



Transport Committee

Oral evidence: Investing in the railway, HC 257

Monday 14 July 2014

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Members present: Mrs Louise Ellman (Chair); Sarah Champion, Jim Dobbin, Jim Fitzpatrick, Karl McCartney, Graham Stringer, Martin Vickers

Questions 111-192

Witnesses: **Richard Price**, Chief Executive, Office of Rail Regulation, **John Larkinson**, Director, Economic Regulation, Office of Rail Regulation, **Anthony Smith**, Chief Executive, Passenger Focus, and **Mike Hewitson**, Head of Passenger Issues, Passenger Focus, gave evidence.

Q110 Chair: Good afternoon and welcome to the Transport Select Committee. I apologise for keeping you waiting. Could you please tell us your name and organisation?

John Larkinson: I am John Larkinson, Director of Economic Regulation at the Office of Rail Regulation.

Richard Price: I am Richard Price, Chief Executive of the Office of Rail Regulation.

Anthony Smith: I am Anthony Smith, Chief Executive of Passenger Focus.

Mike Hewitson: I am Mike Hewitson, Head of Passenger Issues at Passenger Focus.

Q111 Chair: I understand that Mr Price and Mr Smith want to make some opening remarks.

Richard Price: If it is all right, I want to say a few things to explain our focus on investment delivery and safety, very briefly. Over the next five years Network Rail will be spending £38 billion on maintaining, renewing and enhancing the rail network. That includes delivery of a programme of enhancements worth more than £12 billion to meet the growth challenge. We are working to ensure that this delivers the intended benefits for passengers and freight customers. Delivery of enhancement projects has gone well over the last five years. It has been a success story for Network Rail. The regulatory process, we believe, worked well in making sure that Network Rail stayed on track. That said, the next five years present a different set of challenges for Network Rail. There are more projects at an early stage of development than in the last control period and, typically, they are more complex to deliver. Of the £12 billion enhancement funding, in terms of projects specified by the Government, £7 billion relates to projects that are at an early stage of development with real uncertainty about precisely how they could be delivered or what their cost should be at the time of the periodic review. We have put in place a new mechanism to

make sure that those projects are properly specified and costed efficiently, and are ready to deliver benefits to passengers and freight customers by 2019.

Finally, there are a couple of things. Our final determination also included £12 billion for investment in renewing the network and underpinning the sustainability of the existing railway. We are not just the economic regulator; we are also the safety regulator for the sector. We will never push for efficiency or improvements in performance that come at the expense of safety. We are scrutinising Network Rail carefully to make sure that it is delivering safely, sustainably and reliably for its freight customers and passengers over the next five years.

Q112 Chair: Thank you. Mr Smith, you wanted to make some comments.

Anthony Smith: As the independent watchdog for Britain's rail passengers, you will be very aware that we do a lot of research into what passengers like and do not like. I am pleased to say that we have two pieces of recent evidence, which I think will be very useful to the Committee in their deliberations. We recently published the latest wave of the national rail passenger survey, which gives a very good snapshot view of what Britain's passengers think, broken down by train company. We also have some new research, which is not yet published, about rail passengers' priorities for improvements on the railway, which I hope we can share with you in the course of today.

Q113 Chair: Thank you very much. Mr Price, your comments are of interest to us certainly, and perhaps I can relate them to information we were given at our last session when we were extremely concerned to hear that some of the costings for very important projects, including rail electrification in the north, have not been finalised.

Richard Price: That is correct.

Q114 Chair: And there appeared possibly to be some doubt, or certainly some question marks, about the timing of projects which I think many people believe have been approved. Could you shed some light on that and tell us what actually is the status of—let us say specifically—the electrification projects for the north, although it applies equally to other projects within the next five years?

Richard Price: I will ask John to talk specifically about the individual projects in a moment. The important thing to understand is that at the start of the control period we and Network Rail were faced with a list of projects, some of which were, as I said, at a very early stage of development. We introduced a process called the enhancement cost adjustment mechanism. That is intended to make sure that Network Rail has the time, across some very big and high-cost projects, to get the spec of those projects right, and to give us and the industry a chance to challenge Network Rail to make sure that the costs are efficient, so that they are ready to deliver the benefits that were intended by 2019. Do you want to talk about the specific projects, John?

John Larkinson: Yes. We said to Network Rail that for projects at an early stage of development, as far as possible, they should try to get the revised costings to us by March 2015—that was the date we put in our periodic review determination—but to get as many of the projects as they could to us before then. If you look at the northern programmes—the northern hub, the electrification works and all those aspects—we are expecting to receive the revised costings in stages. What I mean by revised costings is that we put an indicative amount in our determination, Network Rail get the project to a more developed stage and send us the revised costs; they send us evidence of the efficiency measures that they have taken; they send us evidence of the co-operation they have gone through with train operators; and they also send us evidence about whole-life costing. They send us a revised package of evidence. For the northern programme, that will be coming in three phases. Some work is already under way at the moment, but the next

phase of the costing will come in September 2014. There will be another phase of costing in November and then a third phase in March. In that sense, in answer to your question, this has come in when we expected it in the process, because we never expected to have all the costings at this point in time.

Q115 Chair: When would we know if those projects are going to go ahead as originally stated, or if they are going to be changed in some way, or phased or delayed? Would we know in March 2015?

John Larkinson: When we set up this process, there was always going to be a tension between, “Do we wait till we have all the costings in?” or—

Q116 Chair: Mr Larkinson, I know all about the tensions. I want to know when we would know whether those particular projects are actually going to go ahead as put forward now.

John Larkinson: It depends on exactly what costs come in when we get the submission. When we get the first set of submissions, we can approve projects before we get the next set of submissions. We do not have to wait till we get them in.

Q117 Chair: At what date would we know what is going ahead and on what time scale?

John Larkinson: It depends very much on what we actually receive, because all the way through the process we have to see whether the total costs of the programme exceed the original cost of the programme that we first put in our determination. We said that, if it looks as if the total costs of the programme are going to exceed the amount of money that we put in the determination, we would have to have a discussion with Government about that. At the moment we have only had a very small proportion of the total costs of the programme in. By the time we get to March 2015, we will have had something like 75% of the costs of the programme, and we will be able to see the programme as a whole.

Q118 Chair: At what date would we know what is going ahead and on what time scale? Would it be in March or later than March?

Richard Price: It will be at some point after March 2015, once we have had a chance to do our analysis on all the programmes that Network Rail has submitted, and to have those discussions with DfT.

Q119 Chair: So it is after March.

Richard Price: March is the deadline we have given Network Rail; there is then some work we need to do to have that conversation with the DfT.

Q120 Chair: I want to be clear on the sequence of this. Are you saying that Network Rail’s deadline for submitting the costs is the end of March 2015 or by March 2015?

Richard Price: It is the end of March.

Q121 Chair: The end of March 2015. Then you look at it again and at some future time, but you cannot tell us when, they can get—

John Larkinson: But what—

Q122 Chair: Is that right, Mr Larkinson?

