

***Philip Rutnam:*** There is something about learning lessons, which is that it involves accepting that not everything may have been perfect in the past and that things can be done better. We reflected in particular on the valuable and helpful advice from Richard Brown and concluded that the best way forward on the Thameslink franchise—

**Q135 Chair:** That is very general, Mr Rutnam; just be specific. What has changed? Where was his advice different from the assessment less than a year ago that this was not the way forward?

***Philip Rutnam:*** His advice and the thinking we have done since put more weight on the need to recognise the disruption that will take place during the upgrade of the infrastructure and the need to work collaboratively with the operator of the franchise during that period and—

**Q136 Chair:** Did you not realise that in January 2012?

***Philip Rutnam:*** Secondly—if I may continue—what has changed is that the experience of west coast, which we have discussed before, has shown the difficulty of forecasting passenger revenues in an environment like that. Both those factors—the importance of dealing with the disruption caused by what will be happening to the infrastructure and the uncertainty around forecasting—have caused us to think that, for this particular franchise in this particular set of circumstances, a management contract is a better way to go. Do you want to add anything, Michael?

**Q137 Chair:** You were in charge of it in January 2012.

***Michael Hurn:*** I was not in charge of the franchising process.

**Chair:** Of course—it was all carved up.
***Michael Hurn:*** But I can give a bit of an insight as to why a management process is the right thing now.

**Q138 Chair:** No, I want to know what has changed, which you have not really said to me. You knew about the disruption that would be created at London Bridge—I hope you knew that—so that does not seem to be anything that has changed. Ironically, I do not think your passenger number argument works, Mr Rutnam, because this is a different kettle of fish to the west coast main line. You are bringing this in because the line is so horribly overcrowded.
***Philip Rutnam:*** I think making these judgments often involves balancing a different set of considerations. It is not like having a formula and you just change one element in the formula.

**Q139 Chair:** What is wrong with the argument that I just put to you? You knew about the disruption, and the line is overcrowded anyway, so the argument that you could not predict passenger numbers is rubbish, because you knew it was overcrowded.
***Philip Rutnam:*** No, I don't accept that. We put more weight on the two points that I have talked about in the decision that we made in the light of Richard Brown's report.

**Q140 Chair:** Why?
***Philip Rutnam:*** Because we thought that they were more important.

**Q141 Chair:** Why?
***Philip Rutnam:*** Because we had learned that these things are very difficult to get right, and perhaps were putting a bit more weight on that.

**Q142 Chair:** As opposed to what?
***Philip Rutnam:*** The previous policy was against having management contracts.

**Q143 Chair:** Why?
***Philip Rutnam:*** Because the previous policy was more strongly in favour of transferring revenue risk to the private sector—or an appropriate share of revenue risk. The policy as it has developed has put more weight on dealing with the particular set of circumstances that we face in particular franchises, recognising that they can be very different—that there is no one-size-fits-all in terms of the level of risk that one should be trying to transfer.

**Q144 Ian Swales:** Did you have any discussions with potential franchisees during the period to which the Chair is referring?
***Philip Rutnam:*** Sorry, which period?

**Q145 Ian Swales:** The period when the decision changed. You had one policy and then a different policy—did you have any discussions with potential franchisees?
***Philip Rutnam:*** Richard Brown, who was asked by the Secretary of State to do a review of franchising in the light of the west coast situation, had very extensive discussions with franchisees on exactly these sorts of points.

**Q146 Ian Swales:** So is the real reason that you thought you would have to pay too much for the risk?
***Philip Rutnam:*** No. The railway is a very diverse and heterogeneous place. A whole range of different products are provided—there are inter-city lines, commuter lines, lines going through infrastructure upgrades and lines that are relatively stable. We need to have a policy that reflects that diversity and helps us to deal with it, rather then supposing that there is always one template that can be applied time and time again to each set of circumstances. That is the underlying change, if you like, in outlook.

**Q147 Ian Swales:** May I just concentrate on value for the taxpayer and the policy change? Something must have happened that told you that the new policy would be better value for the taxpayer. How would you describe the difference? Why is this now better value when it was not before?
***Philip Rutnam:*** Some quantitative analysis was done, but I do not think that that is really at the heart of it. At the heart of it is making a judgment qualitatively about how to deal with such a wide range of different circumstances—how to deal pragmatically with the particular—

**Q148 Ian Swales:** We are talking about dealing with this circumstance. You had one view of it and you now have a different view. I am just trying to see what the financial aspects of that were.
***Philip Rutnam:*** I have to say that I'm not sure whether we tried to do a financial analysis, because there would be so many different assumptions involved of revenue-risk transfer on the Thameslink franchise versus not transferring revenue risk. However, the qualitative analysis that we did pointed strongly towards a management contract as the better way of dealing with the uncertainties that are inherent in the transformation programme that will be happening in this period.

