



Transport Committee

Oral evidence: The Department for Transport and rail policy, HC 346

20 July 2015

Ordered by the House of Commons to be published on 20 July 2015.

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Members present: Mrs Louise Ellman (Chair), Robert Ffello, Mary Glendon, Karl McCartney, Stewart Malcolm McDonald, Mark Menzies, Huw Merriman, Will Quince, Iain Stewart, Graham Stringer, Martin Vickers

Questions 1-108

Examination of Witnesses

Witnesses: **Rt Hon Mr Patrick McLoughlin MP**, Secretary of State, Department for Transport and **Philip Rutnam**, Permanent Secretary, Department for Transport, gave evidence.

Q1 Chair: Good afternoon and welcome to the Transport Select Committee. Secretary of State, could you tell us who you are and who Mr Rutnam is for our records?

Mr McLoughlin: I am Patrick McLoughlin, Secretary of State for Transport, Member of Parliament for Derbyshire Dales. I am accompanied by Philip Rutnam, the Permanent Secretary at the Department for Transport.

Q2 Chair: Thank you very much. Secretary of State, your predecessor signed off an ambitious programme for rail electrification in 2012. The Transport Select Committee warned, a year ago, that there were great difficulties in implementing this in the time scales agreed. Those warnings from the Transport Select Committee and others were reinforced in January this year, and again in March.

We are now one year into the funding period in which this major programme was supposed to be implemented and the programme appears to be in tatters. What has happened?

Mr McLoughlin: First and foremost, I do not accept that it is in tatters. The time line which you, Chair, described is an accurate one. It is one that I would not argue with as far as the ambition is concerned. The ambition was set out in July 2012 before I arrived at the Department for Transport: a very ambitious project, which everybody wants to see delivered. I want to see it delivered because I think it is vital for the future of our railway network. The investment of £38.5 billion over this five-year period, which by the way has

not changed, is going to be the level of investment done by Network Rail, but some of the challenges in some of the electrification programmes are proving more difficult than originally thought. That has been in relation to some of the engineering problems as well as some of the skill problems in delivering those particular projects. I alluded to some of the delays when I came before the Committee in December last year and in March this year, particularly as far as the trans-Pennine bid for electrification was concerned, when I said that we needed to look at getting diesel trains on those particular lines and we actually changed the invitation to tender so that we did get diesel trains.

That is the position we found ourselves in. When I was advised that some of the costs were even greater than I had previously been told, I asked Peter Hendy to become the chairman and do a deep dive into some of the schemes. He will report back to me in the autumn, and I will then be able to update both this Committee and the House as to the rest of the programme.

Q3 Chair: But when you appeared in front of this Committee before, and going back at least a year the Committee warned that there were major problems, what did you then do? Did you just leave the Committee and forget about it? Why didn't you look into these issues and identify some of the problems you are now telling us about?

Mr McLoughlin: The problems were being looked at. I think we did look into the problems. I would also say that the last time I came before the Committee, which was in March, a lot of the attention was on some of the problems that had happened over Christmas with the King's Cross station closure. The truth is that, if you look at the Christmas works that Network Rail did, there were something like 97 schemes, of which 95 were done on time and delivered to the specification we wanted. There were two schemes, namely Paddington and King's Cross, which got delayed. The huge disruption at King's Cross led to the eruption of a large amount of publicity, so part of my concern at that stage was to make sure that we saw no repeat of that at the Easter renewals. The truth is that the renewals taking place over Easter, particularly at Reading station, were absolutely vital as far as re-signalling was concerned for the great western electrification. I do not think anybody ignored any advice that we received. Work was being done.

Q4 Chair: Let me go back to the electrification schemes that have now been "paused", whatever that might mean. When you were here on 9 March you did say that there could be delays on north trans-Pennine, but when you were asked if you were aware of any other delays you did not tell us anything about the midland main line electrification. It is now apparent that the problems there were known about then, and before then. Why didn't you tell us about that when you were asked directly?

Mr McLoughlin: I do not acknowledge that there were problems on the midland main line. The problems were emerging. I am trying to make sure that I am absolutely accurate in my answers. Some of the problems emerging were on great western, where some of the engineering complexities were becoming apparent. Some of the new machinery which was brought by Network Rail was not doing the amount of piling per night that it was expected to be able to do to put the stanchions up and to put the wires across, and therefore the piling was not going to full capacity. That was partly due to the fact that one night some cables were disturbed that it was not known were there. People then had to start digging a metre down before they could start the machine. That added to the time and the complexity.