John Larkinson: The point I was trying to make is that, if it is a question that we think the whole thing can still come within budget, we can authorise projects. Already £2 billion-worth of projects have been through the programme and have been authorised. It is not as if we are waiting for that date before giving approvals to any pieces of work. It depends on the scale of the work and what the forecast costs are at that point in time.

Richard Price: That is important. There is no question of a hiatus. Work is going on already; we have already approved a bunch of projects that are ready to go. We are focusing on making sure that the rest are properly specified so they can get on with delivering. The March 2015 deadline is about making sure that Network Rail has enough time to deliver the remaining projects by the end of the control period. That is why we have set that date. We do not have a precise date for approving everything or having that conversation.

Chair: I want to bring in other members who want to ask questions on this particular area, because it is very important that we clarify just what is happening.

Q123 Sarah Champion: I understand the logic and the system that you are going through, but it seems a very odd one to me. Would it be better if, rather than looking at five-year funding, we were looking at 15-year funding? For this scale of infrastructure investment, I cannot see that five years seems a realistic time scale, which is why it seems that you are having all this catch-up and lag going on.

Richard Price: We looked at this carefully when we started the last periodic review. We talked to lots of people across the industry, to passenger groups and to Network Rail itself. Of course the investments and the decisions taken for any five-year period have long-lasting effects, for decades—the life of these assets. The general view was that five years was about the right time for framing an investment programme and pinning it down in terms of precisely what was going to be delivered and then committing the funding for it. But of course that is in the context of, as I said, much longer live delivery across the railway.

The other thing to say is that were the discussion to be had with DFT, and if it was clear that some of the overall costs had escalated, it is not a question of projects not going ahead; it is a question then of, potentially, a choice for Government as to which of them happen in the current control period and which happen in the next. That is a choice for the Government. We are not completely constraining ourselves to look purely within this control period.

Q124 Graham Stringer: Do you go into purdah during the general election, so you cannot make announcements, or can you make announcements during the general election period?

Richard Price: On projects, I think we continue the normal business of authorising projects with Network Rail if they have been already committed to by Government. If there is no decision for Government to take, we continue normal business. For any policy announcements, we are in purdah.

Q125 Graham Stringer: If the projects were coming in hugely over budget, could you tell the country about that, or would you be restricted until there was a new Government—or the same Government?

Richard Price: I do not think that we are constrained from making clear what Network Rail has told us. Indeed, I do not think the company is constrained in that way. We will check that, but I do not think there is a constraint.

Chair: I suspect you might get a telephone call from the Minister.

Q126 Graham Stringer: I would be surprised if you were not in some way restricted. If you announced on 28 April that the Northern Hub was in severe jeopardy, I suspect you would not be very popular with the incoming Government.

Richard Price: As I say, the onus is on Network Rail to demonstrate to us that it has a grip on the costs of these projects, that they are properly specified. If there are no issues with the projects, we would not want to get in Network Rail's way in terms of getting on with delivery. It has a

relatively short period in which to deliver these things once we have got to March 2015. It has enough time, but delaying the process would be a problem.

Q127 Graham Stringer: When you have talked to us before, and when Network Rail talk to us, we always get a positive answer to, “Will the Northern Hub go ahead?” We are told it will. But when we listen to the details and you say, “We have to authorise this. It depends what Network Rail come up with in terms of the detailed costs,” it seems slightly more ambiguous. Can you clarify that? You have just said that you have to go to the Government if it is outside the current cost envelope.

John Larkinson: It is the total costs. It is not so much the cost of an individual project. It is the total cost of the enhancement programme relative to the amount of money we put in the periodic review. That is what we have to look at. There is always an assumption that some projects might cost more and some might cost less. That was less the issue than the total.

Q128 Graham Stringer: I will ask you again so that it is on the record. Is the Northern Hub project going to go ahead on schedule as far as you are aware?

John Larkinson: We are still working on the basis that Network Rail stick to the schedules in the delivery plan, but all I can do is refer back to the mechanism that we put in our periodic review, which is that it depends on, ultimately, whether the total costs of the enhancements exceed the money that we allowed, and a discussion with Government on that. Indeed, we are having those discussions on an ongoing basis anyway as we forecast new costs.

Richard Price: There is no extra uncertainty in this compared with what Network Rail signed up to at the final determination. This mechanism is pinning down exactly what they are going to deliver and making sure that it costs no more than it needs to—that is, that they are planning it in an efficient way. It is trying to resolve the fact that these things were not fully specified at that point, and you could not deliver something that was not properly specified. So this is pushing Network Rail to be—

Q129 Chair: Mr Smith, what is your view on this, representing the passengers? All of this, while it is technically justifiable and is being explained quite fully, injects uncertainty in the public mind. It must do. Do you think this is the right way to do things? Do you have any information that we have not heard yet about this project, or indeed any others that are listed?

Anthony Smith: If I was a passenger standing on platform 13 at Manchester Piccadilly I would want things to hurry up. There are clearly issues about capacity and about there being sufficient space on the trains and on the tracks, which we know from our research. TransPennine Express is a very successful company, and is attracting a lot of passengers, but the trains are full virtually the whole time. Northern has issues in the peak with capacity, so passengers definitely want it speeded up. However, they also want it done properly. They want a project that is delivered on time and on budget, and given that we passengers are now funding so much of the railway, due process has to be gone through. I hope that it is being expedited, but there has to be a process, clearly.

Q130 Chair: Does what you hear make you feel nervous about the timing of it? It may not be the whole project, but may be to do with timing.

Anthony Smith: Not nervous. I just hope it does not slip. There are a lot of passengers out there who want to use the railways but are being put off at the moment by the lack of capacity. The Northern Hub is key to unlocking so much of that right across the north for so many passengers. It is a key project and it needs to be delivered on time. I hope that it does not slip. That is my concern.

Q131 Chair: If a situation arose where this—or indeed it could be something else on that programme—was going to cost more than anticipated and something has to go, who decides that? Mr Smith, do you think you should be involved in assessing what goes and what stays, and can I ask Mr Price how that is done?

Anthony Smith: I would like to be involved. It has to be a balance between the taxpayer and the passenger. The taxpayer is still putting a lot of money into the railways and there are political considerations, of course, as to what is invested in them and what is not. That is quite proper. However, passengers are now funding a lot of this activity, so I hope the passenger's voice is given a very proper place at the table in those considerations.

Q132 Chair: But is it in a situation like this?

Anthony Smith: Yes, I think it is at the moment.

Q133 Chair: In what way? How would it happen? We have identified a particular project, but it could be something else on the list. If a situation arose where the costs looked higher than anticipated and it was thought, "We will have to change something here," as things stand now, would you in fact have a voice in choosing between what went ahead and what did not, or in phasing something?

Anthony Smith: I think we would have a voice in deciding the sorts of priorities that would have to be chosen if there has to be a trade-off. I do not think it is our job to say, "It should be that project over another." That is for the industry.

Q134 Chair: Mr Price, tell me what the procedure is. How would Passenger Focus be brought in—or would they?