**Q149 Ian Swales:** So you're saying that the change of policy had no quantitative analysis attached to it? Did you say that?
***Philip Rutnam:*** No, I didn't say that. I said that I don't think that there was a particular analysis on this particular one. The Richard Brown report was the key document, and his report sets out a very good analysis of the range of different factors that you should take into account in deciding how to go about constructing the sort of commercial proposition that we offer in a franchise.

**Q150 Stephen Barclay:** I may be being a bit slower than my colleagues, but I was quite confused by your answers to both the Chair and Mr Swales. Were you saying that a piece of research was done and that was sufficiently substantive to have influenced a change of approach, or that a piece of research was done and it did not play a substantive part in changing; or were you saying that substantive research wasn't really

done, but you changed your approach for reasons that are slightly unclear?
***Philip Rutnam:*** We changed our approach on the basis of a detailed review of policy towards franchising undertaken for the Secretary of State by Richard Brown, which involved extensive research, extensive discussions with the industry, and extensive inputs, both quantitative and qualitative, which was delivered to the Department, on which the Department then reflected and did further analysis and work and on the basis of which the Secretary of State then made decisions.

**Q151 Stephen Barclay:** What was it that the report gave weight to that led to your change of approach?
***Philip Rutnam:*** Are you talking about the change of approach in relation to franchising generally, or in relation to Thameslink in particular?

**Q152 Chair:** Thameslink, because what is interesting about Thameslink is that you are trying the new model that you had rejected less than a year ago.
***Philip Rutnam:*** As I recall, there were two key factors. The first was putting more weight on the need when there is a very significant infrastructure change such as this going on—my colleagues on either side of me might be able to give some examples of the sort of impact that will have on the franchisee—to work very collaboratively with the franchisee during that period, to work through the infrastructure works. The other key element was that we needed the franchisee to take very direct responsibility for the introduction of the new trains and the way those are integrated with the infrastructure. So it was a very practical set of decisions about the practical circumstances we were facing.

**Q153 Stephen Barclay:** It is tying the franchisee in more to the risk around the train delivery?

**Q154 Chair:** You could have seen that in 2011, or before July 2012.
***David Higgins:*** I think the most important thing is that the Department consulted widely. I was involved in the Rail Delivery Group, and I know that there was a lot of discussion—initially fragmented—within the rail industry, which originally did not think that this was the right way to go, but eventually consensus emerged in the submission put into Richard Brown.
There are two things to consider. First, the biggest risk in the next seven years is the £3 billion-worth of capital works and making that work. If we blow this out by 10%, the profit on the franchise will be wiped out in that process. Secondly, if you let a 15-year contract on Thameslink next year, whoever bids for it will say, “There is a risky period here for seven years; we don’t know how that is going to emerge, so we will build that into the basis,” and then they will get the second seven years. If you re-let the franchise back on the original, 2011 concept in seven years’ time, you will get a much higher premium, because the risk will be much lower and conditions will be known. That is therefore a very logical time to let a 15-year contract.

**Q155 Chair:** Do you have a question, Amyas?
***Amyas Morse:*** I just want to make sure that I understand that. I am not trying to be critical of the decision you made, but I am interested in understanding what led up to it and perhaps helping the Committee on this.
I can see that you have a very complicated deal structure for rolling stock, with what is essentially an availability contract. I am familiar with that from seeing something like it in the defence industry, where you say, “It’s too complicated for us to get involved. We expect you to have something available for use and we will pay you for having it available for use,” and you set it up like that. At the same time as setting all that up and trying to get a contract like that in place, trying to put a franchise in place is just very difficult. Who gets what bit of risk? Just from my bit of experience with negotiating deals, I would have thought that all that stuff must be unbelievably difficult when you are doing the deal.
I can see that, so I am not criticising it, but I do feel slightly that we have been talking about a series of decisions made in moderately short order. They have all probably made this more deliverable and made the critical path less complicated, but I think it is fair to challenge whether some of those decisions could not be improved. This really looks to me like a series of decisions to keep going, which we commend, on a fairly ad hoc basis, rather than a deep-laid plan. Wouldn’t you say that some of these could have been anticipated a bit more than they were?
***Michael Hurn:*** I am firmly of the view that the management contract is the right way forward in terms of the construction of London Bridge station—a five-year construction period, with very intensive disruption throughout those five years on a rolling basis and train operating companies changing over those five years. Bringing in a fleet of trains is also a very big undertaking, so it is entirely appropriate for a management contract to be in place for the next five years. Then, as Mr Higgins says, beyond that, when the project is finished—