Some of the midland main line electrification work has started and some of the work has been completed. I came down in a cab on the midland main line this morning, looking at some of the work that has already been done on that line. Some of it is taking out walkways and footpaths across the railways, putting in bridges and replacing some of the bridges. That work has started and has been done. I very much want to see the midland main line, trans-Pennine and great western electrified. They are very ambitious plans and programmes, which I am proud that we are doing.

Q5 Chair: The South Yorkshire Passenger Transport Executive were told in June 2014 by Network Rail that there was going to be a problem on that line and that it was unlikely to be electrified in the time scale that had been promised. If Network Rail were telling the South Yorkshire Passenger Transport Executive that in 2014, how could it be that you did not know anything about it?

Mr McLoughlin: I did say that for trans-Pennine that was why the invitation to tender was put out differently—to enable diesel trains to be used on that particular route. There was no secret about the difficulty we were facing as far as electrification on that line was concerned.

Q6 Chair: But they said there would be a problem on the midland main line back in 2014. That was reported to this Committee, and we pursued it. That does not quite fit with you not knowing that there was any problem on the midland main line, does it? Network Rail knew; they were telling the transport authority that.

Mr McLoughlin: As far as the problem on the midland main line, that is not something—

Q7 Chair: How can it be that Network Rail told the South Yorkshire transport authority that there was a problem on the midland main line back in 2014, and it was then reported to this Committee that that had happened, yet you somehow did not know anything about it?

Mr McLoughlin: At the beginning of 2014 we were obviously in the very early stages of rolling out electrification. That is when the project started for a five-year roll-out period as far as CP5 is concerned. Obviously in the very early stages of any scheme there will be a fall behind on some parts of the development. You hope to pick those up over the five years of implementation.

Q8 Chair: But Network Rail, who were in charge of implementing it, said at that stage that it would not be completed within the promised time scale and that there might be problems with other schemes. They told the transport executive that, and that information was relayed here.

Mr McLoughlin: I have always tried to be very open with all of these problems. Obviously at the start of the control period in 2014 you would expect to make better progress once work got under way, in most cases. In some cases and in a lot of areas where we have seen rail investment that has exactly been the case. We have seen Network Rail deliver ahead of schedule in some areas, and they have fallen behind in other areas. It depends what particular project we are talking about.

Q9 Chair: It all seems very curious to me. Network Rail said it could not be done. They told us that and it appeared in the report that we published. Mr Rutnam, can you shed any light on this?

Philip Rutnam: My understanding of the issues around the midland main line that were emerging in 2014 was that they were principally around costs. We were certainly well aware—indeed we discussed with this Committee on a number of occasions—that the costs of these programmes were rising above the estimates that had underpinned the final determination of ORR in 2013-14. Costs were rising. I am afraid I do not know the document you are referring to as between South Yorkshire PTE and Network Rail.

There was some speculation that there was a risk that part of the completion of the midland main line project might lapse into the start of CP6, which I have to say is not uncommon on these large programmes—we have projects being finished now in CP5 that have overlapped from CP4; but I think the principal issue around the midland main line was actually about costs rather than schedule. What happened subsequently, and crystallised in June, underpinning the Secretary of State's statement to the House on 25 June, was a much more thorough and, to be honest, rather worrying assessment of the state of play across the whole of the CP5 programme. It was not so much the midland main line, which has been proceeding reasonably well, but an assessment of the CP5 programme in the round. The Secretary of State felt, on the basis of that advice, that he had to take action. There was a material change in circumstances between 2014 and June—

Q10 Chair: Yes, but none of this was mentioned to us in March. We were questioning you about these issues in March but nothing was said.

Mr McLoughlin: The time scale when I was told about this was actually after the election; I think 15 June was the first date when I was told.

Q11 Chair: You knew nothing about any of this, despite all these concerns and Network Rail statements—

Mr McLoughlin: Chair, it is quite important to say that I acknowledged when I came to the Committee last December, and indeed when I came to the Committee in March, that there were some problems about some of the time scales as far as trans-Pennine was concerned. At that stage we had only just started the CP5 control period. The information I got on 15 June made me take the action that I took and then reported to the House on 25 June.