Richard Price: We need to give advice to the Department in that situation, and we are not there yet, just to emphasise this; we are not close to this point, so it is slightly hypothetical—

Q135 Chair: Yes. I am just looking ahead at what could potentially happen. We hope none of this happens, but I am looking ahead, knowing the procedures that are now being started.

Richard Price: We would need to give advice to the Department at the point when it became apparent that a portfolio looked like it was costing more than the total allowed for it. As part of that advice, we would absolutely want to understand what customer priorities were and we would talk to Passenger Focus in doing that.

John Larkinson: Indeed. Network Rail has an enhancements delivery plan and any changes to that plan have to go through a change control process. We consult on the change control process, and Passenger Focus would be part of that consultation.

Q136 Jim Dobbin: I want to make a similar point to Mr Stringer's, really. We have a fixed-term Parliament; we finish in March and therefore for a month or so there will be question marks over future policy. That was really the point that Mr Stringer raised. I have the same concerns.

Richard Price: The point is that, if it were to become clear that there were issues before March '15, we would not wait around till March '15 to raise them. There are ways of managing this conversation to make sure that decisions can be taken in good time for Network Rail to get on with delivery.

Q137 Chair: The final Office of Rail Regulation determination for Network Rail includes 90 projects to share a £12.8 billion investment. How did you decide which projects to include? I am asking Mr Price initially, but I would like to know from Mr Smith as well how and whether Passenger Focus were involved in that selection.

Richard Price: The periodic review process takes place over a number of years. The first phase in thinking through what investments could be made is an extensive industry consultation—the whole of the industry is involved—co-ordinated by Network Rail. The operators are involved but, really importantly, they consult very widely; they involve local authorities, parish councils, MPs and passenger groups. Passenger Focus is asked for its views. That is used as the basis for developing something called the initial industry plan, which reflects their interpretation of all the priorities they have heard from all of the groups that they serve. That is a pretty big consultation. They go out and ask people and, generally, people respond and engage in that. We want to look to the next period to see if that can be done better but, by and large, it is a pretty inclusive programme.

We then give advice to the Secretary of State on, as it were, the framework of deliverables and what different things might cost. It is then for the Secretary of State to make a judgment on which projects go ahead. The industry makes a proposition based on, effectively, its cost-benefit analysis of the range of projects. The Department for Transport then runs its own cost-benefit analysis in advising the Secretary of State, and that is what is reflected in the Secretary of State's high level output statement. That then comes back to us, to work with the industry, to challenge the industry, on what it ought to cost, how quickly it can be delivered and what other outputs—things like punctuality—ought to be delivered for that money. It is a process that starts very inclusively. Advice goes to the Secretary of State, who has to make the judgments on priorities, and then we look at what that costs to deliver and how long it ought to take to deliver.

Q138 Chair: Mr Smith, are you satisfied that the consumer's voice is considered sufficiently?

Anthony Smith: Would it be satisfactory if Mr Hewitson answered, because he has been more involved in that?

Chair: Yes, certainly.

Mike Hewitson: Our process mirrors Richard's, which wouldn't surprise you, because we try to put our research to the people who are making the decisions. That is initial input through the route studies, and any research we have that is based either round passenger priorities or some of the more functional aspects around performance targets, measurements and transparencies and such. We will then do some higher-level priorities that we try to feed through to the Department when it is putting the high level output statement together. Then we will have more detailed talk with ORR about the delivery. That is where we move slightly away from things like punctuality towards the softer things like, "What role can passenger satisfaction play within the monitoring of the railway? How do you build more transparency into the process?"—a bit more of the enabling metrics as well as the hard ones.

I think there is a bit more scope to bring individual passengers in and that is something we are talking about, particularly around how you put major projects together: "How does that project specify the passenger engagement bit?" The best examples are around stations. If you are redesigning a big station, there is no better target audience to take through those plans than the people who use that station. It is a lot harder when it gets to line sides, signals and suchlike, but with something tangible around stations, there is every opportunity to put a panel together that could provide that sort of real nitty-gritty input. But strategically we are tied into the same process as ORR.

Q139 Chair: Is Passenger Focus generally satisfied with the allocations between funding, rolling stock capacity and infrastructure and reliability issues, in general terms?

Mike Hewitson: It is really hard to say: should rolling stock have another £1 million and track less than £1 million? What we can map it around are the high-level passenger priorities, and it matches those quite closely because the priorities that come through are all about capacity, performance and frequency. If you take those high-end passenger aspirations, you can map them against what is in the control period in terms of performance and capacity. The other area is around minimising disruption, which is again a subset of performance but it is worthy of its own section because of the impact it has on people. We know from our research that it is the biggest driver of dissatisfaction. People can understand that things will go wrong; it is how it is managed. That whole management of disruption is probably the other big area, I think, that feeds through.

Q140 Chair: We were told by the new chief executive of Network Rail that we should expect more closures while repairs and refurbishments take place so that they could be done quicker. Is that something that Passenger Focus would think was a good idea?

Mike Hewitson: It is something we have looked at; we have asked people. As with most research, different people come up with different answers. Leisure passengers will say, "Shut it during the week because I am not travelling." Commuters say, "You cannot touch Monday to Friday." The bit that most passengers agree on are the Christmas and the Easter breaks. That is about the only point on which you can get all the different segments of the market to agree: "Please don't shut it over Easter and Christmas." It may be convenient, but it is when a lot of people want to travel. It is really difficult to get this one right. Do you have a big-bang closure, shut it down for two weeks and fix it, or do you pick at it each weekend for the next 10 weeks? It really depends on the market you speak to.

Anthony Smith: One area we have been very successful in is getting the whole industry and the regulator focused on the fact that passengers really dislike bus replacement services. At all costs keep them on a train. That is what they have paid for. That's what they would like. The industry has responded to that. We saw during the Reading station rebuilding that great efforts were made to keep passengers on trains by quite circuitous routes. The research we did after that—we did before and after—showed that passengers really appreciated that and it paid back. It is possible to take passengers on the building journey, but all the research shows that you have to tell them well in advance what and when the disruption is going to be and what it is for—what the benefits are; not just "engineering works" because that is a meaningless industry phrase. Then you have to keep them informed while it is going on and keep monitoring what is happening. It can be done quite successfully.

Richard Price: I absolutely agree with that. We set targets for Network Rail to reduce the level of disruption in the last five-year period, which they have actually done very well on; there was a significant reduction in disruption to passengers. We have set even more challenging targets for the next five years, when actually there is going to be more work going on on the network. As Anthony says, the evidence is that for closures when there are big interventions, like Reading and Nottingham, the feedback from passengers has been very positive. The key thing is making sure that passengers understand what is happening well enough in advance that they can plan ahead, and that they really understand why the work is going on.

Q141 Martin Vickers: Referring to the criteria used when selecting projects, two documents that I have been taking a particular interest in recently from a constituency point of view have been what was the invitation to tender for the east coast franchise and also the present consultation about the trans-Pennine route, both of which refer repeatedly to economic development and its importance. Ministers have also been making speeches about that recently.

How do you interpret those sorts of requests or demands within documents, which could be, arguably, more political judgments than railway operational?

