Public Accounts Committee

Oral evidence: Costs in the English rail system, HC 1294

Thursday 13 May 2021

Ordered by the House of Commons to be published on 13 May 2021.

Watch the meeting

Members present: Meg Hillier (Chair); Dan Carden; Sir Geoffrey Clifton-Brown; Peter Grant; Sarah Olney; James Wild.

Gareth Davies, Comptroller and Auditor General, Matt Kay, Director, National Audit Office, Lee-Anne Murray, Director, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, Her Majesty's Treasury, were in attendance.

Questions 1-79

Witnesses

I: Conrad Bailey, Interim Director General for Rail Services and Strategy, Department for Transport, Andrew Haines, CEO, Network Rail, Bernadette Kelly, Permanent Secretary, Department for Transport and John Larkinson, CEO, Office of Rail and Road.

Report by the Comptroller and Auditor General

A financial overview of the rail system in England (HC 1373)

Examination of witnesses

Witnesses: Conrad Bailey, Andrew Haines, Bernadette Kelly and John Larkinson.

Q1 **Chair:** Welcome to the Public Accounts Committee on Thursday 13 May 2021. We are here today to look at the financial health of England's rail system, which has been hammered by covid, with passenger numbers and income dropping off a cliff.

However, even prior to the pandemic, this Committee and our sister Committee, the Transport Committee, were raising serious concerns about the franchise model for delivering services. We concluded that it was really no longer working and that the Government needed to deliver services in a different way.

It seems that the Government agree with that, so we hope today to find out a bit more about that, but also to look generally at the financial health of the sector and to discuss with our witnesses how they plan to deliver any of the necessary changes that need to take place, and manage the money.

I welcome our witnesses. We have with us: Bernadette Kelly, the permanent secretary at the Department for Transport; Conrad Bailey, who is the interim director general for rail services and strategy at the Department for Transport; Andrew Haines, who is the chief executive of Network Rail; and John Larkinson, who is the chief executive of the Office of Rail and Road. We extend a warm welcome to you all and thank you all for coming.

However, before we kick off with the main session, I think it is important that we discuss Hitachi trains, and I will start with Ms Kelly, the permanent secretary. Could you give us an update on what the situation is with the Hitachi rolling stock?

Bernadette Kelly: I am very happy to give you an update. However, if you don't mind, I will ask Conrad to respond, as he has been working flat out on this issue since the problem emerged on Saturday. Indeed, it is a fast-moving situation—I know there have been further announcements in the last half hour—so I will ask Conrad, if I may, to respond.

Chair: Mr Bailey, as the interim director general for rail services and strategy, over to you.

Conrad Bailey: Good morning. Maybe I can run you through what has happened since Saturday morning.

In the early hours of Saturday morning, a Hitachi engineer identified some cracking on the jacking points of class 800 series Hitachi trains. As I say, this was in the early hours. There was a rapid response at that point. They conducted some further checks and identified further cracks, and Hitachi took the decision to suspend the fleet, rightly putting safety as the absolute first priority. They then informed operators and ourselves, and this led to the fleet being withdrawn on Saturday.

From early on Saturday, within DfT our focus was very much on supporting Hitachi, as the manufacturer, and the operators affected: Great Western Railway, or GWR; London North Eastern Railway, or LNER; TransPennine Express, or TPE; and the open-access operator Hull Trains. That was to ensure that full checks were made to understand the scope of the problem and—critically—to identify those trains without cracking that could go back safely into service.

Throughout this, obviously, the absolute first priority for all of us has been safety, and there have been regular discussions with colleagues in the ORR; John may wish to say more about that in a moment.

Subsequently, the focus for Hitachi has been to understand from an engineering perspective the nature of the cracks and whether, and under what circumstances, it might be safe for trains to return to service. Processes and procedures for this have now been agreed.

I am very pleased to say that we are now in a position, from today, whereby when trains have been confirmed safe for operations, they are able to start being released back into service. It will take a few days for them all to be inspected and, where they are safe, to be released. I think it is too early to say at this point exactly how many trains will be going back into service, but it is safe to say that this will be a significant improvement. Those trains that are released will be subject to ongoing and very rigorous daily safety checks.

Following this, the priority will clearly be for us to focus, with Hitachi—the manufacturer—and the operators, on the programme of longer-term repair that will be required, which is likely to have a prolonged impact on services.

I will move then to the next priority for us, after safety, which was clearly the passengers. Across the network, the vast majority of services have been running, but clearly the impact was very serious for those passengers on the routes that were affected, particularly on Saturday and particularly in the case of GWR. Given this, we have worked incredibly hard with operators to ensure mitigations have been put in place. This has very much been a whole-industry effort, just as we have seen across most of the covid period.

A number of mitigations have been put in place, including a mixture of other operators extending services cross-country, GWR using and extending some of their local services to maximise the services they could provide, and LNER bringing back some of their old 225 trains. Looking at service provision for passengers, we have asked operators to particularly focus on making sure that services that take children to school have been prioritised or alternative transport put in place.

Passengers have been offered refunds and delay compensation. With the class 800 series slowly beginning to return, we hope very much that we will see a significant improvement in the situation.

If it is helpful, I can touch on the commercial situation—

Q2 **Chair:** Can we go to John Larkinson before I come back to you on some of that? What oversight has the Office of Rail and Road had of this, Mr Larkinson?

John Larkinson: We have been in the process right from the very start. As Conrad says, it has been a genuine cross-industry piece of work with the manufacturers, operators and us, because ultimately we wanted to be assured that the trains would be safe to go back into service. The good news is that we have now agreed that process. Some of the trains will be able to start returning to service very soon.

In the medium term, as Conrad said, there is the question about more fundamental repairs to the trains; more work is going to be needed on that. Then our attention will turn to what lessons should be learned from what has happened. In the safety sense, we are still not entirely sure about the root cause of the cracking, and then we can work through all the processes that were untaken before the trains came into service.

There are also lessons to be learned about the impact on passengers, around passenger information and refunds. So, there are three strands: the short-term recovering of trains, the medium-term repairs and then the lessons learned.

Q3 **Chair:** Just to be absolutely clear, has ORR had to agree the safety checking process?

John Larkinson: Yes. Ultimately, the decision on whether the trains go back into service or not is for the operators, but we want to assure ourselves there is proper process in place. By working closely with the operators, Hitachi and the Department, we have been able to do that.

Q4 **Chair:** To both of you, how unusual is this? One component is discovered with a crack. You then obviously need to have a safety mechanism to check the others, but it seems potentially quite slow, in that all stock had to be checked at once. It is not unprecedented, but it is quite unusual. Is there something obvious that has gone wrong? I will start with Mr Larkinson and go back to Mr Bailey.

John Larkinson: You are absolutely right: it is unusual. Ultimately, safety comes first. Hence, on the Saturday morning, when the cracks were found, because it was unclear what had caused the cracks and, particularly, whether they were likely to spread, which was a crucial factor, the sensible thing to do was just to take the trains out of service until more time could be spent looking at the safety issues. So, it is unusual.

It is particularly important that we have time to reflect and to start going back to the root cause and to ask, how did this come about? Getting a train into service on the network is the culmination of a complex set of processes. We need to go back and look at what went wrong.

Q5 **Chair:** In terms of what went wrong, Mr Bailey, and compensation, who is going to be paying the cost that has fallen on the operators and passengers? Is Hitachi going to be coughing up or is it the Department—the taxpayer?

Conrad Bailey: Perhaps I can just talk through the nature of the contract by which these trains are in operation. There are 182 trains in this class, of which 122 have been procured under the intercity express programme contract with Agility Trains. Of these, 57 are on GWR and 65 are on LNER. The remaining 60 are leased by operators from rolling stock companies.

To turn first to the IEP contract, which is the contract with the Department, we have strong protections in place as it is an availability contract, so where trains are not made available for service, we will not be paying for them. Hitachi and Agility will be responsible for repairs in that case.

For those trains where the contracts are with the owning groups, there will be liquidated damages arrangements within those contracts for nonavailability. We are clearly working with Hitachi, Agility, the rolling stock companies and the operators to ensure that the taxpayer’s position is protected. That is very much ongoing work, I should say. Our priority has been on safety.

Q6 **Chair:** We shall keep a close eye on the money, and I know that our sister Committee is interested too. Finally from me to you, Mr Bailey, you talked about InterCity 225s coming in—I understand that the age of the train is returning—and according to *The Daily Telegraph*, 125s may be reinstalled as well. What old rolling stock is knocking around and could be put back on the railways? What will that mean for passengers? Are extra trains being put on, or is it to replace the Hitachis in the short term?

Conrad Bailey: What we are doing with the operators is really trying to understand how we can maximise the service. The best way of doing that is extending the services of other operators and extending some of the more local services—say, the GWR fleet. We are also looking at options for bringing back older trains or moving trains around the system. This is quite a complicated and challenging task. We have to make sure that the drivers have route knowledge and that it is a safe thing to do. We are looking at those options at the moment. As I say, on LNER we have some of the old 225s back in service. The requirement for these trains will really depend on how many of the class 800s we are able to get back in service. Again, with apologies, it is a bit too early to say, but we are making sure we are running all contingency plans so that we have options available should they be required.

Q7 **Chair:** So the Department could be overseeing a rather historical railway from our youth, potentially. In terms of passenger numbers—this is the final, final one from me, and then other colleagues can come in—with the booking situation at the moment and social distancing on trains, obviously it can be hard to find another train journey that you can go on in reasonable time. How are you trying to manage the numbers, given that we have lost a lot of passenger slots and journeys over the last week?

Conrad Bailey: I will start by talking about LNER and TP services. There have been some adjustments to their services. Particularly on Saturday, there were significant adjustments across the network, but they have been able to run fairly regular services—certainly not to the normal timetable, but a reasonable service—to most places. There were a few exceptions to that, particularly where the trains required were the bi-mode class 800 series, which are the ones that are used to serve particularly the Scottish destinations. That is what has happened on LNER.

On GWR, the aim has been to put in place as much capacity as possible by extending local services. There has been some really fast work by GWR to get some of their train types to extend, for example, from Reading to Swindon and that kind of thing. There is no doubt that some of the services from London to the south-west and Wales have been severely affected. Those are areas where it is very hard to put in bus replacement services because it is such a long journey. We have tried to work with the operator to make sure some form of service is available with changes, but it has been a very difficult period for passengers, and we can only apologise for that.

Q8 **Chair:** And no immediate end in sight—well, an end in sight, but you can't give us a precise timetable for when it will be fixed.

Conrad Bailey: No immediate end in sight, but I think we will see significant improvements over the coming days.

Chair: I am sure our constituents will let us know if that is not the case.

Q9 **Sir Geoffrey Clifton-Brown:** Good morning, Mr Bailey. Numbers of my constituents use the services from Swindon, from Kemble and the bimode from Moreton-in-Marsh, so they will be deeply concerned about this. How you monitoring it on a day-to-day basis?