**Q156 Chair:** You haven’t answered the question. Just answer the question.
***Amyas Morse:*** I do agree with you, though.
**Chair:** Yes, but we are trying to get on with things.
***Amyas Morse:*** I am just asking whether, having said all that, we couldn’t have anticipated more of this, rather than made what looks like a series of good but scrambling and relatively short-term decisions.
***Michael Hurn:*** Absolutely. There is always scope for learning and for better planning and thinking ahead. That is one example.

**Q157 Chair:** You could have made that judgment—whoever was in charge of franchising—in 2010 or 2011, and you didn’t, did you?
***Michael Hurn:*** We had to look at the policy considerations. In hindsight, we should have made that call earlier.

**Q158 Chair:** Thank you. One final question on franchising, and then I will call Jackie, who wants to come back on project management issues. You have not done a management-staff contract before. As a Department, you do not have a happy record on managing franchises. What confidence can you give us that you will do this one properly, Mr Rutnam?

***Philip Rutnam:*** First, we recognise the challenge. We know that we have not done a management contract before. It is really related to the changes that we have made to the way in which we run our whole business of franchising since the end of last year. There are very clear responsibilities. We are very clear that we are using external advisers where appropriate, and therefore taking, for example, financial advice—not failing to take it, as with west coast—and bringing the expertise that we need into the Department in order to address the issues.

One of my very first acts was to bring in, on an interim basis, a director of franchising who has very extensive industry experience and has worked on both running train companies and advising them in bidding for franchises. He has experience of a wide range of different franchising models, he understands the issues in depth and it is his job to lead this activity. He has started to assemble around and underneath him a team of people who understand the issues and have clear responsibilities to him. It is part of a wider programme of rebooting franchising, getting the franchising programme going again and recognising—I was trying to make the point earlier—that this is quite a diverse set of activities, and one size does not fit all.

**Q159 Chair:** The SRO will not be the new woman who is taking over from Mr Hurn?

***Philip Rutnam:*** No.

**Q160 Chair:** It will be somebody else who is in post?

***Philip Rutnam:*** Yes, he is in post at the moment.

**Q161 Chair:** He will stay in post for how long?

***Philip Rutnam:*** He is an interim director of franchising, so there is a longer-term succession issue. Rest assured, we are well aware of that, but we are making good progress on franchising, and we expect to issue the invitation to tender for the Thameslink franchise later this year.

**Q162 Ian Swales:** Are you satisfied that this person, whoever it is, is sufficiently independent of his previous career and, given that he is interim, is not about to go back to the industry on the other end again—in other words, the poacher-gamekeeper-poacher thing which concerns this Committee and others?

***Philip Rutnam:*** I can understand that, and can assure you that any issues around conflicts of interest and so on have been addressed. We will—

**Q163 Chair:** How long is he with you, or she?

***Philip Rutnam:*** It is a "he". I do not think I am in a position to tell the Committee that just at the moment, because it is subject to some contractual negotiations.

**Q164 Ian Swales:** To put it bluntly, we are not going to find this person in future in one of the franchises that he is advising on granting, are we?

***Philip Rutnam:*** For him to appear immediately on the other side of the table would obviously create issues about conflict of interest that would concern me greatly.

**Q165 Chair:** How long will you give him? Is it a year that he has to do that, were he to go back?

***Philip Rutnam:*** There are the business appointment rules, as you know, under which individuals who have been in Crown service have to apply for businesses appointments. The period of exclusion set depends on the nature of the role that somebody wants to take. I think the maximum period can be up to two years, from memory.

**Q166 Jackie Doyle-Price:** Mr Hurn, we do not get many good project managers before us, so while you are here, I want to pick your brain about what ingredients help deliver a project well. We have talked about leadership as being one issue, but one thing that strikes me about managing projects in the public sector is that the public sector often lets its obsession with process divert its attention from delivering the outcome.

Can I turn your attention to paragraph 2.2 of the Report? The NAO says: "The Department inherited plans for the programme…that had been prepared primarily to secure planning permission" rather than actually to deliver the infrastructure. Can you tell me what that meant in practice and what difficulties ensued from that?