Richard Price: John might want to say something about this. It is quite right to think of investment in the railway as not just being to fund the railway for its own sake. It is about making sure that customers, rail users, get what they pay for and get a good service, and that it improves their ability to get to their jobs. That has an effect on the labour market, which improves opportunity across the country. In terms of both labour market access and the movement of freight, that is really important for underpinning economic growth. Of course we look at this in the context of Network Rail's delivery of infrastructure. The issue of franchising is for Government rather than us, but I do not think this is, as it were, paying lip service to something. It is a really important driver for what, after all, is a very big programme of investment across the railway.

Anthony Smith: I do not think there is anything improper in trying to get the railways to focus on the markets that they ought to be serving, because they ought to be trying to develop products that people want to buy more of. That sounds quite sensible. I hope it will reassure you slightly that in the franchise process we now have quite a lot of involvement in trying to put in what the passenger priorities are, both on each franchise and on the routes within that franchise. We do research before, and in a new development we are now advising the Department on the quality aspects of the bids that come in. I think we would categorise it as passenger power, because we did not sense that passengers were having enough say in the franchise process. I think we have moved some way in that direction. There is probably still quite a bit more to go, but the sense that passengers are being listened to is increasing.

Q142 Chair: Is Network Rail required to show that all parts of the country—all regions of the country—would benefit from investment? Did either the Office of Rail Regulation or Passenger Focus have it in your remit to ask that question of Network Rail?

Richard Price: The decisions on the projects, as we said, are for Government rather than us. Our role is to look consistently across the country to make sure that those things are being delivered. That includes the delivery of enhancement projects. People are as concerned about whether their trains are on time and whether the project is being delivered on time across the north as they are in London and the south-east, so we need to be consistent on that. Likewise on train punctuality, we are equally focused on commuters around Leeds as we are in London and the south-east. We are absolutely neutral in terms of the way Network Rail needs to perform. It needs to perform right across the country.

Q143 Chair: What about the balance of investment in different parts of the country? Is it within your remit to ask questions about that?

John Larkinson: On the enhancement projects, as Richard said, they are usually specified in the high level output specification, so that is something for the Government. The other chunk of money that Richard mentioned, the renewal spend, is basically replacing worn-out assets, which is just as important in some ways. We monitor that across the country, because a lot of the targets we set apply across the country. Each train operating company will have its own target for performance—essentially, if trains are on time. If Network Rail is not doing the basic work, is not maintaining and renewing the network in that part of the country, then, in a sense, that target might not be met. We monitor the renewals work on that basis, but the decision on enhancement projects, as Richard said, is really one for Government in terms of regional distribution.

Q144 Chair: Mr Smith, does Passenger Focus have a role in regional investment?

Anthony Smith: Our role is twofold in this respect, one point of which is to try to point out to the decision makers what the consequences of their decisions might be, based upon the research we do, and then to reflect back to the industry and Government what is happening on the ground in terms of passenger satisfaction. The results we see in the national rail passenger survey paint a very interesting picture. You have very wide variation around the country in passenger satisfaction and within individual train companies. Our role is very much more holding up the mirror, and it is quite interesting because some of the lower-rated performers tend to be the big train companies in London and the south-east; they are carrying a lot of commuters, who perhaps tend to have a different frame of mind from other passengers, but we come at it from what the passengers are telling us.

Q145 Chair: The high level output strategy forecasts average growth during CP5 of 16% in passenger demand and 23% in freight demand. What are the figures in different regions of the country? Presumably it is an average or an overall figure.

Richard Price: Yes, it is.

Q146 Chair: Are there any figures that show that?

Richard Price: We do not have those figures to hand. There are, I think—

John Larkinson: No, we had figures. Because the high level output specification has demand in each commuter area, we would have figures for those commuter areas but we do not have them to hand. We could supply them.

Richard Price: We can send them to you.

Q147 Chair: You have such figures there.

Richard Price: Yes.

Q148 Chair: The consultation on the TransPennine Express and Northern Rail franchises asks for views on the trade-off between raising fares in order to “improve the frequency, capacity and quality of local services.” Has any work been done on the impact of ridership on rail if fares went up by any given amount? Has anybody done that work?

John Larkinson: Yes. There is a technical manual that the rail industry uses, which contains standard numbers that you can use as to the effect of things, and that would include the impact of fare rises, yes. There will be some rules of thumb on that in terms of demand.

Q149 Chair: Mr Smith, do you have any views on the proposition that the fares might go up?

Anthony Smith: We certainly know that, if you do not raise the fares, passenger satisfaction tends to go up as well, which is quite positive. When the Government decided to limit the regulated fare rises in January only to inflation, you could see that coming through in our survey results; passengers were pleased by that—to put it mildly. Clearly fare levels have an impact on demand. In the debate about Northern and TransPennine, it is absolutely crucial that passengers are involved, because we seem to have got gridlocked: “Where is the money going to come from to pay for improvements beyond the Northern Hub?” I think passengers need to be involved and it needs to be an open debate right up front—that if fares are being looked at, passengers are involved, so they can see what the trade-offs are and what might be bought for extra money if the fares are going to go up.

Q150 Chair: Do you think that passengers are sufficiently involved?

Anthony Smith: No, I do not think they are at the moment. I do not think the debate is sufficiently out there in the public. The Rail in the North group has expressed in its documents that there has to be a debate round this, but trying to explain to somebody on Leeds station who cannot get on to a 25-year-old Pacer train that their fares might have to go up for a service they might never use in the future is a tough sell.

Q151 Chair: Would Passenger Focus have a role in looking at whether all parts of the north will be served properly under the proposals for devolution of the franchise?

Mike Hewitson: We would have a role—whether it was a devolved franchise or not—to Hoover up passengers’ opinions and feed them back. We have looked at devolution. We did some early work with Northern and TP passengers as to their attitudes on whether it would be a single franchise or whether it was one run from Rail North or from the Department for Transport. They had a very pragmatic view, which was, “Tell me what the outputs will be and then I will choose.” It is not who runs it but what is provided. “Will it be better?” is the question rather than, “What methodology do you have to run?”

Q152 Chair: But there are some concerns, though, on the proposals—and they are proposals at this stage—on services in the devolved Rail North franchise; some areas outside cities feel that they may be losing out. There are proposals that mean they might be losing some services. Is that something Passenger Focus is involved in?

Mike Hewitson: We will certainly respond to the consultation. We are certainly urging the Department to hold its road shows so that people can feed in direct as well. We can pick up through our contacts with local rail user groups and such as well; we work very closely to those and we can feed in the particular timetable issues, of not providing a connection here or terminating a service there. Quite often you need the voice of the people on those trains to really bring the consequences home. We will certainly be gathering those—we are doing it currently—in order to respond to the consultation.

Q153 Chair: But there are some proposals still being consulted on for changes in services, and I am not sure that all the people in the area realise what is being considered. Does Passenger Focus have a view on that?