Q12 Iain Stewart: In your statement to the House, you referred to other improvements—non-electrification improvements—on the midland main line, which would deliver an enhanced service. I think it was an extra train path per hour. What percentage of the electrification gains will these improvements deliver? Is this instead of electrification or as well as?

Mr McLoughlin: No, it is not instead of; for instance, if we look at the midland main line—which is a line I know a bit better than other lines in the service, partly because I use it most weeks myself—at the moment the Market Harborough curve is an S bend, which means that all trains have to slow down while going through it. If that were straightened, it would improve the connectivity and the capacity on the line because you would not have to slow down every train on the system that is going there.

Also on the midland main line there are a number of areas where, at the moment, work is going on to put in extra new freight capacity, freight lines, so that freight is not necessarily holding up the main lines as often as it does at the moment. That would lead to extra—as I talked about; six services from St Pancras instead of the five services currently, eventually up to Sheffield and Nottingham as well. Those are improvements that are still being worked on and should be delivered, and will give increased capacity. Electrification of the midland main line does not increase the capacity that much overall; it gives us cleaner trains and less maintenance as far as the railway network is concerned, but it does not improve capacity on the line that much.

Q13 Iain Stewart: Is there still a positive business case for midland main line electrification?

Mr McLoughlin: Yes, I think overall there is a positive business case. A lot of the work in the CP5 period ought to have been done a long time ago. It is areas of the country which have not been electrified when other areas have been electrified. Yes, I think it helps create a cleaner railway and a better environment. As I say, it reduces maintenance costs overall on the network, but obviously cost is something that we need to keep our minds alert to.

Q14 Iain Stewart: Finally on the midland main line, there are a number of other schemes related to it, like the east-west rail line, in which I have a particular interest as it goes through my constituency. The actual building of the line is stand alone, but it was promised electrification as well. Will that still happen?

Mr McLoughlin: I thought you might raise that, Mr Stewart. Electrification of the east-west rail is part of the core of the electric spine from Oxford to Bletchley. It is not paused. It makes sense to continue this at the same time as constructing the rest of the east-west rail, which will connect to the electrification. Furthermore, other sections are still at a very early stage of the design. No construction has yet started, or would have started in 2015. Network Rail has already publicly acknowledged in its delivery plan that it expects to deliver the bulk of that particular line in CP6. In effect, the pause has no impact whatsoever on that, but the electrification that I know you are particularly interested in between Oxford and Bletchley is not paused.

Q15 Chair: Who actually took the decision to pause the north trans-Pennine line electrification?

Mr McLoughlin: There was a recommendation to me, so I took the decision.

Q16 Graham Stringer: Who was the recommendation from?

Mr McLoughlin: From the Department. Having received the information that they had received from Network Rail and moving to the decision to appoint Peter Hendy as the new chairman of Network Rail, then obviously the decision was mine.

Q17 Graham Stringer: What information was provided to you in that recommendation that had not been provided to you previously?

Mr McLoughlin: Basically there was a concern about the cost and the progress that was being made on the great western electrification. I wanted to make sure that that was delivered. That is also partly dependent on the new rolling stock we are putting in there. When I talk about £38.5 billion for investment in Network Rail, it understates the investment that we are putting into the railways, because of course it does not include the money being made available for IEP trains, which is in the region of £6 billion. Actually the investment in the railways over the next five years far exceeds the £38.5 billion, which we are just doing through Network Rail.

Q18 Graham Stringer: You say it is extra cost. Can you be specific, in terms of the recommendation that came to you, on how much the costs have changed from the previous information provided to you and your officials and whether there were any other significant changes in the information?

Mr McLoughlin: When we first started out with this process, if we go right back to the September period last year and I first got the costings arranged, I was told that over the enhancement programme of £12 billion there was a cost overrun of some £2 billion. However, with de-scoping, some of the proposals had not then gone through the ECAM proposal. The ECAM proposal is what happens after GRIP 3 within the Department. It was thought at that stage that those costs could come down to around £200 million, on a budget of £12 billion. Bearing in mind some of the other things happening since, if you look at Reading station, that is ahead of schedule and under budget. If you look at Nottingham station, that was done under budget. On the other hand, if you look at Birmingham New Street station, it should have been completed in CP4 but it is over budget and coming in during CP5. On that basis, I was content that further work should be done. That further work finally came to me a few weeks ago and showed a substantial increase. I am not in a position to give the figure at the moment, partly because it was an unreliable figure. It showed an increase between two varying points. That is when I took the decision to ask Peter Hendy to—

Q19 Graham Stringer: Sorry, Secretary of State, I do not like interrupting but I do not understand that answer. You are saying that you took a decision to pause two schemes, but you cannot give us the actual figure on which you did it.