Conrad Bailey: The way we have been operating, we have been doing this since Saturday morning. We stood up our contingency structures within the Department, and I have been overseeing them with my colleagues in the passenger services division. We have been speaking on an hourly or a more regular basis with the operators. Particularly in the case of your constituents, we have been working with GWR to make sure they engage other local transport providers. Where that may be a way of mitigating the impact, we have been asking them, working with them and ensuring that they share the best information with their customers. We have been monitoring it regularly, and our Ministers have been receiving regular updates throughout the day. This whole process has been overseen by the Rail Minister.

Sir Geoffrey Clifton-Brown: The obvious question, which I am sure my constituents would want me to ask you, when using an international manufacturer like Hitachi, is this. Is there any intelligence that any of this cracking has been found elsewhere in the world? You obviously have a pretty good handle on what is happening in the UK, but what is happening on the international side?

Conrad Bailey: We have not had any details from Hitachi of similar cracking internationally. We have obviously been working very closely with the designers of these trains—both the Hitachi team in the UK and, actually, strong involvement from the company in Japan as well.

Q10 **Sir Geoffrey Clifton-Brown:** The other obvious question, because constituents will want to know about disruption, is whether it is too early to say yet what the long-term fix is. You can obviously do short-term fixes, but they are going to want to know that these trains are safe and reliable in the longer term. Can you say anything about that?

Conrad Bailey: Yes. That is obviously the next key priority. No trains will be reintroduced to service unless the rigorous safety procedures have been followed and it is safe for them to be reintroduced. They will then be inspected much, much more regularly than normal to ensure their safety. I think passengers can travel with confidence on those trains that are in service.

The next priority for us is really to understand what the options are for addressing these cracks in the longer term and to work through exactly the best repair process. That will allow us to work out the impact on services over the longer term, but we need to be honest that there will be some impact as we need to take trains out of service to repair them. I should say that this workaround or repair, as I said earlier, is very much a Hitachi responsibility as the manufacturer under the contract.

Q11 **Sarah Olney:** I would like to ask Ms Kelly about a different set of cracks—Hammersmith bridge, with which I am sure you are very familiar. I was part of a group of MPs who had a meeting with the Transport Minister Baroness Vere yesterday, and what we were interested to know was the progress that DfT has made in considering the submission of the London Borough of Hammersmith and Fulham, who obviously have responsibility for the bridge. They submitted a 108-page report back in February, with a range of different options for moving forward.

Now, the Minister said to us that Hammersmith and Fulham need to decide on their own preferred option and work up a fully costed business case and submit that to the DfT. I am just interested to know what the DfT is doing to work proactively with the London Borough of Hammersmith and Fulham in indicating which of the options that are currently on the table would stand the best chance of success and what help is being given to work up the fully costed business case.

Bernadette Kelly: I apologise because I have not seen a record of last night’s meeting, but I will try to answer the question as best I can.

Hopefully, this will be entirely aligned with what you have heard from Baroness Vere as well.

As you know, we have been working extremely closely with the London Borough of Hammersmith and Fulham over many months now to evolve the issues around the bridge and to identify a way of ensuring that the necessary work can be done so that the bridge can be reopened. Initially that would be for pedestrians and cyclists, but ultimately the long-term goal is clearly to open it fully to road traffic.

I am aware that we received, as you say, in February a proposal from the London Borough of Hammersmith and Fulham. As I understand it, it sets out a proposition for how the borough's share of funding the repair work might be met. As you know, we are keen to ensure that the funding of repairs to the bridge is shared between the borough, TfL and HMG in an appropriate way. We are still considering that 108-page submission, but we are also—this is obviously extremely important to the overall plan to take this forward—hopefully resolving things with TfL, as part of the next TfL funding settlement due on 18 May, to get an overall plan agreed between us, TfL and the borough on how we are going to address both funding, but also the practicalities of reopening the bridge. We will certainly be responding to the borough's proposition in that context. I cannot give you a detailed date for that, but I can assure you that this is being given very urgent attention. I hope, as I say, that in the next week or so we will at least have the outline of an agreed plan for how we are going to take the work forward, and that will allow us to give a detailed response to the borough's proposition.

Q12 **Sarah Olney:** Can I just confirm that you expect there to be in the TfL funding settlement, which is due next Tuesday, further information about how DfT hopes to support the repairs to Hammersmith bridge?

Bernadette Kelly: We expect it to set out a framework for how we want that to be taken forward, including in relation to funding. I am sorry I cannot say more, because we are resolving the detail even as I speak. But yes, we hope it will provide the overarching framework, and then the detailed work, both on funding and on engineering issues and all the practicalities, will continue. As you know, we have already provided £4 million in the last funding settlement to do some of the immediate work, as well as requiring TfL to provide and secure a ferry service. Certainly, we hope that the next stage of this settlement will also set out the next stage of the plan for this.

Q13 **Sarah Olney:** May I pick up on a point that was raised in a previous session? Obviously, one of the big issues that local people are having to deal with due to the closure of Hammersmith bridge is the fact that it is a major piece of infrastructure and it impacts people way beyond the London borough of Hammersmith and Fulham. Obviously, people living in my constituency, on the other side of the river, are the ones who are the most affected, but people from right across south-west London and Surrey are being affected by this closure. I believe you have previously identified that a gap between the number of people in the large surrounding area who are affected by this and the fact that all the cost falls on a single London borough. Has the Department made any progress in working out a way in which that might be tackled in future?

Bernadette Kelly: We absolutely recognise this, which is why we have had exactly this conversation over some months now with the borough. We recognise that this route has strategic importance for the flow of traffic and people in London beyond the borough, although the formal responsibility for funding any repairs to the bridge sits with the borough. The fact that we have been having this extended discussion demonstrates that we recognise that there is a broader issue in play, and that capital investments of this sort are quite difficult for boroughs to deal with in isolation. That is implicit in the approach that we have been taking, and the active role that we and TfL have been playing with the borough over the past months will hopefully also be implicit in the arrangements we have put in place for the future.

Q14 **Chair:** To pick up on Ms Olney's point, will that approach set a precedent for other strategic bridges that are managed and run by a local authority rather than a wider, strategic transport authority?

Bernadette Kelly: What we are not doing at this stage is suggesting that this is a precedent; in fact, we are quite keen to avoid that, for obvious reasons.

Q15 **Chair:** And the price tag that goes with it, no doubt.

Bernadette Kelly: There are responsibilities and potential liabilities that may sit elsewhere, so I am not giving that commitment to the Committee. I recognise that the Committee has raised this question before, and it is one that we will need to reflect on with TfL, which also has critical responsibility for the flow of traffic and people through London. But I would not want the Committee to take—

Chair: I can see you would not want to make that effective large funding commitment right here, right now, but we have discussed this before and will no doubt come back to it with our sister Committee. I want to turn briefly to Andrew Haines, who is the chief exec of Network Rail. As you know, Mr Haines, I am the MP for Shoreditch, which means I represent some very interesting small tech businesses. I was interested to note that, in CP6, you have almost £1 billion on R&D in your budget. One of my constituency businesses, Hubble, has used £109,000 of funding from you, and its own money, to produce an interesting concept whereby cameras in trains help to identify risky foliage that could fall on the tracks. The idea is that it saves money for Network Rail, because you can identify problems and deal with them at an early stage, before they stop trains running. But this is a small amount of money, and you have £40 million from that same control period being spent on creating alternatives to this approach. What is your general approach to giving small tech businesses, which are innovative in their ways of working and in their ideas, access to your large research and development budget?

Andrew Haines: Hubble is a very good example of the things we are encouraging, and we have several other examples as well. Indeed, they have led our HackTrain event for the last few years. It was sadly cancelled because of covid last year, but up until then we had run it every year. We bring in people from throughout the world to look at five or six problem statements.

We have now smoothed the transition, so that when those problem statements are resolved we can enact them and, as a result, real time monitoring of lift and escalator availability is now available on an app for passengers and the Crack IT tool has been developed by the same company that developed Hubble. We are really keen to work with those small SMEs. They often represent better value for money and are more agile.

Of course, they cannot do everything in our work because we have very stringent safety standards in some circumstances, but we are lucky to have a large number of them as part of our portfolio. Indeed, we are in the process of procuring our next HackTrain event.

Q16 **Chair:** That sounds great. As a Committee, we have often looked at how small businesses get access, so what you have painted there is a positive picture, but what Hubble has raised with me is that your team is spending £40 million on an alternative to something that already seems to be proven and working. If you cannot comment on the detail of that, maybe we can take it offline. Do you have anything you can say now about why your officials are spending a lot of money on something to which you already seem to have a solution and that you have just been quite positive about?

Andrew Haines: There is an alternative digital line inspection tool, but it has a much bigger functionality and does far more than Hubble. That does not mean that there is not use for Hubble, because Hubble is readily available now and is very good at looking at vegetation, but our broader digital line inspection tool has much greater functionality.

The two tools are complementary, which is why we are using Hubble on some routes. Take-up has been a bit slow, to be honest. We are having to encourage some of our asset managers to embrace that technology. We see a role for some of those big schemes, which are very comprehensive, but also for tactical interventions, of which Hubble is a brilliant example. There is room for both in our portfolio.

Q17 **Chair:** I may want to take this offline with you as a constituency MP; I will not indulge the Committee's time on this any longer. Although it is strategically important, it also relates to my constituency role.

I will now move to the main session. Ms Kelly, as permanent secretary of the Department, can you tell us when the Williams review will be published?

Bernadette Kelly: The short answer is "very soon."

Q18 **Chair:** We were having a little bet before you came on the call about what word you would use—"very soon", "imminently"—and how many times we have heard this before. When you say, "very soon", do you mean days, weeks or months? Is it this year or next year?

Bernadette Kelly: I am about as confident as I can be that it will be before the end of this month. That gives you a pretty narrow time horizon. We are genuinely now getting very close to the point of publication.

I have said this before, as you know, but we had to put the work on hold due to the pandemic. Indeed, Conrad and his entire team were lifted and shifted to deal with our pandemic response. Conrad has been leading this work within the Department, working with Keith Williams and others.

I am pleased that we were able to restart this work in earnest last summer. Obviously, we have had to think through very carefully the consequences of the covid pandemic for the future of the railway and for any structural and other reform changes that we want to make. We are now poised, if I can use that term—

Chair: Like a coiled spring.

Bernadette Kelly: —to publish the results of what has been an extensive exercise. Please be a little bit patient. I hope that the next time I appear here, we will be discussing a published paper, as opposed to an imminent one.

Q19 **Chair:** We wait with bated breath. While we are waiting for what might be some of the solutions, can you, as one of the longest serving permanent secretaries in a single Department in Whitehall, briefly outline your main concerns about how the rail system is currently organised that you think Williams ought to be tackling?

Bernadette Kelly: It is always worth remembering, because it can seem a long time ago now, that the current system—or the pre-covid system, if I can call it that—actually did a really good job, for quite a significant period of time, of delivering passenger growth and percentage improvements on the railways. Over a period of 20 years or so, we saw, I think, 160% growth, as identified in the NAO Report.