Mike Hewitson: No, I am sure they do not realise. It is always one of the difficult points on consultation. Particularly when it comes to timetables, unless you can make it relevant to an individual—“It is your train we are talking about now”—it is very hard to get broad input on timetables. There is that old adage on a timetable consultation, “It stops at my station and goes fast to my destination.”

Q154 Chair: But does Passenger Focus have a role in that, in drawing these issues to the DfT’s attention?

Mike Hewitson: We can, and we are trying to do it through our connections with local user groups and local stakeholders to spread the word.

Q155 Martin Vickers: Again, on the Northern and TransPennine franchise, what will be the balance between what passengers’ feedback is and the operational requirements? We hear that in actual fact some of the proposals are actually around this issue of a shortage of diesel units. If passenger feedback is completely contrary to operational convenience, shall we say, where do we go from there?

Chair: Mr Smith, where do we go?

Anthony Smith: Obviously you have to make some difficult decisions, but you have to explain why you are doing it and try to take people with you. If there simply is not the rolling stock to make things happen, you have to explain to people. The point that was being made, Chair, is about what happens at the cliff face where you have devolved authorities. What happens beyond them? We have seen that in London. There is a sense of fear that if Transport for London got more control over the train services, every train would stop in London all the time and all things would be slowed up to meet the needs of Londoners. I think bridging the gap between devolved authorities and the authorities outside is a really difficult trick which you have to work very hard at, and the Rail in the North group will have to work hard at that to explain some of those decisions.

Q156 Martin Vickers: But on the subject of devolution, we established a couple of weeks ago, when Ms Moriarty was before the panel, that the final decision was the Secretary of State's. The devolution process is advisory.

Chair: Is that how you understand it, either of you? Mr Smith, do you know? Mr Hewitson?

Mike Hewitson: Yes, it is advisory in the sense that the Secretary of State signs off, but I would envisage a huge amount of input from Rail in the North in the detail on how it is all put together. But the financial and the ultimate sign-off is—

Q157 Martin Vickers: But as the Chair pointed out earlier, that means the bigger cities will make the decisions, possibly at a cost to the peripheral areas.

Mike Hewitson: Wherever the centre is, there will always be a periphery, whether that is in London or in Manchester. There will always be that tension between the hub and the rest. It is just a question of where you locate that tension, to some degree.

Q158 Chair: But does Passenger Focus have a role in identifying the areas where the tension you talk about is—in what you see as the peripheral areas?

Mike Hewitson: Blackpool would fear that it may lose some trains—that sort of argument. I do not think we would see it as our role to discuss political decisions with local authorities. We would certainly take the passenger perspective: "What sort of services do you want from Blackpool and are they being delivered?" We would take it back to those principles. I am not saying there is a particular issue there, but it is one that is often held up as being on the margins. Would that particular area have enough say on the joint committee that makes the decisions? Part of our research would be to reinforce those concerns: "You cannot do this because," based on passenger evidence, rather than local politics to some degree.

Q159 Chair: Recently the Chancellor of the Exchequer referred to a potential High Speed 3 rail link between Manchester and Leeds, to which he hastily added Liverpool, in answer to some questions. Are you aware of any serious work on such a proposal and how would it affect decisions on the investment plan for CP5-CP6?

Richard Price: We are aware of the question that has been asked. The Chancellor has asked Sir David Higgins, who is running the HS2 project, to look at options for improving connectivity across northern cities to improve travel to work, connectivity and journey times. He has also been asked to look at whether there are ways in which delivery of HS2 could bring forward some of the benefits, again for connectivity, between the northern cities. From our perspective it builds on the investment to which we have already alluded—the Northern Hub, electrification across the north, improvements in journey times—and that we expect to be delivered in this period. It is really building on the improved connectivity that we should see in CP5. But, of course, we will see what Sir David comes up with.

Q160 Chair: But you are not aware of work done on the scheme the Chancellor of the Exchequer referred to.

Richard Price: I think the Chancellor posed the question very recently, so you will have to ask Sir David how much work he has done so far.

Q161 Chair: A very diplomatic answer. Mr Smith?

Anthony Smith: I think improving the quality of rail links across the northern cities and that huge slug of England's population is a great positive thing to do. Whether I would package it up and call it HS3, I am not quite sure, because I think the train would have to slow down the moment it left Manchester before it arrived at Leeds if it was going at 140 mph. But improving those links must be a good idea. The journey time between Manchester and Leeds is very poor. It ought to be sped up. Focusing on that and realising that connecting all those people together better is a good idea—that is positive.

Q162 Jim Dobbin: On investment in HS2, or HS3 if you want to call it that, have you no concerns that if the investment is not going to increase, it is going to be detrimental to the present—the classic—system?

Anthony Smith: It is a point we have asked Government again and again: the extra investment that is generated by the HS2 proposal is in addition, isn't it? There is a separate business case from the business case that exists for the current so-called classic rail network. We have been reassured throughout that that is the case. HS2 has a separate business case that will generate more travel, more passengers. But we will be watching that very closely because there are a lot of investment decisions being made at the moment and the bill is adding up. Where it falls is going to be very interesting.

Richard Price: The thing I would add is that it is very important to see the network as a whole. We need to start thinking now, in anticipation of CP6, what changes you would need to see in the classic network, particularly where it interacts with HS2, reflecting the kind of services that people are going to want, because in many cases people will want destinations beyond HS2. So those decisions for the classic network are also really important.

Q163 Graham Stringer: What was the purpose of the £53 million fine you laid on Network Rail last week?

Richard Price: We know that punctuality is incredibly important to passengers. Network Rail signed up to a deal in the last control period to deliver 92% of trains on time for long distance services, and 93% of trains on time for London and the south-east. In both cases it missed those targets, but it received the funding to deliver them. The purpose of the fine was twofold. First, we actually set this mechanism up two years ago to make sure that Network Rail was clearly focused. There was a sliding scale penalty for long distance; it was clear that the more it missed the target the more it would be penalised. We know that Network Rail focused on producing plans to deliver the target. The fact is, when we looked at it closely, it had not delivered a number of the plans that it had committed to. In that context, passengers would expect there to be some consequences for not meeting those targets—7,000 trains were late that should not have been—and it is right that funders get some of their money back in relation to outputs that were not delivered.

Q164 Graham Stringer: How does, effectively, fining the taxpayers, who own Network Rail, incentivise Network Rail? Would it not be more of an incentive to fine, or reduce the bonuses of, the executives? When you fine Network Rail, you are fining me and every other member of the public, aren't you, because we own and pay for the debts of Network Rail?

Richard Price: The money that comes from Network Rail goes back to the taxpayers—to Government. It is then for Government to decide what to do with that money. It does have an effect.

Q165 Graham Stringer: Mr Osborne is happy, but it does not do very much for the efficiency of Network Rail, does it?

Richard Price: It is very clear from conversations with Network Rail that they have been very much more focused on delivering their performance targets.

Q166 Graham Stringer: But clearly not focused enough. Don't you think they would be even more focused if you reduced the bonuses of the directors?

Richard Price: Decisions on incentives for directors are for Network Rail itself. Of course we expect the remuneration committee of Network Rail to take fully into account whether or not the business and the executives have delivered the regulated targets that we set. But at the end of the day, those incentive and employment decisions are for Network Rail, not for us.