Mr McLoughlin: Because those figures are not yet—there was an ECAM process being gone through and not all of the details are there. They are not accurate figures, but it showed a substantial increase in the cost. It is on that basis that I took the decision to ask Peter Hendy to become chairman of Network Rail and to do a proper look. I did not want to repeat what had happened with the west coast main line. Mr Stringer, you will be very familiar with what happened with the west coast main line.

Q20 Graham Stringer: I am and—

Mr McLoughlin: It partly clears up how I came to the decisions I came to. The scheme was originally going to be £2 billion and ended up costing £9 billion. I did not want to be in that same position.

Q21 Graham Stringer: I understand that. It is quite reasonable for any Secretary of State to say that if, as on the west coast main line, it ended up costing three times the original estimate, you should look at it. What I am trying to get at, Secretary of State, is that you do not seem clear whether it was going to cost half as much, twice as much or three times as much. All you are telling the Committee is that you did not trust the figures.

Mr McLoughlin: There were other things that had not happened, as I explained in the House of Commons, like some of the planning permissions which were needed for route realignment, bridge improvements and other such things; it had taken longer to get permissions. It was on that basis that I asked for a pause so that a deep dive could be done. As I say, I will be able to come back to the Committee and to the House in the autumn of this year.

Q22 Graham Stringer: It is the scheduling rather than the actual costs.

Mr McLoughlin: Not just the scheduling but also the costs. It was part of the whole process.

Q23 Chair: Are you saying, Secretary of State, that you did not have confidence in the costings and the timetable that was given to you, and that is why you did this?

Mr McLoughlin: The costs had increased and I wanted to get a better grip on those costs. Not all of the processes had gone through the ECAM proposals and I wanted to see that take place.

Q24 Chair: And at this stage you still don't know.

Mr McLoughlin: I would rather do it at the beginning of a stage—relatively at the beginning—than wait until we are a lot further down the plan and say, “Why weren't these questions asked initially?”

Q25 Chair: Are you saying that at this stage you do not know what those costings are and you are waiting for information?

Mr McLoughlin: That is part of what I have commissioned Peter Hendy to report to me about in the autumn.

Q26 Martin Vickers: Secretary of State, you were very critical of Network Rail when you spoke to the House on 25 June. Would you say that Network Rail is fit for purpose?

Mr McLoughlin: Network Rail is trying to do a vast new job. Mark Carne has described it—I think it is a good description—as carrying out open heart surgery on a patient, and there is some truth in that. Every day we are moving around 4 million people on the railways. It is a vast growth story: basically, 4% growth each year.

There are some projects which go wrong, and all the opprobrium in the media is focused on Network Rail. I would like to point out that, when Mark Carne became chief executive, one of the first immediate tasks on his desk was reopening the great western line as a result of the Dawlish sea wall collapse and the further work down the mountainside from Dawlish. At

that stage, Network Rail were the heroes of the hour for getting that line reopened quickly. We always concentrate on some of the negative stories.

There is a very interesting article in today's *Railway*, talking about the new Norton bridge flyover. I am sure Mr Ffello will be interested in this. It is a bridge to take Stoke trains over the west coast main line, and is running ahead of schedule; the new line should be ready for use from Easter next year instead of being completed for Easter 2017. Originally, the project was going to cost £276 million. It is now recording a 10% cost saving and is likely to cost around £250 million. The whole project consists of three main improvements, so there is a huge amount going on. If I was to try and read out the whole list, the Chair would stop me.

Q27 Chair: It is true; there is a huge amount going on, but this particular session is focusing on things that have gone wrong, and we want to get to the bottom of that and understand what is going to happen next.

Mr McLoughlin: But, in fairness, Chair, Mr Vickers did ask me about Network Rail's capability. If I am being asked about capability, I think it is only fair that I am able to point to where they have delivered incredibly well, ahead of schedule and below budget.