The problems of this system, however, have emerged over a period of years. They include poor alignment between Network Rail and train operators, and significant challenges around the franchising model—I am sure the Committee will want to come back to that—as passenger revenues have slowed. We have seen poorer performance and reliability on the railway as capacity has become more stretched. And of course, we still have an expensive railway, which has consequences for taxpayers and fare payers. The 2018 timetabling issues, which we have also discussed at some length in this Committee, really shone a light on some of the structural problems. And Stephen Glaister's report highlighted the issues around failure—fragmentation and the failure of single points of accountability.

Keith's report, which will now form the basis for the Government's White Paper, was commissioned in response to all of that. He has set out his own problem statement, but I think it is a problem statement that is very closely aligned with the view that we take in Government around the fact that the railway has perhaps lost sight of its customers, that it has missed opportunities to collaborate and meet the needs of communities, that there is a lack of clear strategic direction and that accountability is too fragmented to deliver a really good service. He has highlighted problems around productivity and innovation as well.

So it is a complex and quite deep-rooted set of issues. What we have overlaid on that, of course, is, now, the enormous challenges of covid for the railway, the collapse in revenues and passenger demand as a consequence of lockdown and social distancing, and the need to think about how we recover the railway—

Q20 **Chair:** You have outlined some of the challenges, which we have discussed a lot. And we have had the pandemic, and obviously you and officials have appeared in front of Ministers and, indeed, in front of the Transport Select Committee on some of that as well. How has the pandemic affected your view? We are going to touch on some of the issues around passenger numbers later, I think, when we look at costs, but what is the position overall? Williams has been delayed, partly because of the pandemic. In short, has it changed the focus of what the Williams review should be looking at?

Bernadette Kelly: Many elements of the Williams review and the Government White Paper—the structural problems are the same, I would say. They are around fragmentation and all those things that I have just referred to. What we have, in a sense, is an overlay, as I say, of a dramatic fall in passenger demand and hence revenues, which naturally exacerbates the huge financial challenges for the railway. We are also likely to see recovery happening in uncertain ways—the railway that we need in five years' time may not be exactly the one that we had anticipated, because of longer-term changes in things like commuting and travel.

I would say the structural analysis remains consistent. I don't think covid has changed our view or, indeed, Keith's view on the underlying problems around how industry structures may be impeding our provision of the kind of railway service that taxpayers and passengers would want to see. What I think it has done is, as I say, perhaps added to the urgency now of having a more integrated, more efficient and more flexible railway, in order that we can ensure that the recovery from the pandemic is as good as it needs to be. So I would say it has added urgency to the need for reform, and it has obviously created a new set of challenges alongside the existing challenges, but I think the underlying structural analysis is pretty consistent.

I would be very interested to hear from my colleagues on the panel, who will all have views on this as well and obviously have all thought deeply about it.

Q21 **Chair:** In fact, I want to turn to Mr Haines. Mr Haines, when you were appointed as chief executive of Network Rail, you were quite forthright and candid in your views about some of the things that were going wrong. What is your view now about how the railway is currently organised? Has it changed at all since covid?

Andrew Haines: As Bernadette has just said, covid has really just highlighted the relevance of Keith's analysis. What Keith has said publicly is that the railway lost sight of its customers—

Chair: Keith Williams—the architect of the rail review—just to be clear.

Andrew Haines: The railway lost sight of its customers, be they passengers or freight users, and the absence of a strategic guiding mind made difficult long-term decisions hard to deliver. Critically, the industry had been painfully slow to innovate and modernise, partly because of incentives and partly because of contractualisation. Interestingly, through the pandemic we demonstrated that we can be agile and flexible. We have changed timetables far more than we have ever done in our history, but as Bernadette has identified, it has really exposed the fact that we now have to be able to innovate, adapt and modernise very quickly. There will be tough decisions, and those decisions will need a very clear guiding mind. My original views have only been reinforced by the tragedies of the last 14 months.

Q22 **Chair:** It is worth highlighting, as we are the Committee that watches the money, that the agility and ability to adapt has been at the expense of large amounts of taxpayer funding. Do you think any of that is sustainable in the long term? It would not have been possible without that taxpayer funding—let's be honest.

Andrew Haines: That is absolutely right. For many months, the railway was carrying very few passengers, but that was because the Government rightly prioritised the movement of essential workers. I stood at London Bridge station, where maybe 15 people got off the train, but most of them were heading to Guy's Hospital next door. That is why the railway was running in that way. We reduced the timetable and then gradually and incrementally adjusted it as more and more people came on, to allow for social distancing. We showed flexibility, but you are absolutely right to say that it was at enormous cost to the taxpayer, which is clearly not sustainable in the long term.

Q23 **Chair:** We always like looking over the costs of Network Rail, and we will be coming to some of that in a moment. I want to go to John Larkinson. One of the concerns that this Committee has often highlighted is the integration issues and that often passengers seem to be at the end of the line, with all the technical—the lines, the drains and so on. Your May 2018 report on the timetable debacle was a useful bit of work in that respect, in that it outlined the impact, to some extent, on passengers. What rail reform do you think is necessary to address the problems that you identified in that report?

John Larkinson: Yes, you are right. There were a lot of problems identified in that report, and the biggest one was the failure to identify and manage risks across the whole rail system—not just one risk in one part of it but across the whole system. The really positive news is that we have seen some really good progress since then, in terms of how timetabling works. To give an example, an Industry Programme Management Office has been set up with the express responsibility of saying, "What are the risks around each timetable change?" That includes things such as the infrastructure, rolling stock and train drivers—looking at each one of them, and then everybody discussing what needs to be done.

We now have a much more resilient timetabling process than we had before. Obviously, that process has had to adapt because of the pandemic, but we are in a better place than we were before, because we have a much better industry system of working and managing risk. That does not mean that it could not be even better. If there were to be a guiding-mind body, would that be able to put a further layer of accountability and oversight on top of the system that is already there? But I think we should acknowledge the progress that has been made in the interim.

Q24 **Chair:** Okay. Ms Kelly, there are probably lots of things that might keep you awake at night, although you tell us you sleep well. What are your main worries about implementing rail reforms? You touched on it a bit in your first answer, but with covid, as you say, recovery could be patchy. What are your concerns about trying to implement, when the Williams review comes out, those changes in the current situation?

Bernadette Kelly: First, all major reform programmes anywhere carry significant risk. Clearly, we believe this is going to be a once-in-ageneration reform to the rail industry, so naturally it will be fraught with the risks that all such reform programmes carry. The first challenge is making sure you have the right strategy. Yes, it has taken a long time, and I realise the Committee is impatient to see the rail reform White Paper, but the time taken will be reflected in the quality of analysis and the quality of thinking. Actually, the quality of engagement across the industry gives me confidence that what we will have here is a genuinely thoughtful, robust, rigorous and well-considered plan for reform, not a rushed one.

The second issue is then execution risk and implementation risk

The second issue is then execution risk and implementation risk. Writing the White Paper is just the starting point, and actually doing and then making the change happen will be an enormous across-industry exercise. Conrad and Andrew are both at the heart of planning that, and either one of them may wish to say a little more—

Q25 **Chair:** We will come to some of this in a moment. Could you give us a rough idea of the timescale? As you say, you have given us a very bold understanding that you have a strong strategy, so I hope that those words don't come back to haunt you, because I think we all want success in this area. But how long are you planning to take? One of the key risks

is that if it is done too fast, because there is a deadline like a general election or something, that can create as many problems as it might solve.

What is your plan as permanent secretary for how long it might take to implement the Williams review?

Bernadette Kelly: First, we are already taking steps towards this. We have not been standing still for the past 18 months or whatever in terms of thinking about how we might start to transition to some of the new structures we can see coming in. I am sure that you will want to come back to talk about EMAs and ERMAs and our new national rail contracts, but all these are stepping stones towards some of the changes that the White Paper will set out. A lot of work is going on in anticipation of this change.

Q26 **Chair:** But roughly when do you expect it will be complete?

Bernadette Kelly: I see this—I will ask Conrad to say a little more—as a "lifetime of the Parliament" reform. We have a plan and will be setting out deadlines that we hope are pacey and challenging, because we want to press on—

Q27 **Chair:** When you say "lifetime of the Parliament", do you mean the lifetime of this Parliament?

Bernadette Kelly: I would say this Parliament. I think Ministers are clear that they wish to see—

Q28 **Chair:** I am just thinking that this Parliament is likely to be two or three years, from now, so that gives us an idea of times. Mr Bailey, is that your understanding? Is there anything you would like to briefly add?

Conrad Bailey: Just briefly, that is obviously my understanding as well. What we expect is that once the White Paper is published there will be a number of measures and reforms that can be brought forward more quickly. So it is not that we will need to wait for a particular moment; this is going to be a broad set of measures across the whole sector that will require huge collaboration across the sector. I would expect some reforms to be delivered quicker and some to take a bit longer throughout the life of this Parliament.

Chair: Okay. We will come to some of the details on that as we go through this session.

Q29 **Sarah Olney:** This is a question for Ms Kelly. One of the key themes that the Report we are considering highlights is the increase in the costs of running a railway, and then obviously the subsequent increase in the amount of taxpayer subsidy being given to the railway. First, what do you think are the main drivers of those cost increases? Secondly, what controls does the DfT have over those costs? What powers do you have within the current structures to try to bring those costs down and relieve the burden on the taxpayer?

Bernadette Kelly: The headline answer to your first question about the main drivers of cost increases is that there are three fundamental drivers.

One has been increased demand, and therefore the need to have increased capacity across the system. We have seen very, very significant increases in passenger demand. That has obviously flattened out since 2015-16, but we saw for a period of some 15 years prior to that very significant year-on-year growth, so responding to that increases costs.

I think there are costs from investment associated with increased demand as well. One of the costs, for example, has been significant investment in rolling stock that we have seen over the past decade or so. I think we have seen around 800 new vehicles on the UK network, in a fleet of about 16,000 overall, so clearly there is a cost that comes from that sort of investment and the investment in infrastructure.

Then there are the usual inflationary pressures that you see in any industry. It is interesting—you rightly highlight this—that the NAO Report highlights that the net costs, if you net out revenues and other inputs, to HMG have doubled from £2.6 billion to £5.1 billion in the four years leading up to the pandemic. I think that was essentially driven by a net £1 billion cost in maintaining and operating infrastructure, and then a £1.5 billion deficit movement, as it were, in the net position on the franchise revenue. We went from having a £1 billion surplus to a £0.5 billion deficit in 2019-20. Obviously, the slowing in growth of passenger revenues was a significant factor in that. It is a complex set of things, but if you try to break it down, there are three or four key things that you can point to.