Q167 Graham Stringer: You said you are talking to them and they've got plans, but they have clearly failed. What evidence do you have that these incentives work? You may not have the power at the moment—there may be a secondary mechanism for looking at remuneration—but surely you could recommend that your power was extended to deal with bonuses. What evidence do you have that this system works?

Richard Price: It is twofold. First of all, as a result of the regulatory regime, performance has risen over the last 10 years or so from the '80s to the '90s, so we have seen an improvement over a long period. We are talking here about Network Rail not having delivered the incremental improvement in performance that it was paid for, when actually performance has been, in large parts of the network, close to record levels over the last few years. There is evidence that they are doing more on a more congested network, but what we are talking about is not having delivered that last little bit. The key thing is avoiding this happening again. We have looked at what happened in CP4 and—

Q168 Graham Stringer: That may be. I am trying to find the justification for this. You said there is evidence that there has been improvement, but there is evidence that it has not gone far enough. I am trying to get to the relationship between fines and improvement, and I am not hearing that in the answer at the moment. You told me it has improved, that you changed the system two years ago and it has not improved to the level you expected. I want to know what the evidence is—that you threaten with this fine, you carry it through and performance improves.

Richard Price: Fines are only one of the options that we have available to us to push the company to deliver.

Q169 Chair: Mr Smith, do you want to answer?

Anthony Smith: Yes. I think the national rail passenger survey targets are built into the Network Rail bonus scheme, so there is certainly at least a degree of link between overall passenger satisfaction and the Network Rail bonuses. Whether it links to specific performance targets, I am not sure. In this particular respect, for passengers, there probably could not be a worse example of the money-go-round—fining Network Rail for it to go back into Government. The good thing is that some of the money appears to be being spent in London and the south-east in improving commuter network resilience, which is positive, and I think it was officially announced that some

of the extra fine money will be spent on improving wi-fi on trains, which is a long way overdue. At least it is staying in the industry.

Q170 Graham Stringer: You think that is a sensible use of the fine, do you? Baroness Kramer announced there would be improvements to wi-fi, so while the trains are delayed you can be annoyed by other people on the phone saying, “The train is delayed.”

Anthony Smith: We weren’t consulted on that particular decision.

Q171 Graham Stringer: Do you think that would be a good use or would it be better going back into infrastructure?

Anthony Smith: We were not consulted on that decision. It will certainly make some passengers happier.

Richard Price: The important thing is that in CP5 Network Rail has been funded to the tune of several billions to deliver a more resilient network, to deliver more trains on time. The targets we set them would involve 200,000 additional trains running on time between now and 2019. These are big improvements. They have been funded to do it, and our role is to keep them on their mettle to make sure that they do. In the process we are watching very carefully, not just whether they are meeting the target, but are they doing things early on in the control period to make sure that the assets are resilient, and that they are not failing as much as they have been, so that by the end of the period they are on target?

Q172 Chair: I would like to ask you about efficiency targets, Mr Price. Network Rail have not met their efficiency targets in control periods 4 or 3. Why do you think they are going to meet them now?

Richard Price: We are looking at what happened in CP4 so that we can learn from it. As you say, the indications are that they will not meet their efficiency target for CP4. They will achieve quite a lot of it. Substantially we expect them over the two control periods to deliver efficiency gains in the order of 35% to 40%, but they will not meet the target they have been set. That is not good enough and we are looking very closely to see why that is. We do not have the answer yet. We have some suspicions. We know that early on in CP4, right at the start of the control period, they came late with their plans for delivering through CP4, and they also reduced their volume of maintenance and renewals below what they themselves said it ought to have been. We have seen that showing up in problems in terms of performance—punctuality—later in the period, and also in an acceleration of activity to try to catch up. It is our strong suspicion—but to be tested; we will report on this in September—that in the rush to catch up they have delivered more inefficiently than they ought to have done. For the future, there are a few things that give us more confidence about CP5 than about CP4. First of all, their plans for delivery are now in place; they are at a much more granular level and they are much more advanced in their planning for CP5 than they were at the same time in CP4. Secondly, we expect them to catch up to some degree on the efficiency target that they missed in CP4. We have taken that into account in the way we designed CP5, and we know that Network Rail’s delivery plan, to some degree, already reflects that.

John Larkinson: Because we knew at the time we did the PR13 conclusions that they were not going to meet the efficiency assumptions, we took that into account when we set the next efficiency assumptions.

Q173 Chair: Mr Smith, do you want to come in?

Anthony Smith: I think that it is such an important issue, given that passengers are now putting £8 billion a year into the industry through the fare box—it is a pretty significant amount of

money—and we have had 10 years of above-inflation fare rises for regulated fares. Getting the best value for money from the fare payers' and taxpayers' contribution is absolutely crucial, otherwise we are going to be facing very awkward investment decisions in future about what and what not to do, or we will be back to above-inflation fare rises where we really do not want to be.

Q174 Chair: Has enough money been allocated to deal with winter resilience?

Richard Price: Yes. Money has been provided in Network Rail's renewals budget to make sure that it has enough to deal with resilience across the network. Actually before the extreme weather that we saw over the winter, we asked Network Rail to develop plans, which it will submit to us in September this year, to improve the resilience of each of its routes. It has already delivered the plan for the western route, which was the worst hit through the winter, and that is already funded by Government to deliver improvements in resilience to flooding—improvements in tunnels to stop them flooding, and quite sensible, basic stuff like lifting electrical cabinets off the ground so that every time there is a flood they do not short out. All of those things mean that, most importantly, you can restore service after an extreme weather event much more quickly than you can at the moment. That is happening, and we expect to see it replicated across all of the routes; indeed, as Anthony said, we accepted from Network Rail a proposal to put £25 million into delivering its resilience plan for London and the south-east.

There is one other thing. We have set enforceable targets for Network Rail in terms of its understanding of its asset condition—the condition of its assets right across the network—in the next five years. As it improves that understanding, there is a fund of £400 million for improving civil assets—that is tunnels, bridges and embankments—so that it can bring those much more up to scratch by the end of the period. That will also improve the resilience of the network.

Q175 Chair: Mr Smith, are you satisfied that enough money has been put aside to deal with winter resilience issues?

Anthony Smith: It is very hard to comment on the absolute level of money. It is a very large amount of money. The only observation is that what used to be one-in-10-years occurrences seem to be becoming annual. The weather seems to be throwing a lot at the transport network, and I think that money is going to be used to its absolute full by the looks of it.

Mike Hewitson: There is a lot of money being spent. There is probably scope for more visibility in pulling that together and explaining what is being done; there are little pockets of money, such as renewals enhancements and so on. There is scope for a good weather resilience plan that looks at contingency plans as well. I think Dawlish shows us what happens if part of the network gets knocked down. The railway put a plan together very quickly to bus people around and worked it through, but I think it is slightly more reassuring to people if you know that plan is on the shelf. You cannot plan for everything everywhere, but there must be pinch points on the network that are more vulnerable. Visibility around that would help reassure people.