I can give three other small examples. I have used them before so I will not go into great detail. Reading station: ahead of schedule, below budget. Nottingham station: closed down for six weeks two years ago, and a huge amount of work was done; again, under budget. On the other side of the coin, you could look at Birmingham station, which is taking longer. It should have been completed in CP4 but has gone into CP5. Why? Because asbestos was found and there was concrete cancer in some of the structures, which led to extra problems.

The point I am making is that Network Rail does an incredibly difficult job in maintaining a railway that is more popular than it has ever been, at the same time as trying and having to upgrade the whole system.

Q28 Martin Vickers: Could I turn to the role of the rail regulator in this? What was their input into your decision and announcement in June? Are you satisfied that their scrutiny of the project was up to standard?

Mr McLoughlin: We have a lot to learn from what has happened and from the decisions I have taken. I have not taken them easily; they have been difficult decisions. One of the reasons for asking Colette Bowe to do an investigation into the way CP5 was arrived at and the lessons we need to learn from that so that we don't repeat them is something that is very important. The role of the regulator comes into that, because the projects were signed off by the regulator and by Network Rail, albeit at a very early stage. In fairness, at the time Network Rail said that this would be an incredibly challenging set of projects to deliver within the time. I am willing, and wanting, to learn the lesson.

One also has to look at the reclassification of Network Rail, which happened halfway through this period. Network Rail was reclassified, and that has to a degree changed how the money goes into Network Rail and its ability to borrow. In the past, if a project has overrun, it has had an ability to borrow without the Treasury necessarily having to say yea or nay to it. That has changed with reclassification.

Q29 Chair: Does that mean that other projects are at risk? If all projects have not been assessed through the appropriate cost-adjustment process, does that mean that some projects are at risk and we are not aware of those?

Mr McLoughlin: It means that projects have to be delivered on time and to the budget that was originally suggested. As I have just said, there are a couple of projects which have come in below budget. It can be used on schemes that are overrunning in budget or elsewhere. Is there a magic source of finance for Network Rail? No.

Chair: It sounds as if a lot is uncertain.

Q30 Will Quince: We have discussed confidence in costings. I would like to ask a question about confidence more generally, and how much your decision to pause was based on the management skills and capacity of Network Rail, or the lack thereof.

Mr McLoughlin: What I come back to, and I am sorry to come back to this, is that we are asking Network Rail to do more electrification over this five-year period than has been requested of the railway at any time in its history, to be honest. Between 1997 and 2010 a very small amount of electrification was done. It is true that there was talk of a lot more electrification, and it is providing some very big engineering problems. But Liverpool to Manchester has been electrified. At the moment in the north-west the Farnworth tunnel is being widened so that electric wires can go through that particular tunnel. There is still a lot of work going on, but it is challenging, particularly when you look at great western and the Severn tunnel—four miles of tunnelling—which needs to be electrified and all the problems that go with that: 170 bridges on great western alone.

If you go up the east midlands line, you will see that some of the bridges there have been replaced. Some of the footpaths that went across the railways have been bridged to take those footpaths away. Those are the sorts of policies that in the past the Committee has called on Network Rail to do anyway, to improve safety. One of the things that I know the Transport Committee did a report on in the last Parliament was on the number of crossings, be they level crossings or foot crossings, on the railways. They wanted action to take those out. We are removing some of those but it is costly to do it.

Q31 Will Quince: It is probably unfair to ask you this question; it is more for Network Rail. Those bridges have not just appeared. The challenges were all there ahead of Network Rail taking on this large challenge. Why didn't they foresee it?

Mr McLoughlin: Whether you should ask Network Rail or me is another matter. In this Committee it is free game to ask the Secretary of State anything. Those challenges were seen, and they have been acted upon in the main. Some of the issues around planning permission take a long time.

Perhaps one of the other options that might have been possible for the great western line, I am now told, is to have looked at doing a Transport and Works Act order for the line so that we did not necessarily have to get individual permissions. That may be something we need to think about in the future. I do not know whether it is an option. It was something that was suggested to me last week by somebody. I am not sure it is the correct answer. I also think, Mr Quince, that the point about whether it should have been foreseen is part of what I want the Bowe review to look at and address, and I expect her report towards the end of September.

Q32 Chair: You mentioned the great western main line. Will electrification to Oxford, Chippenham and Bristol Parkway be complete by December 2016 as planned?