I think your second question was how we exercise control over these costs. We have, obviously, different levers in different parts of the system. If we are looking at the cost of infrastructure maintenance and operation, which obviously Network Rail is responsible for, the key levers there are the periodic review, which Mr Larkinson can say more about, and the pressure that that brings to bear on Network Rail to ensure that the investment and the funding that Government are providing to maintain infrastructure is being deployed and spent in a really efficient way. The principle mechanism really comes through the periodic review and the Control Period settlement mechanism.

For train operator costs, what we are seeing there is a very rapid evolution in how we seek to manage those contracts and those costs, moving away from the franchise models, which obviously set six, seven or eight-year terms for franchise operators to the much shorter-term contracts that we have had. The key feature now of these contracts going forward is that they are going to be based on an annual planning cycle and annual business plans through which we will seek to ensure that costs are being very tightly controlled, obviously alongside passenger outcomes and good quality services. We are using those processes very actively now to bear down on and manage our costs at the train operator side.

We have levers in all parts of the system—I have obviously thought about this question before this hearing—but what, in a sense, my answer also reveals is that we do not have a system-wide way of looking at trade-offs in terms of costs, efficiency and value for money. That is why I think the Keith Williams review has been so important. I hope that what will come out of the White Paper will be a way of being able to look industry-wide at costs and really drive measures industry-wide to manage those as efficiently as possible.

Q30 **Sarah Olney:** We will come back to the point about revenues and passenger numbers a bit later in the session, but I wanted to quickly ask you about the rolling stock costs—you highlighted that as being a significant contributor to the increase in overall costs. We can see on page 17 that that is very clearly reflected in the Report. Have those been one-off costs, or do we expect rolling stock costs to continue rising? What is the forecast?

Bernadette Kelly: I might ask Conrad to say a bit more. This has been, in a sense, a conscious decision over the past five to 10 years to make some very significant investments in improving our rolling stock, both in terms of capacity and quality. We have seen within that some very big investments, like the intercity express programme trains and the Thameslink trains. We have also seen network-wide improvements in rolling stock, both in quality and capacity.

I do not think it should be seen as necessarily a predictor of future investment levels. I think that we will need to look very closely at those in the context of overall demand and investment levels across the industry, but I would say that investment in rolling stock is something that we know makes a very significant improvement and is very much valued by passengers. That is why we have had a pretty heavy level of investment in recent years. Clearly, we will need to reflect and consider what the appropriate investments to make in the future are, in the context of our overall plans for the industry.

Conrad Bailey: Just a couple more points to add to that. As well as those large rolling stock procurements, the other feature has been this real investment in upgrading the quality of the older stock and a number of important areas of expenditure there—for example, making sure that the rolling stock is accessibility legislation compliant, which much of the old rolling stock was not. That has been a major focus over the last five years, but replacing trains such as the Pacers in the north has also been a huge priority. As Bernadette says, I do not think this should be taken as a guide to future rolling stock costs, subject to decisions that are taken on investing in further rolling stock.

Q31 **Sarah Olney:** Ms Kelly, obviously what we have talked about here is that the taxpayer has increased exposure to operator costs. Are you aiming for more transparency about the costs across the wider industry in future?

Bernadette Kelly: Transparency is absolutely desirable. What we saw prior to the pandemic was a surplus for many years in our franchising costs turn into a deficit. What we have seen through the pandemic is, of course, a very significant cost to the taxpayer, as has been referenced by the Committee. It cost about £8.5 billion to continue to run services at the levels we did through 2021. That was a very conscious choice, as Andrew has said, to maintain services in order that key workers could travel and to support the wider recovery. That was a conscious and deliberate choice, but clearly it is not a level of net investment in rail services that is sustainable.

What we need to see—and what we want to see—is an as fast as possible recovery in passenger demand, consistent with public health and safety, to start closing that gap. What I think our new rail contracts will give us is an annual planning cycle with train operators—an annual business planning process. I will certainly expect us to put key elements of that in the public domain, in order that you, Parliament and the public can understand what they are paying for in their railway. I am sure transparency will be an important part of that regime as we evolve it.

Q32 **Sarah Olney:** Mr Haines, Network Rail is now in Control Period 6, and I think I am right in saying that in Control Period 5 the spend was over budget by about £1 billion. In Control Period 6, you are already starting to realise some of the efficiencies that are needed in order to meet the budget for Control Period 6. Can you talk us through what the biggest financial pressures on Network Rail are, and what you are doing to drive down costs?

Andrew Haines: Of course. The big characteristics of Network Rail include the very large scale of assets. Obviously, we have over 10,000 miles of track, tens of thousands of bridges and hundreds of thousands of earthwork structures and civil engineering. Then there is the age of the assets. Obviously, a lot of those are still Victorian assets, so the demand of renewals is increasing. The change from both Treasury and the regulator under CP6 is more money to spend on renewing assets, and there is always a trade-off then between asset life extension and renewal.

Third is the fact that the assets are very fixed, so if you halve the number of train services temporarily, the marginal savings on infrastructure are absolutely tiny, because you still need the same number of staff and you still have that fixed investment in infrastructure. Then you have the emerging issues—the ongoing costs of electrification, for example, and the costs of managing the change in weather, where we have seen the impact of climate change being a reality on Britain's railways already. We had some convective rainfall in Scotland yesterday, which shut the railway for several hours near where we had the tragedy at Carmont in August because of an unexpected rainfall.

Obviously, there are the inflationary costs and the costs of managing a congested network with rising passenger demands—reasonable passenger expectations of a more reliable, sustainable and accessible railway.

All those, if you like, are the fundamental drivers. What we have identified with the ORR as part of this current Control Period is a very forensic approach to efficiencies, which means that at the end of year 2 we are now actually ahead of our target on efficiencies: we have had just over £1 billion of efficiencies so far in the first two years of the Control Period.

We have a target of £3.5 billion over the five years, and we now think that we will be able to exceed that and go to £4 billion on the back of further measures. What sort of things are generating that? A lot comes from our renewables programme—making sure that we can do more work for the same money and more for less. That means the introduction of technology and much better planning, so that we make better use of track access. There is some wage restraint in there and a significant dividend as well from revised procurement arrangements.

All those together mean that we have had a good start to the Control Period. There is still a mountain to climb, obviously—there is still £3 billion or £4 billion to be achieved. But we are feeling confident that in our third year we should be able to achieve that again and maintain that progress. We have made a good start, but there is still a load more to do.

Q33 **Sarah Olney:** You mentioned customer expectations of accessibility, and I wanted to press you a little about that. What is Network Rail doing to improve accessibility for disabled customers? I am thinking particularly about the installation of tactile paving, but also level boarding.

Andrew Haines: The way that our funding is split—we are funded directly through the Control Period for the operation, maintenance and renewal of the railway. Things like tactile paving are regarded as an enhancement, so we then talk separately to the Department for Transport about its priorities for that. We have had very recent discussions with Ministers, and we know that is a priority for them. We are working up a proposal that, subject to funding, would allow us to see tactile paving on all platforms by the end of this Control Period. That is subject to funding, but we think that that is eminently achievable.

Level boarding, of course, is a much, much bigger issue because of the historically different levels of different platforms. We know that the costs are quite significant, and they have to compete with other demands for enhancement funding—be that electrification, the renewal of stations, new lines or the reopening of lines. That is the ongoing debate with the Department and the Treasury on how we fund those sorts of improvements.

Q34 **Sarah Olney:** Mr Larkinson, to what extent have you seen Network Rail become more efficient so far in Control Period 6? What do you think the main challenges are?

John Larkinson: There is no doubt about the transformation that has taken place in Network Rail's efficiency. In CP5, Network Rail became less efficient, so it was set a target to become more efficient and it went into negative efficiency. That was mainly caused by problems on renewals, but it was also across the board.

What you saw then, and what was driving some of that, was effectively almost a centrally directed business plan to make savings that was not brought in by the actual people making the savings in respect of the ownership of the plans. The shift to a much more bottom-up business plan where the routes, the regions, feel that they own the efficiency plans has been a big transformation.

So, yes, as Andrew said, in the first two years of this Control Period, Network Rail has met—indeed, exceeded—its efficiency targets, and that is really good news. If we look at the system that is now put in place around the governance of that, the important step forward has been having an agreed set of leading indicators to measure whether Network Rail is likely to hit its efficiency targets.

In the past, frankly, we all spent too much time debating whether Network Rail had hit its efficiency targets. The question is: why do we think that Network Rail says it is now going to meet its year 3 efficiency target? We know that there are certain indicators that give you a good grasp of that—for example, booking disruptive possessions on a network. When Network Rail needs to do major engineering works, it needs to settle those possessions. Whether those possessions have been booked in good time is a really effective indicator.

We can now say with some confidence that Network Rail will hit its year 3 efficiency target. What is interesting within that is that we can now start looking at the differences between the regions. Network Rail has five main regions. My view at the moment is that we are pretty confident about four of the regions hitting efficiency targets, and less confident about one. That is actually really important management information for Network Rail. Network Rail has become a lot better at looking at the relative performance of the regions and learning lessons across the piece. The big challenge in terms of efficiency is that the absolute scale of efficiency savings is increasing over time, so it is a moving target for Network Rail. Every year, the target gets bigger, but to date progress has been very good indeed.

Q35 **Sarah Olney:** Mr Haines, obviously efficiency is a big goal. Certainly for my constituents and many other people around the country, the biggest thing they seek from Network Rail is reliability. What is happening in Control Period 6 that is going to improve network reliability, especially as more and more people come back to the trains after this very disrupted year we have had?

Andrew Haines: Yes, absolutely. All the passenger research says that passengers value reliability and predictability of train services above everything else. That is why it is a priority for us in CP6.

Obviously, the figures for CP6 have been heavily skewed by the pandemic. Running fewer trains with fewer passengers has meant, rather ironically, that the railway has been more reliable than it has ever been in its history in Britain. That is not much consolation to all the people not using it, so I take no joy in that, but that has made it quite difficult to say what it would have been without that. We know that in the first year of CP6, we were reducing service-affecting failures by broadly 5% to 6%. If we look at the underlying factors of train service performance, we believe that in year 2 we would have had a 5% to 8% improvement, according to the different metrics that we use and are measured by the regulator or the public performance measure.

The key will be to sustain some of that improvement when passengers come back in large numbers. That is where we have to continue to learn the lessons of timetabling. May ’18 was not just about bad implementation of a timetable. It was a poor timetable even if it had been brilliantly implemented, because it didn’t really take reliability seriously: it prioritised the volume of trains and did not take into account the reality of congestion. We are very much working with operators on that.

Yes, it is about reliable infrastructure, but it is also about making sure the plan is absolutely resilient as well. That is one of the key lessons from covid: we have a very reliable railway in Britain, providing we do not overcrowd it with trains. Clearly, I am not advocating the low numbers of trains that we have been running during the pandemic, but we have to make sure we do not overcook the goose, if I can use that phrase. We must not squeeze so many trains on that we get passenger dissatisfaction and unreliability, which itself will cause greater congestion.