Richard Price: That is just what we are expecting Network Rail to deliver. They did really well dealing with the extreme weather over the winter; all of our evidence suggests that they responded very well to that. The key thing is planning ahead and building in resilience. That is just what we expect them to do to minimise the disruption to passengers.

Mike Hewitson: When it happens, the important element is how you get information to people at an early enough stage that they can plan for tomorrow.

Q176 Chair: The crisis at Dawlish was dealt with well, but it did come as a crisis.

Mike Hewitson: It did.

Q177 Chair: There has to be some thought, surely, about whether that should have been anticipated and worked on before.

Richard Price: Yes. We have certainly seen more of those events recently. The challenge that we have put to Network Rail is to make sure that they have a clear understanding of where the risks across the network lie. That has to rest on their understanding of their assets, but also what they need in response to extreme weather to keep customers informed and keep them served.

Q178 Chair: How should investment be divided between passenger and freight interests, Mr Price? How do you address this?

Richard Price: We have a sort of balance across the portfolio of investments in CP5. There is substantial investment going into the strategic freight network for the next five years. Of course, those two things interact, because sometimes when you invest in freight-specific facilities it is about improving resilience and reliability for freight operators; sometimes it is actually about buying more capacity on the network for passenger services by giving diversionary routes for freight, to some degree separating freight from the passenger network. You never get there completely, but the balance of investment is across serving freight needs and making sure that you are developing capacity. Demand for freight is growing—we know that parts of the network around ports, for example, are pretty close to capacity in some cases—and you have to look at that case by case, looking at the individual investment prospects.

Q179 Graham Stringer: You have put up freight charges by 21% or 22%, I believe, for the next control period. Can you explain why? We have had this discussion before, when you were out for consultation and the range you were consulting on was huge—almost doubling. Can you explain to the Committee why you ended up increasing the charges by a fifth?

John Larkinson: Can I go back one step? If you look at the bulk of freight—freight which does not pay what we call the freight-specific charge—charges have gone up by much less than 21%. The 21% includes freight that pays the freight-specific charge, and that is where we put an extra mark-up on charges for certain types of traffic. We might have had this discussion earlier: it was the electricity supply industry traffic, spent nuclear fuel and iron ore. That is really about recovering more of the costs on the network from certain classes of traffic that can bear it, so some types of traffic had a higher rise than other types of traffic. For traffic not covered by that freight-specific charge, the increase was more like 6% over the whole control period.

Q180 Graham Stringer: I think there is almost universal agreement that it is a good thing to take freight off the roads and put it on rail. Have you done any assessment as to whether this will damage the general movement towards rail travel from the road? What sort of environmental impact will it have?

John Larkinson: Absolutely. We can only put these mark-ups on certain types of traffic if we can show that the market can bear it. That is the test. At the time, we did a lot of work in terms of what charges the freight market could bear. As you say, we know the freight growth forecast. We have put a lot of work into the periodic review determination about measures to benefit freight; for example, we introduced a new freight performance measure and set a new target for running freight trains on time, which is what the industry told us they wanted. They told us they did not like our existing measure about delay minutes to freight trains. The freight industry and the logistics industry said to us, “That does not mean enough to us. We want a specific measure of freight performance so we can say how well the rail freight sector did.” We introduced some changes there to take that into account. As Richard said, there was also the investment in the strategic freight network, so we were acutely aware of the views of freight, and indeed the Government’s commitment to see rail freight grow.

We had a big package for freight, which included new performance measures and also some specific increases in freight charges, and we looked at the impacts of that. Indeed, we had some very long and good discussions with the freight industry. If you think back to where we were some time ago, the original analysis implied that much higher increases should be levied. We decided that, no, we were not going to do that. That is when charges were scaled back.

Q181 Graham Stringer: But the Freight Transport Association aren't happy, are they? They said this is very damaging for confidence in investing in rail freight. It is not just Network Rail that invests; the people who are the carriers also invest. You have not come to an amicable agreement, have you? Do you think in the long term that will damage the prospects of freight going on rail?

John Larkinson: The rail freight forecasts are positive. The forecasts show that rail freight will grow. We think the policy set out in the periodic review will help support that. We are very conscious that one of the things the freight industry needs is some certainty around future planning. They have asked to engage with us at an early stage for the next periodic review so they can see what our thinking is, to make sure they can understand and have a chance to influence it. That confidence and certainty around planning is really important for the industry. We are very aware of that and we are already in discussions with the freight industry; indeed we met the Freight Transport Association today. We are having those discussions now.

Q182 Graham Stringer: What recent international comparisons have you made about the efficiency of freight in this country? One report—I cannot quite remember which one it was—basically said that, on freight, Network Rail were only operating at half the performance of the best industry standards in the world. Have you done any recent comparisons? Are we improving? Are we getting worse?

John Larkinson: When we set the freight performance measure, which is in effect a measure of freight trains being on time, one of the things we looked at was what would be a sensible and achievable measure. We found some of the international comparisons quite difficult in terms of helping us set a comparison, because of the difficulty of comparing across countries. We actually drew more on our understanding of the domestic circumstances for what we thought an achievable target, just because of the difficulties of making the comparisons.

Richard Price: There is scope for doing more work on this, I suspect. We talk to fellow regulators elsewhere in Europe, and we get the sense that Britain—Network Rail—is one of the better-performing infrastructure providers in terms of freight. Anecdotally, you hear from freight operators about freight crossing borders, and it is a question of whether it gets there the right day, not just the right hour. As John said, we have tightened, and we have actually been very responsive to the industry in terms of what sort of punctuality, reliability measures it wants Network Rail to perform to. I think there is evidence that Network Rail is stepping up to understand what its customers want on freight and is delivering a much more bespoke service, sector by sector or customer by customer. That is what we would expect.

John Larkinson: It is interesting that when we asked the freight industry, in terms of Network Rail's performance in CP4, whether they thought Network Rail had done all they reasonably could, they were very supportive of Network Rail's work. We think the relationship has got a lot better in that sense.

Q183 Graham Stringer: You obviously know what investment Network Rail is putting in and you can measure whether the performance is what you expect, and you have said that the predictions are positive on freight. Do you have any way of monitoring investment within the freight industry external to Network Rail to see if what the Freight Transport Association is saying is true, that this is damaging investment in that industry? Would you know?

John Larkinson: We do not monitor the whole of freight investment, no. We look at investments that affect freight-line investment at ports and things where a rail connection or something might be required, so we look at those things which directly affect the rail industry. Apart from that, though, in terms of understanding the confidence of freight, we have a regular dialogue with the freight industry. They will tell us very clearly what they think their views are on any particular topic and we have a lot of meetings with them, a lot of discussions, and we talk to them about our plans. I am pretty confident that we get the views of the rail freight industry, and we also get the views of people who are trying to use rail freight—the customers; and we talk to some of the big potential users, because they are looking for access rights to the network. I am not saying we have a complete picture, but we have a reasonably good picture of the way the mood of the market is going. Indeed, we try to respond to that. If you look at the sort of things that people tell us are problems, like understanding our approach to access or something like that, we engage directly with people on that to try and make sure the market works smoothly. We put quite a bit of time and effort into making sure we understand the market.