***Michael Hurn:*** Yes. I think I referred to it in passing earlier. The project was a long time in the planning process. There were two very extensive public inquiries in the 1990s going into the early 2000s. The mindset was very much about planning, and rather less about how the project would be delivered, because it had been so long in the planning process. The focus, once the planning consents were approved, was to move rapidly into that delivery phase. It is fair to say that there was a lag in moving the overall project into the mindset of delivery. That was a factor of it being so long in the planning process, and that was a real lesson learned. I am not defending that; it is just something that happened and it is a real learning process for future projects.

You should not just look at the individual stages of a project, for example, the planning or development phase; you should always be thinking ahead about how on earth you are going to build it and how you are going to get the benefits of the project, which is clearly what it is all about, as well as having a view of all the phases together in a holistic approach. That is what a client or sponsor should be doing: having that total view, understanding how that project will be delivered through all the phases and having the tools to get it done and delivered on time and within budget. It is very much about thinking ahead, anticipating things, looking at scenarios, trying to think about the unforeseen events that can trip you up and mapping your way through them.

**Q167 Jackie Doyle-Price:** I can see now why Mr Rutnam wanted to move you to HS2, because you have gone through this process with Thameslink, and we are now talking about a project of much larger magnitude with a much greater need to pre-empt those things. To what extent did that challenge on this project lead to additional costs?

***Michael Hurn:*** It certainly led to some additional costs for the first phase of the project, which we call key output 1. Those were more around the construction of Blackfriars station, where the extent of some of the refurbishment work on the bridge—it was a major refurbishment of the bridge, as well as the building of a new station—was underestimated. How that would be constructed was underestimated as well.

That goes back to the comments I made about being too focused on the first phase, which is about planning and securing the planning permissions, without so much thought—I am not saying that no thought was given, because that would be entirely wrong—being given to the construction phase. Blackfriars is a good example where additional costs arose out of that, but they were contained in the overall costs of the first phase of key output 1. There were some savings elsewhere in the project that offset the Blackfriars costs.

**Q168 Jackie Doyle-Price:** The other factor that I often think leads to better management of public projects and works is when there is a lot of public attention and there is a higher reputational risk. If I take something like the Olympics, which everyone worried about, in the event it was delivered successfully, but that happened because all eyes were on it. If we look at this project, there is a clear capacity issue and a clear demand. To what extent do you think that that external pressure added to the impetus to get this right?

***Michael Hurn:*** That is a very important factor. Everyone knows that the routes of Thameslink are very crowded, and people are passionate about dealing with that. That is one thing.

The other thing is that, with Network Rail, we had some financial incentives in place within the project for them to deliver within a certain cost envelope and to deliver to certain milestones, and that helped drive behaviours.

Most importantly—again, I am passionate about this—it is about reputation and feeling proud. I am sure that Network Rail would say the same. People had deadlines to deliver for Thameslink and they wanted to deliver them. They had their professional pride and reputation on that. It is a combination of things, but that is what it comes down to.

**Q169 Jackie Doyle-Price:** As a project manager, are you able to use public pressure to manage the process? Do you use public pressure as, for want of a better term, a stick with which to manage the process? You have alluded to the stakeholders and contractors that you have to manage. Does that pressure help you in the management of them?

***Michael Hurn:*** Of course it does. You have to use the tools that are available, but I think reputation is a really essential tool to use. We have had a number of obstacles during the course of the project—as you would expect for any major or mega project, and Thameslink is a mega project—that have affected delivery, and it is by coming together and dealing successfully with those issues across the rail industry that we generate that "can do" attitude—that momentum, that drive—for tackling things. I am confident that that same mentality can be taken forward to the second phase. It is all around people, mindset, capability and being joined up, which is how you deal with these projects.

**Q170 Jackie Doyle-Price:** It is really nice to hear this language coming from Whitehall.

Mr Rutnam, can I ask you one final question? If we look at paragraph 2.16 of the Report, the NAO basically says that you are to be congratulated on keeping the costs within the original budget and that you have obviously learned from the experience of running this project and refined the way that you are monitoring it. To what extent is that knowledge and expertise within the Department and to what extent is it Mr Hurn?

***Philip Rutnam:*** A lot is Mr Hurn, but I think it goes wider in the Department. As well as being SRO for this programme, Michael is the head of the profession within the Department for project and programme management. You may ask how he can have the number of hours in the day to do these different things. Part of the professional development task in the Department under Michael's leadership, but not using too much of his time, is to develop the cadre—the community—and a sense of community among the PPM professionals in the organisation.