Q36 **Sarah Olney:** Mr Larkinson, Mr Haines very conveniently says that, had they been able to run a full service in the last year, they are very confident that they would have met their reliability targets. Is that your belief as well?

John Larkinson: That is a very bold point to take on board, given what has happened in the last year. To go back to where Network Rail has been on performance, in 2018 we found Network Rail in licence breach because of its performance, and we basically said that that was because of very poor performance planning—having a system in place to plan performance—and poor recovery from disruption. To be fair to Network Rail, they took that on the chin and put in place a very substantial piece of work, particularly around working better with the operators. The data just before the pandemic kicked in showed an improving performance for Network Rail, in terms of the delay minutes that it causes—how much delay Network Rail causes on the network. Unfortunately, the pandemic then interrupted that short-term trend.

The issue for us now is what lessons Network Rail has learned from the pandemic. As Andrew mentioned, an awful lot of data has come to light now about how well the system functions, and the different levels of tradeoff. As more passengers come on but services are fixed, and then as services go up and more passengers come on, there is a lot more data in the system about how the whole rail network works. The question is how we, Network Rail and others can apply the lessons of what has effectively been an enormous experiment, in terms of planning performance in the future. That is a key area for us. Network Rail is working on a report for us on that right now.

Q37 **Sarah Olney:** Ms Kelly, thinking a bit more about the last year and the DfT and how they supported the rail industry, a number of emergency recovery measures agreements were implemented to help support the

rail industry financially. What update can you give us on the current situation regarding these agreements?

Bernadette Kelly: There are a number of different aspects to that. What we are doing across the piece generally is shifting train operators from those emergency recovery measures agreements to the new rail contracts. As a part of that, as you know, we have been in negotiations with train operators around the termination process, which would allow us to terminate the underlying franchise agreements and transition to new contractual arrangements, or, if operators preferred, to remain on those franchise agreements.

That process is now quite close to concluding. I think we have agreed the termination sums with all but two train operators now and we are hoping to conclude those two final ones very soon. Some ERMAs are still in place. I might ask Mr Bailey to give chapter and verse on the exact timing and duration of each operator and when they shift from ERMAs on to different contractual arrangements, but we are in the process of that transitioning of operators on to our new rail contracts.

I am not sure which particular element of ERMAs you are interested in. It would be useful to understand where your interest is.

Q38 **Sarah Olney:** Our interest is always what the risk to the taxpayer is and what potential bill the taxpayer may end up having to fund.

Bernadette Kelly: Of course. I can elaborate a bit on what I started to say in an earlier answer. We are now reasonably close to having final figures which will allow us to understand the total cost of these contracts in the last financial year. There is still some auditing and so forth of numbers, but the total costs of EMAs and ERMAs will be around £8.5 billion over the period. We have in our financial settlement for the next six months assumed or budgeted for costs of £4.1 billion.

What we have sought to do in the ERMAs is, obviously, to manage those costs down as much as we can. We have had a balanced scorecard approach, which I think we discussed at the last Committee—driving performance of train operators, focused on operational performance and passenger service, financial efficiency and collaboration. We are now involved in a business planning process that allows us annually to scrutinise the train operators’ costs and plans and to ensure that these contracts are providing the best possible value for money for taxpayers.

A critical issue now for us, looking forward into this year, is going to be the recovery in passenger demand, so we can see those revenues coming back on stream as the economy reopens. That is probably the single most important determinant of cost in this year—how quickly we can see those revenues now come back.

Conrad Bailey: Would it be helpful for me to talk through how we are planning on transitioning from the ERMAs to the national rail contracts?

Sarah Olney: Yes please.

Conrad Bailey: The ERMAs were put in place for up to an 18-month period for the majority of operators. My colleagues in the Department have been working intensively with the first tranche of operators to move them on to the new national rail contracts over the last few months. There are three that we expect to move by the end of May on to national rail contracts, or in around that sort of timeframe. We will then have a further tranche of negotiations going on over the rest of this financial year. By the end of this financial year, or certainly by late spring next year, we will have moved everyone off the ERMAs and on to national rail contracts— that is the intention. That is the phasing.

What the national rail contracts give us and bring in addition to what we were getting from the ERMAs are tools around collaboration and agility. We judge that the best way to protect both the passengers' and the taxpayer interest, as we see how demand returns to the railway, is by having a real ability to work with the sector across the whole sector. For example, I think Bernadette spoke a little bit about the business planning process. Inherent within that—we are also designing this for the national rail contract—are quarterly reviews, which will really allow us to make very close adjustments, not only with the operators but, critically, with Andrew's colleagues in Network Rail, so we will begin to get a more integrated approach to the railway, which will be critical if we need to adjust services to meet changes in demand patterns or if we need to identify areas where we can save costs across Network Rail and the operators. I hope that is helpful.

Q39 **Sarah Olney:** Thank you. I have one final question on that. To what extent are you confident that the ERMAs are not underwriting costs that would normally be the operating companies' costs? Obviously, you are picking up the unexpected costs presented by the pandemic, but to what extent are taxpayers now having to pay costs that would, in a normal situation, have been met by the train operating companies?

Conrad Bailey: Bernadette, do you want me to answer that?

Bernadette Kelly: Please do. I think I know the answer but I am sure you will say it better.

Conrad Bailey: Apologies. I was just going to say that the way in which these ERMA agreements are put in place is completely different from franchising. They are based on rewarding the operators with a small fee, which has two elements: a 0.5% base fee, which they all get, and then 1% based on performance. To earn the full fee, they need to deliver the performance. That is how we assure ourselves that we are not paying any excess profits or anything of the sort to the operators.

Q40 **Sarah Olney:** Moving on to the revenue part, which we have obviously touched on at various points already, we saw before the pandemic a levelling off in passenger demand, and then obviously in the last year we have seen a huge decrease in passenger demand, which we now see recovering; certainly, my own observation coming here this morning is that it is recovering quite strongly. What is your rail revenue recovery group doing to track recovery in passenger numbers to forecast how you think that will play out, and what are its current findings?

Conrad Bailey: Perhaps I will start with where we are today. Clearly, we are only partially through the Government's road map, but we are seeing passenger numbers and revenues at just over a third of what they would have been pre-pandemic. In terms of looking to forward demand, our analysts and the rail revenue recovery group are definitely doing a lot of work to try to understand exactly how that market is coming back and how demand is growing, but it is very early, and it is very hard to tell and to take any concrete judgments at this point. For example, people are still being encouraged to work from home, so we cannot really tell the impact on commuter demand and those sorts of things.

The rail revenue recovery group is doing a range of things to try to help us to grow that demand back, focusing on a number of things in the initial period. First, we focused on giving passengers the confidence to travel. We have seen lots of interventions by rail operators and others to stress things such as the cleaning regimes on trains and encouraging people to wear face coverings and those sorts of things.

Secondly, we have had a real focus on making sure that the information is very good for the travelling public so that they can understand which trains are likely to be busier. Again, that is an area where there is a lot of work going on at the moment to make sure that we are really addressing their needs.

Thirdly, I think I should talk about capacity. We have been trying to increase the capacity of services, and this weekend will see a further uplift in services from about 70% to 85%. That confidence, capacity and communications and information I think will help us encourage the travelling public back. As I say, in terms of forecasting forward demand, a huge amount of work has been done—a lot of monitoring of what particular types of tickets and the like are being sold—but it is definitely too early to draw any trend lines from that.

Q41 **Sarah Olney:** Ms Kelly, there is a lot of talk at the moment about a permanent increase in home working. There was a trend already, but it has been very much accelerated by the pandemic. Certainly in the part of the world that I represent, Richmond Park, a lot of commuter services might not see the demand, and that might mean a permanent drop in demand going forward. What are the Department doing to try and forecast what impact a permanent drop in demand on commuter services in London and the south-east in particular, but obviously other parts of the country as well, might have on rail provision overall?

Bernadette Kelly: As Conrad said, we are doing a lot of analytical work, a lot of modelling, and building on inputs from a range of sources. At the moment we are doing some modelling in which we take a combination of OBR forecasts around economic recovery and growth. There are industry surveys and intelligence about how work and travel patterns might change, because, as you say, there is lots of talk about permanent changes, but we do not yet know, and there are different views about how significant and how long term some of those changes will be.

We are looking at ticket sales. We are obviously taking into account the road map and expectations beyond that at what might happen in the broader economy following the pandemic, and we are looking at public attitudes and confidence around transport and their intentions as well. What we are trying to do is build from that some sorts of scenarios, and that is all you can get. You cannot get predictions from this for the reasons that Conrad has set out. We just do not know enough at this stage to be confident where things will land. It is more this modelling approach on which we then build some scenarios, which give you low recovery and high recovery windows within which to work. It is quite early days. We will be working very closely with the industry and with TfL and other transport operators to work through what this means in practical terms for transport planning, but it is still highly uncertain.

There is an interesting NIC report today, which I have not had a chance to read properly and process, but it is a very interesting piece of work precisely on this subject, where they offer some insights, views and thoughts as to how we might need to look at this. Interestingly, I noticed that Sir John Armitt is quoted as saying that we must hold our nerve, by which I think he means we must not pre-emptively assume permanent changes and reductions in demand and therefore start reducing capacity, because it is far too early to make those judgments.

So there is not a definitive answer. I can assure you there is a lot of work, a lot of technical work and a lot of industry input, and of course insights from expert organisations such as the National Infrastructure Commission to guide us on this, but it is leading us more to scenario analysis than to definitive plans at this point.

Q42 **Sarah Olney:** Thank you. How will this uncertainty impact the riskreward framework that you have with operating companies?

Bernadette Kelly: Again, that is the reason we have now moved to these new contracts, which will allow much stronger annual planning

Bernadette Kelly: Again, that is the reason why we have now moved to these new contracts, which will allow much stronger annual planning and therefore a much more flexible approach to adapting to changes that might be emerging. That, I think, is really the principal element of this. Conrad, do you want to add to that?

Conrad Bailey: I think that is it: under the new contracts, the majority of cost risk and revenue risk is held by the Government. There is just so much inherent uncertainty at the moment that there is no way we could sensibly contract in any other way, which is why we have gone for this fee-based approach that I was describing earlier.

Q43 **Sarah Olney:** I have a very quick question for Mr Haines. The Report refers to other income, as well as passenger income, and some of that comes from renting out space in stations to small businesses. I was pleased to see that Network Rail took quite a flexible approach to this, in contrast to what I have heard from other small businesses in my constituency, and I wondered how the experience of the past year might change your approach to rents and leases to small businesses on station property going forward. I have seen reference to turnover-based rents, and I wondered whether that is a relationship that might continue.

Andrew Haines: We have absolutely moved to turnover-based rents for this year, because we felt that was the best way to sustain long-term interest in our portfolio. Passengers value retail at stations, and interestingly retail is quite keen to come back.