Q184 Martin Vickers: You mentioned in a couple of replies the importance of improving access to ports, which is one of the Government's priorities. I have the largest port complex in the country in Immingham, Grimsby in my constituency. I know that there are concerns within certain parts of the industry that they are not getting sufficient investment to meet the growing demands on capacity and so on. Are you satisfied that sufficient resources are being put into that?

Richard Price: We have looked at the propositions for the strategic freight network as a whole across CP5. It is a very consultative process, so we would expect Network Rail to engage not only with the freight operators but also with customers in developing their programme of investment across the period. The route from Immingham is a really critical one for a whole range of sectors, including coal and biomass to power stations across the north. I know that the industry is engaging with Network Rail on what upgrades might be needed.

The other discussion we have prompted with operators and Network Rail is how existing capacity from Immingham into Yorkshire and the north and the rest of the country is used. There are two issues. First of all, there are freight paths that go unused and are not released by operators, which could be used to carry more goods, and—as part of the dialogue John was describing to Mr Stringer—we have challenged the operators to come up with arrangements for releasing those paths so that they can be used. There is no point in keeping bits of the capacity unused and empty.

The second area is the reliability of the network as a whole. Too often at the moment operators use what are known as unvalidated paths. That means that they effectively call up the signaller and say, "I am ready to go," so that a train arrives at subsequent points of the network. That is very disruptive and costly in terms of capacity. We are talking to operators on Network Rail to make sure that much more use is made of planned pre-existing paths so that operators can run in scheduled slots, which are much less disruptive, and again use capacity more efficiently. There will be a case for investing and Network Rail is listening to operators on that, but a lot can be done with the existing capacity as well.

Q185 Martin Vickers: Unused paths were a particular issue during the Hatfield closure and that is now a year on. Has progress been made at all?

Richard Price: Yes, we think the industry is making progress on releasing paths. I do not have the numbers with me but we can tell you what they are. Yes, paths are being released and there is better understanding between Network Rail and the operators on how that happens.

Q186 Chair: What should the priorities be for control period 6, 2019 to 2024?

Richard Price: Shall I start? Thinking about how the last periodic review went, there are three things that we would like to see different about the next one, which will inform those priorities. First of all, we would like to see customers, passengers and freight engaged more systematically earlier in the process. I talked about the process of industry engagement earlier. I think there is more that can be done explicitly to draw in views of passengers and freight customers. We will want to talk to our colleagues in Passenger Focus about how that is best done. We think there is also good practice that we can pick up from other regulators—in water, for example, where this is done quite well.

The second area is looking at punctuality—performance. The current PPM measure of performance has served pretty well in terms of raising the performance of the industry as a whole. It is reasonably well understood. We also know that for a number of passengers to-the-minute punctuality matters, so in this control period we are targeting PPM but tracking right-time performance. That gives us the option of considering for the next control period whether we continue to track both or whether we switch the way we target.

The third area, which we have alluded to a number of times, is that we have been discussing with the DFT whether we can work more closely together on assessing the VFM of potential investments in the network in preparation for the next high level output statement. We are working with the Department to work out what could be done, whether we could perform a bigger role in that in a way that we have not historically done. I think those are the things I would be looking for.

Q187 Chair: Mr Smith?

Anthony Smith: I think what passengers will be looking for is clearly laid out in the research we have just done about passenger priorities for improvement. These figures differ slightly by commuter, business or leisure, depending on the journey purpose, but it is a very consistent message. Priority No. 1 is the price of tickets—offer better value for money—which is not only the price of the ticket, as we know from other research, but a sort of compound answer about some of the basics of the service as well; it gives you a clue about the efficiency point we discussed earlier. Second is that passengers are always able to get a seat on the train; the railways are filling up fast. Third is that trains are sufficiently frequent. People want more frequent trains, which can partly compensate for patchier reliability as well. More trains arriving on time is No. 4. I think the investment priorities for 2019 onward should be very much focused around a more reliable network in terms of punctuality and weather resilience, and increasing the ability of the network to carry more trains and passengers.

Chair: Are there any further questions?

Q188 Graham Stringer: I have a couple on priorities. The first part of the Davies report recommended that there should be better rail transport to our airports. How do you judge that against other priorities, whether it is regional priorities or capacity, and are you supportive of extra rail investment to airports?

Richard Price: The prioritisation at the moment is done by the DFT when thinking about what it wants to include in its HLOS. There is a case for looking at the value of capacity to airports differently in terms of the significance of airports in the broader economy, making sure that the UK is an attractive place to invest, that you can get here and do business easily, and, of course, making sure that we are fully developing the value of the UK's airports as hubs and the interconnection between them. There is a case for factoring in those benefits to the prioritisation of rail investment. Of course that is an issue for the DFT at the moment.

Q189 Graham Stringer: There clearly is a case for looking at them differently in terms of economic benefits. Is that case being made and are you going to assess them differently on that basis? From the last evidence session with Network Rail, it seems they are really still assessing only on demand and capacity, not really on economic benefit, whereas airports are the classic case where you can judge economic benefit. Are you going to change to that assessment?

Richard Price: In terms of investment, as I say, that is an issue for the DFT. In terms of prioritisation of the use of capacity across the network, that is something that we need to look at. We certainly have representations from Gatwick and from people like the operators of Heathrow Express, in terms of making sure that they are clear what capacity is going to be available in relation to maintaining flows of passengers to and from airports. That is something we will need to look at as we go towards CP6, the investments really for—

Q190 Graham Stringer: Have you had representations from Stansted? Network Rail gave us two different stories on the likely investment for Stansted in the next control period. Have you had representations from Stansted, and have you had plans from Network Rail about the Stansted connection?

Richard Price: I am not aware of representations from Stansted, but we can check.

John Larkinson: We can check, yes.

Q191 Graham Stringer: And Network Rail?

Richard Price: Not yet. We would not expect submissions yet from Network Rail for the next control period, but that will come in the normal course of events.

Q192 Graham Stringer: Mr Smith?

Anthony Smith: Surface access to airports is a very interesting issue and does not seem to have been quite talked about enough in terms of the context of airport expansions. How on earth are people going to get to and from these much larger airports in various parts of the country? Where space on the network is very constrained, such as going down to Gatwick, how those decisions are made, and the trade-offs that are made, probably needs to be much more explicit. We have ended up with a compromise which makes everybody unhappy, and which is a bit British. Maybe that is just how we have to do it, but you sense that, given the commuter flows there and the airports' desires, you need a slightly more transparent sense of how this really valuable capacity is being used, because every slot is valuable to passengers.

Mike Hewitson: It is not just the issue of dedicated airport services; it is also the first and last departure times of those trains. Quite often, if you have to get a six o'clock flight you cannot get a train there. That fuels the sense that you drive to airports, because you just cannot be sure that you will get the train home again. It is not just the quantum; it is the duration that they run as well.

Chair: Thank you. Thank you all very much.