**Q171 Chair:** Very quickly, each of you, will it be finished by December 2018?

***Michael Hurn:*** That is very much our target date.

**Q172 Chair:** Yes or no?

***Michael Hurn:*** We are confident that, with the right industry approach, we will deliver it, but there are challenges ahead. There is no doubt about it.

**Q173 Chair:** So "maybe". Yes or no, Mr Rutnam?

***Philip Rutnam:*** I think there is a very good prospect of it. If we work really hard at it, there is every chance we will overcome the challenges. It cannot be guaranteed, but if we do not set about making it happen, it definitely will not happen.

***David Higgins:*** The infrastructure will be finished in January 2018, which will allow us to run 20 cars in May 2018. The trick is going from 20 trains per hour to 24 trains an hour, which is a complex signal and control system. It depends on the contract that we can work out with Siemens, the onboard train equipment and the testing in the Hertford loop. We will then understand whether December 2018 is realistic, and we need to get that right. The vast majority of the benefits come—

**Q174 Chair:** So "maybe"?

***David Higgins:*** No. The vast majority of the benefits come as soon as the 20 trains an hour come.

**Q175 Chair:** Very finally, we are taking the opportunity of your appearance to ask you about previous reports and implementation of the recommendations. There was one that we did in February 2013. You produced a response to a report we had done in November 2010, two and a half years ago, which was on passenger rail capacity. In that report, one of our recommendations to you was that, in franchises, you should ensure that the franchisee has an obligation to provide sufficient capacity to meet passenger demand without excessive overcrowding. Will we see that in the way in which you now pursue franchises?

***Philip Rutnam:*** An obligation—

**Chair:** To provide sufficient capacity to meet passenger demand without excessive overcrowding. Will that be an obligation on franchisees?

***Philip Rutnam:*** I will have to write to you on that point. Apologies. I did not know that question was coming up. Sorry if I should have known.

**Q176 Chair:** Tell your colleagues that that is something we intend to consider.

We looked at the increase in fares, and where that money was spent. We asked that you provide transparent information on how many new passenger places that increase in income from fares is delivering, where and at what cost to taxpayers and fare payers. It was really a transparency issue. My question to you now, given that this was two and a half years ago, is when will you publish data on how many new passenger places are being delivered, on which trains and at what cost to fare payers and taxpayers?

***Philip Rutnam:*** I'm afraid that my answer has to be the same. I will write to you within the week.

**Chair:** Okay.

**Q177 Stephen Barclay:** One of our previous recommendations was that the National Audit Office would have access to Network Rail. You disagreed with that, even though we had quite a long debate about the fact that Network Rail's liabilities are fully underwritten by the taxpayer. Can you update us on the rationale for refusing what has clearly been demonstrated in other areas as being a useful tool for Parliament in achieving value for money?

***Philip Rutnam:*** The Government's rationale remains the same now as I think it would have been then, when we did not agree with the recommendation. It has two elements: first, it is indeed very important that there are the right incentives and the right scrutiny of Network Rail to promote efficiency and value for money, but that is a role that the Office of Rail Regulation has, and which it pursues with considerable vigour. It published its draft determination on Network Rail's finances for the next four years just last week, and it runs to well over 700 pages. A very serious and intensive process is attached to the economic regulation of Network Rail.

You will be familiar with the second point. I know that the Committee may not agree, but Network Rail is classified to the private sector. It is not under the control of the Government, so the Government do not think that it is their job to say that Network Rail should be—

**Q178 Stephen Barclay:** I just wondered whether there had been any change because, clearly, you disagree with the head of the No. 10 policy unit when he was on this Committee. He said, "To all intents and purposes, it is a public company. If it walks like a duck and talks like a duck, it probably is a duck." I recognise that his role has changed, but that is the view of the head of the policy unit, when he was on this Committee. Presumably, your position is at variance with that.

***Philip Rutnam:*** The Government's position is very clear on that matter. As he is a Government Minister, I imagine that, if Mr Johnson were asked now, the answer that he gave would be in line with the Government's policy.

**Q179 Chair:** Why is the ORR not involved in the project?

***Philip Rutnam:*** It is involved in the project actually. It sits on the Government's committee that Michael leads but, because of the scale and complexity of the project, we also have something called a regulatory protocol in place between the Department and Network Rail that gives us an additional level of incentivisation for Network Rail, particularly for this project, and an additional level of involvement.

**Chair:** Good. Thank you very much indeed.

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## Written evidence from the Department for Transport

At the Public Accounts Committee hearing on 19 June 2013, I promised to write to the Committee with further information on a number of matters. These are set out below in the order in which they arose during the Committee hearings.