We were at about 65% open on 12 April; we are aiming to be at 80% of all retail open on stations by June, and then fully open by the end of the summer. At some point, we will look to be more flexible, and for some of our bigger tenants we may look to reinstitute minimum guaranteed rents, but I think the turnover basis is a very sensible one, particularly at stations where we are trying to encourage new types of retailing, and we certainly think that the mix of retailing will change post-pandemic. If we are going to do that, then a more flexible approach would be helpful.

Q44 **Sarah Olney:** Thank you very much. Ms Kelly, one of the things that has really been highlighted in this Report is how much rail fares have increased above inflation over recent years. We can see that before the pandemic, there was a tailing-off in passenger demand. To what extent do you think it was the increase in fares that started to impact on passenger demand?

Bernadette Kelly: It is actually quite difficult to isolate the impact of rail fares on demand on the railway. If you look at the longer-term trends, what you see through the early part of the 2000s and so on was quite a consistent pattern for a while of RPI+1 increases, but at the same time very consistent growth in passenger demand during that period.

Of course, one of the things we know is that parts of the railway have historically been relatively inelastic: commuter travel and so on. People need to get to work, and they need to use the railway to do so. We then had a period when it was RPI+0, which correlated with a period in which demand flattened out, so it is actually quite hard to be definitive about this.

Clearly, what we can assume—I am sure that economists are already writing many papers on this—is that price will have an impact on how people return to the railways, particularly if they have greater choice over how they work and travel in future. Therefore, one of the important aspects of reform will be thinking about how to ensure that we have a fair ticketing system that is flexible, responsive, and sensitive to the choices that we know passengers are going to want to make.

However, I do not think we can readily conclude from the statistics that fare rises above inflation have necessarily driven a reduction in demand. It is more complicated than that, but I do think this is now a more sensitive touchpoint going forward, particularly as people have different choices about how they work.

Q45 **Sarah Olney:** It has been discussed before that rail fares are overly complex. Can passengers expect to see some progress on that?

Bernadette Kelly: Yes. We are aware it is not just the level of cost—it is also the complexity of ticketing that is often a frustration. Conrad, do you want to say a bit more about that?

Conrad Bailey: Perhaps I can go back to when I was working with Keith Williams on this piece. I think it is fair to say he spent a huge amount of his time bringing his experience from the aviation sector, helping us understand how we might better modernise the retailing offer for customers of the railway. Again, I think this is something we will see more of in the White Paper.

Just to amplify the point that Bernadette was making, we have not actually had until this spring any ticket fare rises above RPI since I think 2014, so it is a long period of time of inflation on tickets being at RPI.

Q46 **Sir Geoffrey Clifton-Brown:** I want to pick up on one or two themes, following my colleague Sarah Olney's excellent questions. Can I start with you, Anthony Haines?

Chair: Andrew.

Sir Geoffrey Clifton-Brown: I am so sorry—Andrew Haines. I think I heard you gave the Committee a figure that you need later in the control period to make savings of £3 billion, which sounds like a very big figure to me. Could you give the Committee an idea of where you think you are going to make those savings from?

Andrew Haines: Yes, it is £3 billion, out of a total of £4 billion that we are now targeting. About 60% of that comes from our renewables activity and 40% from our ongoing operational maintenance activity.

The sort of things that we are doing that drive that—and one of the reasons we have reasonable confidence in this current year—is that we have revised contracts in place, with better prices, partly on the back of operator volumes. We have introduced technology that simplifies a lot of our activity. We have planned well ahead; as John Larkinson identified, we pay compensation to train operators for disrupting their train services, so the more time we give them, the less we pay; by planning well ahead, we can significantly reduce the cost of that.

We have factored in some wage restraint as well as part of that, reflecting the Chancellor's policy on public sector pay and on decisions we have taken not to pay bonuses to senior management. Those are the sorts of areas. It is going to be a stretch, but, as I said, we delivered two years and we think we are well on track for this year.

Q47 **Sir Geoffrey Clifton-Brown:** To what extent will new technology come to your aid? I am thinking about things like artificial intelligence robots on rail maintenance, digitalisation of signalling and those sorts of things.

Andrew Haines: Absolutely. When it comes to intelligent infrastructure, digital signalling is really for subsequent control periods. We have started our first very short stretch of digital signalling already, but the dividends we very much expect to come forward in CP7 and CP8, over the next five or 10 years.

In terms of using that technology for remote condition monitoring and the use of drones to identify defects in order to intervene early, and talking to operators about much more use of on-passenger train monitoring kit—absolutely, that is a big programme. We have got regulators giving us over £300 million to spend over the control period on intelligent infrastructure, on the back of us delivering at least an equivalent level of savings and then, of course, an ongoing return on that investment in the subsequent periods.

Q48 **Sir Geoffrey Clifton-Brown:** I don't know whether you have seen the evidence to the Committee from the Railway Industry Association. One of the things they say on your procurement is that procurement tends to be concentrated at the back in the control period, which makes life very difficult for planning for manufacturers. What are you doing to rectify that?

Andrew Haines: Historically, that was a fair criticism and we saw it in that, even though throughout this control period, on average, our renewal spend is going to be about £700 million a year greater than in CP5, for the first year, it was actually less, because the contracts were not in place. The commitment I have given to the supply chain is that, in future, we will disconnect the cycle of our procurement from the control periods. What has happened historically is that the contracts have been aligned to the lengths of the control periods, and there has almost been an assumption that at the end of the control period, there might be no money.

That was obviously a spurious assumption, but it has led to uncertainty in the supply chain, so we have agreed with them a smoother mechanism going forward, which means that we disalign—if there is such a word—the control periods and those contract periods. That is important, because the supply chain repeatedly tells us that if we want to drive efficiency, a steady pipeline, which allows them to invest in technology and to retain skills, is the best way to do it. It allows them to give us better prices.

Q49 **Sir Geoffrey Clifton-Brown:** Perhaps I will now come to either Ms Kelly or Mr Bailey and question you about the new system taking over from the franchise arrangements. How is this going to help you in planning? In particular, how will it help you in terms of controlling costs? I am very interested in controlling costs. If you move away from a long-term franchising arrangement to a short-term annual licensing system, how are you going to control costs, and how are you going to incentivise the licensees to keep their prices down as low as possible? I don't mind whether Ms Kelly or Mr Bailey answers.

Bernadette Kelly: Conrad, would you mind starting on that one? I will add if there is anything further.

Conrad Bailey: I am afraid I am going to go back to the business planning process here. The way the new arrangements are going to work is that we have invited, on an annual basis, the operators to provide us with a business plan that we are able to use to ensure we are identifying where we need to make cost reductions. We have been given targets around that, as well as changes and adjustments, to reflect the way in which we come out of covid.

Again, those business plans to try to help the join-up across the railway very much need to have had significant input from colleagues in Network Rail. We will then review that on a quarterly basis against the targets. We have the opportunity at that point to introduce a further challenge or adjustments if we need to.

It is that quarterly drumbeat of challenge that will give us much more flexibility and agility in terms of controlling costs over the coming period, given the context of covid. This is really quite a contrast with the franchising system, whereby we would have contracted but would have had very few levers for all the in-life changes that we would have required. That is how we intend to do it.

It is perhaps then worth talking a little bit about the fees; I will talk here about the fees that we have in place on the ERMAs. We will be using a similar fee-based approach for the national rail contracts. As I say, these are going to have a small fixed element, which is clearly appropriate, but the majority of the fees—in the case of the ERMAs, 1% is around performance, and part of that performance is around the delivery of things that passengers really care about. But clearly, a key element of that performance is also around the efficiency with which they manage these contracts for us.

Q50 **Sir Geoffrey Clifton-Brown:** My question was in two parts. It was partly about reducing cost, but partly about giving incentives for better performance from your licensees. If I put myself in the mind of a franchisee with a long franchise of 15 years or so, I would say to myself, "I can work hard and become more efficient, and I will make money"— this is how they might have thought historically, although it might not have worked out like this—"at the latter edge of the franchise."

Under the new short-term licensing system, I cannot see what the incentive is for the licensees to work hard to reduce their costs so that they earn more, because the licences are a much shorter period. How does that work?

Conrad Bailey: They are a shorter period, and clearly that is one of the things we will need to work on with them. That shorter period reflects the circumstance of covid and the way in which we need to incentivise them around that agility and flexibility—in the short term in particular at the moment—but it is worth bringing out with respect to the ERMAs and the future national rail contracts we'll have in place the fact that the majority of the return to those companies will come from their ability as to flexible performance-related measures. That should be the incentive there for them.

It is worth also bringing out that we see these national rail contracts very much as a bridge to a future commercial model under Williams, so we are not under any illusions: a shorter contract has some implications, but we judge that, in the circumstances of covid, that is the right approach, I think, and once the commercial reforms envisaged under rail reform are set out, they will see something that returns much more to a longer time horizon.

Q51 **Sir Geoffrey Clifton-Brown:** Ms Kelly, I am happy for you to come in on my previous question if you want to. If not, what I need to know from you, please, is this. Doesn't this have significant resource implications for your Department because you are getting involved in much more micromanagement of the rail system? How are you coping with those at least short-term resource implications, if this is only a bridge, as Mr Bailey says? Please, if you have anything to add on the previous question, I am happy to hear that too.

Bernadette Kelly: On the previous question about controlling costs, which is where you started, I would say that within the regime there is a list of disallowable costs, should the train operator incur certain types of cost, that we do not think it reasonable for the taxpayer to bear, and there are arrangements to deal with that.

You are quite right to identify that what we have here is a very different model in terms of the incentives that it gives and the rewards that are available to train operators. As Conrad said, this is a bridge and we will be looking at this contracting model and the commercial model longer term in the light of the White Paper.

It is fair to say, however, that it is unlikely we will soon—any time soon—return to the incentive structure we saw in franchising, which ultimately did not deliver the necessary outcomes, either for passengers or for taxpayers. It is reasonable to assume that the risks and incentives will look different for a significant period, though obviously if demand comes back there will be options to flex this.

As for the resource of my Department, yes, it is a significant resource requirement to manage things in this way, but actually franchising was not resource-light, if I can put it that way. It would be a misrepresentation to imagine that we signed a seven to nine-year franchise contract and that was the work done. The work of in-contract management of franchises has always been quite intensive. Within my Department, there were always issues that needed to be resolved within the lifetime of franchises, so the awarding of franchises was highly resource intensive, but the management of those subsequent contracts in-life was also resource intensive.

So, it may be that this is somewhat more resource intensive in some ways, but I don't think it's as big a step-change in terms of departmental resources as your question perhaps suggests. I don't know whether Conrad wants to say more on that.

Conrad Bailey: I would briefly add that we are aware that this does require some different skill sets and different ways of working within the Department, so my colleagues and I have a programme in place to make sure we have the skills and the capacity very much to drive performance and costs through these contracts.

Q52 **Sir Geoffrey Clifton-Brown:** Ms Kelly, I am going to move on to a different section of the Report now, which is net carbon, and throw you a bit of a googly. The Climate Change Committee will be looking at every area of our activity as to where we can reduce carbons, certainly by 2050. Is it possible we could get a much earlier target to become net carbon neutral on our railways?