### Spend on External Consultants (Q18–Q19)

We apologise to the Committee for making a mistake in the answers provided to these questions. The £28 million spend on external consultants mentioned in our answers was described as expenditure from May 2010. In fact the £28 million figure represents the total spend recorded with external consultants since the start of the programme through to the end of March 2013. This is information that has been previously published in response to Parliamentary Questions; see the answer of 24 January 2012, Hansard, column 167W and the answer of 17 June 2013, Hansard, column 528W.

Freedom of Information Act and Network Rail (Q83 & Q87)

Stephen Barclay MP asked me whether there is anything in the Freedom of Information Act (FOIA) to preclude its extension to Network Rail. Mr Barclay referred in particular to the power under section 5(1)(a) of FOIA to extend the Act by order to bodies performing "functions of a public nature" and the Treasury Minute suggesting that primary legislation would be necessary in Network Rail's case. The term "functions of a public nature" is not defined in FOIA and a detailed assessment would need to be made before determining whether the inclusion of Network Rail could be achieved through secondary legislation, on the basis that it performs functions of a public nature, or whether primary legislation would be required.

As a private sector company limited by guarantee, Network Rail is not currently subject to the FOI Act. Network Rail is a regulated provider of public services and already publishes a significant amount of information including detailed regulatory accounts. As David Higgins pointed out at the hearing, recognising the demand for more of its information and data, Network Rail has begun a transparency scheme to release more material on its website to improve its accountability to the travelling and non-travelling public.

Information on Passenger Numbers from Train Systems and Ticketing Information, and Estimates of Travel from Rural Stations (Q118–Q132)

Mr Barclay raised a number of issues on the capability of the new rolling stock to assess its passenger loading and in discussion with the Department's witnesses the debate also covered information available from ticketing systems.

I will outline first with the capabilities of the rolling stock with regard to passenger load determination. The requirements set out in the specification are:

- All carriages will be fitted with a load-weigh system that calculates the number of passengers present. This will have a minimum average accuracy of 10%, even allowing for the variation in the combined weight of the passenger and any luggage he or she is carrying. The passenger load is measured and stored immediately prior to the departure of the train from each station.
- 25% of the trains will be fitted with a state-of-the-art passenger scanning system at every doorway. This system has a minimum average accuracy of 5% and is spread equally across the eight-carriage and 12-carriage trains. It provides a body count of the number of individual passengers boarding and alighting at each station stop. The trains fitted with this more advanced system will be naturally cycled across all of the routes that the new carriages will operate over. This will ensure that accurate data is obtained for all routes within the Thameslink network.
- The contract also specifies the provision of analysis software that will provide a variety of output reports based on the raw data recorded on the Units. The reports will be available to the train operating company and DfT in support of passenger demand modelling and service development.
- Passenger count data and passenger load-weigh data from the carriages can be accessed and downloaded remotely at any time, thus ensuring that all available data is captured and made available for analysis on a continuous basis.
- In addition to providing data for subsequent analysis, the passenger loading data is used directly on the train to feed a graphic display on the passenger information screens. This will help passengers identify those areas of the train that are more lightly laden, encouraging them to move through the open wide gangways towards these carriages. It will also be possible to relay this loading information to station customer information systems to advise waiting passengers of the best part of the platform at which to stand.

I will now describe in more general terms how passenger count information is collected and used in the rail industry.

Estimates of rail usage come from a variety of sources including LENNON, the rail industry's ticketing database, and rail passenger counts for individual services. Rail forecasts will use a variety of inputs depending on the scheme in question, and the party carrying out the analysis; typically the DfT for bigger projects and Local Authorities for planning relating to rural services.

*Rail passenger counts*

Train operators currently provide DfT with periodic passenger count data and these are typically provided as the average of a number of counts carried out over a period of time. Counts are provided for all services on arrival at and departure from particular stations. The Department's focus is typically on peak travel into cities, however, train operators will be collecting more information for their business needs, and we will request more detailed counts for particular projects such as the modelling undertaken for the Thameslink project.

Counts are carried out by train operators of the numbers of passengers on board their trains at certain points along their routes. These counts are either collected manually or by electronic counting equipment fitted to the train. In recent years, the amount of passenger count data being collected has increased significantly as the fitting of automatic counting equipment on rolling stock has increased. There are currently two types of electronic count equipment used, and two types of manual count. These are detailed below.

Automatic passenger counts (APC)

- "Load weighing"—this is equipment fitted to trains that "weighs" the train at certain points, estimating the number of passengers on board by assuming an average weight per passenger.
- "Infra-red"—this uses infra-red sensors fitted around each door on the train to count the numbers of passengers boarding and alighting at each station. From these it can be calculated how many passengers are on board the train at any point along its route.