Bernadette Kelly: First, the Government has been clear that we want to see a plan to deliver net zero on our railways by 2050. Your question is, could we do that much sooner? As you know, this Government has generally shown, over the past couple of years, a ratcheting—if I can put it that way—of ambition, leading towards net zero. At my last appearance here, we talked about what we were doing on electric vehicles and road transport to enable that.

I do not think we have agreed that for the railway. It is very important that we decarbonise the railway, but we need to put that into perspective. The railway accounts for about 3% of all transport emissions. If what the Government wants and my Department wants, and what Ministers want, is rapid progress in decarbonising transport, the biggest gains to be had are from accelerating progress in decarbonising road transport. Rail transport is much more sustainable in comparison.

That said, in the transport decarbonisation plan I hope we will be setting out our ambitions and our plans to decarbonise across all modes, including rail. As the Committee knows, I am always very wary of giving dates for the publication of these sorts of paper, but we hope to publish further details on that around the summer. That will set out our plans on rail.

Ultimately, a key part of decarbonising or achieving net zero on the railway will turn on how we move away from diesel, and how we are able to electrify the network and bring in other forms of technology—for example, hydrogen and battery trains.

We have also set it out—I know Andrew Haines and Network Rail have been very much involved in this—that what you need to achieve net zero is a steady long-term plan for electrification. That is the way to ensure that that is done efficiently over time. The Traction Decarbonisation Network Strategy sets out some of that thinking, and I am sure that Andrew can speak to it further.

Q53 **Sir Geoffrey Clifton-Brown:** Before you throw that question to Mr Haines, can I concentrate your mind on it? I would like to take you to page 29 of the NAO Report, which deals with this electrification. It shows

the investment that the railway system needs to achieve net zero by 2040. That is a significant level of investment that will cover several control periods. I think poor old Mr Haines is probably well concentrated on this control period, rather than looking at future control periods. What strategy is the Government going to set out in terms of investment? What speed are we looking at to try and electrify our entire railway system?

Bernadette Kelly: What I cannot do is pre-empt decisions that will need to be taken in the context of future control periods and future spending reviews. I am not able to give you a plan because that would pre-empt a host of decisions that the Government will need to take about where it needs to put investment in order to achieve net zero right across the economy. Rail electrification is an important part of that, but a relatively small part in the greater scheme of things. We need to put it into that context.

The graph on page 29 illustrates part of the historical problem. We have had a feast-and-famine approach to electrification in recent years, which has resulted in some extremely inefficient outcomes in terms of cost. I know that what we and Andrew are keen to see is a consistent long-term plan that allows electrification to be taken forward in a way that is both affordable and efficient.

Q54 **Sir Geoffrey Clifton-Brown:** I appreciate that you would not want to give too many commitments ahead of that plan, but would you at least concede that the Government need to have a very firm plan on net zero and electrification because it affects procurement decisions, particularly on rolling stock? We would not want to be buying any more diesel rolling stock if we were intending to move towards electrification in any rapid timetable. One follows the other, does it not?

Bernadette Kelly: I completely acknowledge—absolutely—what we need is a clear, long-term strategy for this, so that we can ensure that electrification is carried out efficiently and that the supply chain develops in a way that allows that to happen. And of course, we absolutely don’t want to be taking decisions about investment in rolling stock that are not consistent with our long-term net zero plan. So yes, I would certainly acknowledge that is a very reasonable challenge, and I think it’s one that the Government fully accepts and acknowledges as well. I hope, as I say, our transport decarbonisation plan will have more to say on this.

Q55 **Sir Geoffrey Clifton-Brown:** We will get Williams, you tell us, by the end of the month; we are very pleased to hear it. That will give us a clue as to which way the long-term plan for railways in this country is going, and your transport plan for the end of the summer will give us a clue. Can we expect that the two things will mesh, so that by the end of the summer we should have a pretty good idea of what the next 20 or 30-year plan is for our railways?

Bernadette Kelly: I would not necessarily say that the transport decarbonisation plan itself will have a detailed 20-year plan for railways. What I think it will do is set out very clearly what our ambition and highlevel plan are. It will set out a number of steps and actions to achieve that, and I imagine that what it will then require is some further detailed planning in order to deliver on those ambitions, which I expect we will be working very closely with Andrew and others to develop. What I hope you will see is a logical progression in the development, evolution and articulation of exactly the plan you are describing.

Q56 **Sir Geoffrey Clifton-Brown:** Ms Olney very articulately went into the business of encouraging passengers back on to the railways and improving passenger income. But it's likely, is it not—all of you have already alluded to this—that the pandemic will result in some permanent travel changes? It's likely, is it not, that people will spend more time working from home, and therefore any railway journeys made are likely to be concentrated either side of a weekend? I am wondering how those plans will react to these potentially long-term and very significant economic changes. Whereas the demand was predictable in the past, it is now becoming much more elastic rather than inelastic, is it not?

Bernadette Kelly: I don't disagree with anything you have said. In a sense, it chimes with, I hope, some of the answers that we gave to earlier questions—namely, that we are likely to see some long-term changes, but we cannot yet be confident about exactly what those are, and we need a system capable of being flexible and adaptable to them. But it is too early now to try to predict exactly what they will be. Absolutely, what we are trying to put in place is the conditions, the systems and the mechanisms that mean the whole rail industry can respond to the way in which demand may come back, in terms of both the speed of that recovery and the shape of the recovery, with people travelling at different times of day and taking different journeys. All those are things that we are going to have to work through, and we are trying, as I say, to make sure we have sufficient flexibility to do that in the most responsive and efficient way we can.

Q57 **Sir Geoffrey Clifton-Brown:** I will go around each of you now if the Chair will indulge me on this. I think that encouraging people on to the railways and out of their cars is one of the most important things we can do in terms of carbon. I am a bit concerned at some of the answers we have been given today. There's a bit of airy-fairyness about digitisation of our railways so that we can get more trains in a concentrated period. There's a bit of airy-fairyness about how long it is going to take to electrify all our railways. I am going to start in reverse order and ask Andrew what Network Rail is going to do to encourage more passengers back on to rail.

Andrew Haines: Thank you for the opportunity. In the first place, we are doing a great deal around reassuring people. Secondly, we have used a lot of the time that we have had during the pandemic to increase infrastructure works, to make the railway more reliable. In the springtime, Network Rail was 25% of all the UK economy's construction activity because of the opportunities we took.

We are now working with the Department, as Bernadette has said, on a decarbonisation plan, because a green railway will be key to that. We have been commissioned by the Department to develop the rail revenue recovery group, which is looking at a large national marketing campaign once lockdown restrictions have been lifted, and at retail modernisation, which would allow simpler retail transactions. Ms Olney referred earlier to the lack of that as a restraint on people.

We have a very comprehensive investment plan, which the Government is directing, around restoring railways and opening up new lines. We will see a new railway line, or rather a restored railway line, opening before the end of this calendar year in Devon. There are strong commitments to reopening the Northumberland line. We have a very, very comprehensive programme, and I think passengers will be pleasantly surprised.

Q58 **Sir Geoffrey Clifton-Brown:** Can you answer my digitisation point? It seems to me that if we are to have more concentrated travel either side of a weekend you are going to need to run, in some areas, many more trains on existing lines. If you delay the investment in digitisation, isn't that going to make that more difficult?

Andrew Haines: We have no plans to delay that. What we are saying is that we have to prove it as a proof of concept, because we know that if we promise to passengers and then don't deliver, they will be disheartened and deterred. We will be running the first digitally-signalled trains in this country by the end of the next calendar year. That will also allow us to drive things down with respect to efficiency, because clearly the taxpayer does not want to be paying over the odds for a digital system.

We then have a comprehensive plan for the east coast, talking to colleagues in the Department about how we translate that to the west coast main line so we can harness the revenue benefits of HS2 by creating additional capacity in other parts of the country, which will allow HS2 trains to run on the classic network. It's very much at the heart of our proposition, but we have to get the first building blocks right to build confidence among the public and, bluntly, in the Treasury as well.

Q59 **Sir Geoffrey Clifton-Brown:** Okay, understood. Mr Bailey, this is your big chance to shine. How are you going to encourage many more people back on to our railways?

Conrad Bailey: I will touch on three areas. I have already talked about the near-term areas of ensuring that there is confidence and reassurance for the travelling public, the comms and marketing activity that Andrew Haines spoke about, and ensuring that there is capacity, so people can feel confident travelling.

Moving to the second area, it's partly our new commercial constructs—our new contract—that will give us the ability to respond with much more agility to changing passenger demand. As we see how customers are growing back, we will be able to be much more responsive.

Finally, it is probably worth touching on two other aspects. One is really focusing on that interface with other modes of transport, making sure it is easier to cycle to a station and leave your bike secure, or perhaps travel with it, and making sure that it is easier to work out how your journey involves a bus and a train. That is key to getting people off other transport. The other area has received a lot of coverage in the media: we recognise that there are going to be changes in travel patterns, although we don't yet know exactly how those will play out. One thing we are all pretty certain about is that we will need to accommodate a more flexible style of working and travelling. That, again, is why we are—

Q60 **Sir Geoffrey Clifton-Brown:** Mr Bailey, that absolutely is music to my ears, this compatibility with different modes of transport in terms of commuting and business use, and in terms of leisure and tourism, particularly as my constituency relies on tourism. How will you encourage better intermodal marketing so that people know they can get a particular train, linking with a particular bus, or that there is a cycle hire company at the other end that they can rely on? How will this be marketed?

Conrad Bailey: There will be more thoughts on this in the reform proposals, but a key part of it is making sure that there are the right local connections on the railway. A lot of this can't be done as a top-down national approach. We need that interconnection between Andrew's colleagues, local authorities and that kind of insight. The second area where we have real opportunities—I think an app was launched yesterday by the Rail Delivery Group and Zipabout—is around making sure that there are ways to bring technology in here, because a lot of this is about helping people to work out how to plan those last-mile journeys after they get off the train, or when they want to get on. Those are some of the ways—

Q61 **Sir Geoffrey Clifton-Brown:** That is very helpful, thank you. Mr Larkinson, if you have anything to add, please don't repeat what other people have said. If you have something different to add about how to encourage more passengers on to the railways, that would be helpful.

John Larkinson: There is probably some overlap. We are the health and safety regulator for the railways, so we will be focusing very much on safety as a matter of course. We will also have quite a big role in passenger information, so we have been working with train operators to get a new measure of the quality of passenger information, through which we can benchmark the relative quality of the information provided. I think that will be helpful to passengers, who often say that one of the biggest things they care about, in addition to performance, is information.

Our other role comes through the things we discussed earlier. We need to ensure that we bear down on Network Rail's performance because better performance on the network can encourage passengers back.

A final point in connection with what we talked about earlier is costs. In the medium and long-term, only by bearing down on the costs in the system can the Government be given flexibility around potential ticket prices. As the cost to the system grows, that puts pressure on ticket prices. So, we will continue to bear down on Network Rail's costs, continuing the earlier discussions about efficiency.

Q62 **Sir Geoffrey Clifton-Brown:** We have not discussed costs at all today, but perhaps we should ask you one brief question on that. Nothing causes more annoyance to commuters than constantly facing increases above inflation each year, and particularly after the pandemic, I should think that some people's jobs will be very precarious. What are you looking towards in terms of allowing ticket cost increases on the railway?

John Larkinson: The decisions on regulated ticket prices are a matter for the Government, not us. We are more indirect. What is the total cost base of the railway? If we can ensure that Network Rail delivers its efficiency targets over the next three years, that will have a multi-billion-pound impact on the cost base. Keeping costs down gives the Government more opportunities and more options around the meet between taxpayer and fare payer funding. So, our focus will be on cost control. We think we have some good systems in place to control Network Rail's costs and, as discussed earlier, the current efficiency plans are being delivered.

The other area where there is probably more work to do is the interface between Network Rail and the train operating companies. In the new contracting options that were discussed earlier, there is an opportunity better to align the outputs that are put into the contracts with the outputs that are put on Network Rail. Through better alignment, I think there is also some scope for savings, which we will look into.

Q63 **Sir Geoffrey Clifton-Brown:** Final answer from you, Ms Kelly. How will you run a world-class railway that everybody wants to travel on—to get out of their cars and on to our railways?

Bernadette Kelly: Watch this space. I hope that the rail reform White Paper, which you will be able to read very soon, will set out a credible plan for driving all the things we want to do on the railway in performance, reliability, efficiency and so on. I hope we have touched on the immediate plans today.

I wanted to come in on the decarbonisation point, to add to what my colleagues said, not repeat it. I strongly share your concern that we do not see a rush to cars, at the expense of other modes of travel, coming out of the pandemic. One of the fundamental reasons we have maintained service levels on the railway network and the bus network right through the pandemic is that we did not want to see people driving who could use public transport. That is why we took steps during the first lockdown to start promoting and rolling out active travel schemes across the country. It is front and centre of how we are thinking, not just for the railway, but for the whole transport system, about how we recover.

The point about integration that Conrad mentioned and that you rightly applauded is critical. It is why our plans for ensuring a green recovery for transport from the pandemic need to be seen in the context of not just the railway, but the plans that we set out for active travel in the "Gear Change" strategy, published last year, and the bus strategy, "Bus Back Better", which contains some quite radical proposals for improving buses and for integrated transport between rail and buses. The plans need to be seen as a whole and we are, as you can imagine, thinking very hard about how we ensure that what comes out of all this is a strong and integrated plan for the recovery of public transport across the piece.

You mentioned costs and fares—you asked Mr Larkinson the question—and I would just say on the point you make about our prices and as we discussed earlier, flexibility will be the key thing that commuters, travellers and passengers will be looking for in terms of rail pricing. That is obviously something that we are looking very hard at and I hope we will have more to say in the context of the rail reform White Paper.

I want to correct one thing that I said earlier in this hearing. I think I said that we had budgeted £4.1 billion for the continuation of ERMA and other rail contracts in the current financial year. Can I just clarify that that is for the first six months of the current financial year? We will make sure that is clear on the record, but I would not want to mislead the Committee.

Q64 **Sarah Olney:** I have a quick question related to what we have been discussing. The Government have not yet ruled out the possibility of a third runway at Heathrow. I am not particularly going to ask about that, but what I am interested in is that the plans that have been put forward so far do not include any provision at all for increased public transport to Heathrow as a result of the planned extra capacity. I just wondered, given what we have just been discussing, whether you could comment on that. If the plans do go ahead, do you think that there would be substantial investment in public transport routes to Heathrow airport?

Bernadette Kelly: I find it a bit uncomfortable to speculate on plans that do not exist and plans that would need to be brought forward by a private operator. It is clear that if a third runway is built at Heathrow, that would be a matter in the first instance for Heathrow and the developers. It is very difficult for me to try to comment on something so speculative, at a time when any plans would need to be brought forward by the private sector. What we have always said, and it has always been a factor in the debate, is that any plan for a third runway would need to meet all environmental, planning and other obligations that exist. It is inconceivable to me that those obligations could be met without considering the transport implications of any increased capacity at the airport. Then there would be a debate to be had about how those were paid for. If a private developer were benefiting from expansion, obviously we in Government would look to them to bear costs where appropriate.

Q65 **Sarah Olney:** There was a lot of discussion in the previous section about passengers and encouraging passengers to choose more carbon friendly forms of travel, but what about freight? We have been expecting a crossmodal freight strategy and I wondered whether you have any update on when that will be published.

Bernadette Kelly: I am afraid that is another one of those pieces of work that fell foul of the crisis response in the Department. It was something that again we had to put to one side while many hundreds of staff were deployed on our crisis and operational response last year.

However we are very conscious that we do still owe a response to the NIC report on freight from 2019. We are now actively working on a crossmodal freight strategy, and are hoping to be able to set out some further plans on that later this year.

It has been an interesting feature of the combination of Brexit and the pandemic that it has shone a light on the importance of our freight routes to the resilience of our economy. If anything, there is an added interest and significance now in the work on freight. I hope we will be able to share more with the Committee in due course, but I just want to give you every assurance that we are now actively working on this.

Q66 **Sarah Olney:** Obviously we have talked a lot about how we can mitigate climate change, but there are obviously considerable risks for the rail network in the impact of climate change. I think it was Mr Haines who referred earlier to the fatal accident at Stonehaven last summer. What is Network Rail doing to model and prepare for weather and climate risks? Do you see the risk of these kinds of incidents increasing?

Andrew Haines: The risk is absolutely increasing. Climate change impact is with us now. We are seeing more convective rainfall events than previously, and that has been confirmed for us. Last summer I commissioned two world-leading experts, Dame Julia Slingo, previously a chief scientist at the Met Office and associate of the World Meteorological Organisation, and Lord Robert Mair, an eminent ex-professor at Cambridge University on earthworks, to advise us on those two programmes.

We have to spend more of our available money on earthworks, and we have to be much more effective at water management. We can use technology to help us with that, and we know that there is technology in meteorology now that allows us to be much better at predicting localised sites. It tends to be these very heavy, high-impact rainfalls—it is not necessarily sustained rainfall over a long period, which we can monitor, but the very heavy bursts that create the particular risks.

Over the last 10 years we have doubled the amount of funding allocated to drainage and earthworks. We are spending 60% more in the current control period, but frankly it is a deteriorating risk and we will have to put more of our allocated resources into earthworks and water management. What these two reports do is help us to focus that money in ways that have the best possible impact.

It is worth saying that Lord Mair did say that the way we manage it in Britain is one of the best, if not the best, in western Europe, but of course if you want to look at convective rainfall events, you go to Asia and the far east and the southern hemisphere where they have them more regularly, and that is exactly what we are doing currently.

Q67 **Sarah Olney:** Mr Larkinson, what role will your organisation be playing in incorporating the assessment of risk of climate change and weather events, particularly within the five-year control period structure?

John Larkinson: It is certainly a really big issue, particularly for planning for the next control period. Resources have already been increased for this control period, and it looks like there may be further pressures for future control periods. The next periodic review is under way, and decisions on that will need to be taken on that by autumn 2023.

One fundamental issue is that it is really very unlikely that there will ever be enough resource to weather-proof or future-proof all the assets that might be affected by climate change. Therefore, we will also need to consider operational mitigations. For example, we know that some earthworks and some drainage systems will fail, and therefore having the right operational systems in place—what actually happens on the day if it looks like there will be severe weather, what you do about train operations on a route—will be crucial. That came out of the some of the reports that Andrew Haines referred to earlier, and it is an area that Network Rail will be looking at as well.

We have got that balance between what you do with the assets, in terms of spending money on assets, and investing potentially in better understanding at the operational level and better operating capability in managing events when severe rainfall happens. Getting that balance right will be key to this.

Q68 **Sarah Olney:** Finally, we have talked quite a lot about the new contracts with the train operating companies, and separately we have talked about efforts to get people out of their cars and on to trains. To what extent do the contracts recognise the role that the train operating companies have to play in that and what they can do locally within their local services? You talked about marketing: what are you expecting train operating companies to be doing on that?

Conrad Bailey: One of the really powerful tools in these new contracts is the ability to bring in changes that are required so we can drive some of the reforms that will be set out in the White Paper in the near period. That goes back to the question we were asked earlier about how long it will take to implement some of the reforms. The commercial basis that we are putting in place will allow us to make early progress in a number of areas, and this is one of them.

Q69 **Chair:** I just want to go back to Mr Larkinson. Mr Haines was talking earlier about savings, and Sir Geoffrey probed him on the £3 billion out of £4 billion of savings that he is hoping to achieve in the next year. And obviously we have seen some progress on savings at Network Rail after a long time—as you highlighted, Mr Larkinson—in Control Period 5 when things went the wrong way. Do you feel that some of this is the covid dividend? As Mr Haines highlighted, some of the work can be done when there are fewer trains running. How are you evaluating what is a covid dividend and what is sustainable?

John Larkinson: There are probably two factors going on here. In some areas, the covid pandemic has definitely driven costs on the railway in the short term, and we can see that. If you look at what is happening to Network Rail's costs and incomes, its income is going down during this year because fewer trains have been running. There have been increased operational costs around the workforce, and the costs of renewals jobs have gone up too, because of the constraints. On the other hand, it has been possible to bring forward some work and make use of the fact that the network is less busy.

When we look at Network Rail's efficiency forecasts, we will look at the extent to which they have been made harder or easier as a result of the pandemic. Generally speaking, I do not think that overall it will have a material impact on Network Rail's ability to meet the efficiency targets. There are some ups and downs in the overall system, but at a big level it will not have a massive impact on Network Rail's ability to hit the targets. That reflects the good work that has been done this year to try to keep some of the controls during the course of the year.

Chair: That is quite an accolade for you, Mr Haines. I will leave it there. This is a subject that the Committee returns to frequently, as you know, Ms Kelly, and we are working very closely with the Transport Committee on these issues. We look forward very much to finally seeing the Williams review, although those of us who watch potential election dates very closely might think it is very ambitious to achieve in this Parliament. Ambition is no bad thing in Government, I suppose, if there are plans to back it up. We will crawl over the detail of that and we look forward to seeing clear and transparent reports about the cost of the changes.

The Committee will be happy to engage with you about how the Government reports to Parliament on these issues, as we did with HS2. If there is going to be a change, a clear baseline and a clear reporting protocol—not just what is dreamt up in the Department, with respect—is useful to Members who are challenging and cajoling Government to do this well and looking at taxpayers' money.

I thank you all very much for your time and wish you all the best as the Williams review comes out. We hope that the things you have promised today begin to come to fruition.