Both types of counter will be fitted to the new Thameslink fleet as described above.

Manual counts

- On board ("guard") counts—on long-distance services where there is a sufficiently long gap between stations manual counts can be carried out on board the train. These will often be carried out by train guards.
- Platform counts—these are counts carried out by people on platforms at stations counting the numbers of passengers boarding and alighting each train. For through trains this can also involve making an assessment of the number of passengers in each carriage through the train windows.

DfT is in the process of procuring a centralised rail passenger counts database that will in future enable us to store and process significantly more information on rail usage across the rail network, particularly the counts data that are provided by the APC equipment fitted on trains.

*Published statistics and estimates of travel at rural stations*

The Office of Rail Regulation (ORR) is the lead publisher of official statistics for the rail industry and publishes annual and quarterly rail usage estimates. These show the number of journeys and passenger kilometres, and are based on ticket sales, primarily those recorded in the rail industry's LENNON ticketing database. As well as national totals, estimates are produced for individual train operators, regions and stations. The ORR statistics are the best source of information on the overall level of rail travel across the country and trends in rail travel over time.

Statistics relating to individual stations are available from the Office of Rail Regulation (ORR) in its station usage publication—see: .

The latest station usage information is based on ticket sales in the financial year 2010–11 and covers all National Rail stations throughout England, Scotland and Wales. Station usage data are an estimate of the number of passengers travelling to and from each station (entries and exits) and are based on ticket sales.

PREVIOUS PAC RECOMMENDATIONS ON RAIL CAPACITY (Q175 & Q176)

You asked about progress on two previous recommendations by the Committee, which were:

1. The recommendation that for future franchises DfT should impose clear obligations on operators to avoid overcrowding and to bear the cost of meeting that obligation themselves; and
2. The recommendation that DfT should provide transparent information on how many new passenger places it is delivering, on which trains, and at what cost to taxpayers and farepayers.

A Treasury Minute setting out the status of these recommendations was published in January 2013. The relevant section is reproduced below and this remains the position except in respect of the first recommendation, where as the Committee will be aware the Brown Review and the Department's franchising programme have now been published. In addition, the Department is developing a new approach to quality for future franchise competitions, and will include appropriate measures in each franchise procurement to deliver capacity growth to meet the needs of rail passengers.

Capacity on passenger franchise services

The first relevant franchise replacement was InterCity West Coast, scheduled to commence in December 2012. Bidders were expected to set out how they intend to ensure passenger demand is matched by capacity. Following termination of this competition, for this franchise, a revised programme of replacement franchises will be announced once the results of the Brown Review have been published. It is anticipated that similar provisions will be included in future franchises.

Transparent information on new capacity

The Department's March 2012 Command Paper Reforming our Railways: Putting the Customer First sets out the importance of establishing a more transparent picture of the railway industry's finances, to make those in charge of running services and managing the infrastructure more accountable to farepayers, taxpayers and the wider public. As set out in that paper, the Department has published figures showing the amount of subsidy paid to each franchise, as well as an estimate of the proportion of fixed infrastructure costs that relate to them.

Detailed annual figures for train capacity and passenger usage are now published for eleven cities, the London data being expressed as individual stations. The Department publishes information on any extra peak capacity procured and, where the individual price is known, the cost of this capacity. Further peak capacity has been specified for the years 2014–2019.

*Philip Rutnam*
Permanent Secretary

*27 June 2013*

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**Written evidence from Network Rail**

Further to my appearance before the Public Accounts Committee (the Committee) on 19 June in connection with the above inquiry, I wanted to write with further information on the use of Compromise Agreements by Network Rail (Q89).

First of all, I would like to clarify my initial response to the Committee which, in retrospect, may have misunderstood the information sought by the question. In my response, I assumed that the Committee was specifically interested in Compromise Agreements put in place with former members of the Company's Executive Director team. However, reflecting on the question and the comparable information I supplied to the Committee two years ago, I imagine that the question may have been seeking a broader illustration of how Compromise Agreements are used across the entire Company. I therefore appreciate this opportunity to provide a full and clear response on the issue.

In my previous letter to the Committee in 2011, I set out the number of Compromise Agreements put in place by the Company between April 2006 and April 2011. It therefore seems most helpful to provide continuity by updating this with comparable information for the period since May 2011.

I confirm that, from 1 May 2011 to date, there have been 105 Compromise Agreements with a total value of £5,707,715.77. During this time, there were no Compromise Agreements for Executive Directors. Five of these Agreements were for Executive Grade Unclassified employees who are effectively the next most senior level of the Company. These five Agreements had a total value of £1,120,433.50. This figure includes (where applicable) redundancy payments, payment in lieu of notice, holiday entitlement, loss of benefits (eg health care, car allowance), incentive awards, and compensation for loss of office or pension contributions.

Not all of the above will apply in each case. Long service and seniority also make a significant difference to individual Agreements as awards are based upon a calculation of loss of earnings for an agreed period plus the loss of benefits and pension entitlements that would have accrued over that time. I wish to clarify that we do not use *"ex gratia"* payments in our Compromise Agreements.

I fully appreciate that the use and, particularly, potential misuse of Compromise Agreements is an issue of concern to the Committee. It is, however, important to recognise that, in an organisation the size of Network Rail (34,000 employees) that is going through a period of considerable change to our working practices, Compromise Agreements are a means by which two parties can resolve a range of employment differences sensitively and properly.

Legal recourse is, of course, another means of resolution but alternative methods, such as mediation and Compromise Agreements, are important. Indeed, in order to minimise stress to our employees, we seek to resolve any differences or disputes outside the formal tribunal structure wherever possible and appropriate. In order to protect any employee in the process of settling differences, it is also a legal requirement that they have independent legal representation which I can confirm that Network Rail agrees and funds.

I wish to emphasise how important it is to us that, whether via formal or informal processes, we always seek to achieve a resolution that is fair to both the individual and the Company. In some cases, this does involve the use of Compromise Agreements but, given the extent of change taking place at Network Rail, I am confident that the Company's use of these Agreements has been reasonable and proper.

*3 July 2013*

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## Written evidence from the Thameslink Programme

In Q102 Michael Hurn was asked about the financial savings achieved from the changed plan for London Bridge station. The query came in the context of Michael's explanation in response to Q101 that the overall cost estimate for Key Output 2 (KO2) at its worst had been over £600 million over budget. In the discussion after Q109 Michael took the opportunity to clarify that the savings at London Bridge mostly concerned the track around London Bridge rather than the station itself.

The Department can provide an explanation for the specific savings attributable to changes at London Bridge, as set out below. All figures are provided with an outturn cost base to be consistent with Michael's answer to Q101 which was referring to an outturn figure.

The Rev 20 estimate, produced in December 2009, contained the highest forecast cost overrun of £655 million against budget at outturn prices for the Thameslink programme.

In Rev 20 the work package for "London Bridge Station and Bermondsey Dive Under Civils" had an anticipated final cost (AFC) of £651,708,000 and the Work Packages for Railway Systems around London Bridge had an AFC of £594,140,000.

The overall Thameslink programme was back within budget—the Department's focus—by the time of the Rev 37 budget produced in December 2010.

In Rev 37 the work package for "London Bridge Station and Bermondsey Dive Under Civils" had an AFC of £755,539,000 and the Work Packages for Railway Systems had an AFC of £407,995,000. The numerical difference in AFC for the work packages is therefore an increase of £103,831,000 for London Bridge Station and Bermondsey Dive Under Civils and a decrease of £186,145,000 for Railway Systems. This results in an £82,314,000 saving for the London Bridge area as a whole (taking both work packages together) and this corresponds to the approximate £100 million saving Michael Hurn referred to at the PAC hearing.

The Thameslink programme is now working to the Rev 40 cost estimate last updated in December 2012. This is a significant step forward from Rev 37 as it:

- Is based on GRIP 4 (single option development stage) for constituent projects other than High Capacity Infrastructure.
- Reflects the agreed planning permission received for London Bridge.
- Is based on the final London Bridge track layout agreed with the train operators.
- Is based on an agreed access strategy for the construction of the KO2 works.
- Benefits from a full Quantified Risk Assessment.
- Is supported by contracts reached with the supply chain (covering 76% of the value).
- Has been peer reviewed within Network Rail and by EC Harris on behalf of the Department.

In Rev 40 the London Bridge Station and Bermondsey Dive Under Civils work package AFC is £735,238,000 and the Railway Systems (including the High Capacity Infrastructure Works to deliver the 24tph train service) work packages AFC is now £413,243,000, a further reduction of £15,053,000 from Rev 37. Of greater importance to the Department—the Rev 40 cost estimate as a whole remains within the budget for the programme.

I have confirmed all of the figures provided in this response with Network Rail.

*David Blackall*
Deputy Director

*5 July 2013*

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