Mr McLoughlin: I cannot give you a yes or no answer to that until I have had the report from Peter Hendy. As I said in the House, in my own mind that particular line is a priority, because of the new trains coming on there and the IEP trains.

Q33 Huw Merriman: Secretary of State, does the pause of the two projects give you the opportunity to focus some of the resources for those two projects on other, perhaps smaller, projects, or will all the time and resources be spent on recalibrating the two paused projects?

Mr McLoughlin: Electrification is not the only improvement taking place on our railway network. There are other huge improvement schemes, and I gave you examples of those earlier, such as the Stafford scheme. There are lots of other schemes taking place. Certainly in the next few months, while Peter Hendy is conducting his review, I hope that all efforts can be put into ensuring that great western is delivered to a satisfactory time scale and then other works can carry on. I do not expect resources or manpower to be wasted.

Q34 Mark Menzies: I want to touch on two areas: first of all, an understanding of the thought processes and decision making behind this decision; and, secondly, the impact and the consequences of it. In terms of the thought processes, what is the collective memory within the Department for Transport and Network Rail when you are looking at this project and comparing it, say, with the west coast main line? At what point did parallels start to be drawn with the west coast main line, in that it went drastically over budget and was about three years late? Was there a conscious connection between the two, and you wanted to stop it early on rather than it just trundling on and ending up in mayhem?

Mr McLoughlin: Certainly I had that very much in mind, when I was told about the cost overruns and the lengthening of the west coast main line, when I was faced with the suggestions on 15 June as to whether to take a pause and make sure that we had the right skills and the right kind of people thereafter, and to learn from those lessons. I hope we learned from those lessons.

Q35 Mark Menzies: Could I be a bit tougher? Among officials and people at Network Rail, is there the depth of experience? Rather than looking at it from a historical perspective, are people thinking, “Well, we lived through that and we know, as a result of failing to take decisions, the impact that had,” or have these organisations been cleaned out and you have loads of new people?

Mr McLoughlin: What you find with the railways is that there is no shortage of experts on railway technology and railway build and design, not just within the industry but also outside it.

Q36 Mark Menzies: Moving on to the consequences, looking at the supply chain and apprenticeships, much play was made about the impact this would have on apprenticeship schemes and the supply chain in relation to new trains being ordered and so on. With the schemes being delayed, what assessment has been made about what it will mean to train manufacturers, national skills academies or apprenticeship programmes? How will you try to mitigate that?

Mr McLoughlin: One of the most important things for me as Secretary of State is to make sure that we keep on top of the skills agenda and to actually plan as far as future skills are concerned. As a Government, we committed to 3 million apprenticeships at the election. The HS2 Skills College is very important. We learned a lot with the Crossrail Tunnelling Academy, which was important. There is an HS Skills Academy opening in 2017. There is the National Training Academy for Rail in Northampton opening in the autumn. The Government has provided £3.5 million to the industry for this.

It is very important for us to look at the whole range of skills across the industry—what the train operating companies and the industry are doing; Network Rail has its own apprenticeship scheme. With companies like Bombardier and Hitachi opening up their schemes, it is one of the areas I want to see much more focus on. I want to see a move in the Department to draw together, to make sure we are offering the right opportunities across the whole spectrum.

Q37 Chair: But this isn't a new problem, is it? This is a long-term problem. In a way, you are telling us things that are already known. Why hasn't something been done about it before?

Mr McLoughlin: I was just outlining the things that have been done. The rail academy in Northampton is opening in the autumn. The HS2 Skills College is progressing forward. They are things where that skills training is already going on. I also want to see a much more co-ordinated approach across the train operating companies, the train manufacturing companies and others—to bring it all across.

Q38 Chair: But why hasn't that been done before? None of this is new. All of these problems have been identified before.

Mr McLoughlin: Because I am doing it now. I want to see it improve and progress.

Q39 Chair: You did not do it before because you are doing it now.

Mr McLoughlin: No; I did not do it before because there were things happening before, Chair, that I have outlined and that are very important. If you talk to David Higgins, he would be one of the first to talk about skills and how we are going to adapt HS2 to give the right kind of skills training, so this is not something new. What I am saying is that we are much more focused within the Department about skills right across the front, and it is something I am very keen to see developed.

Q40 Mark Menzies: We now know that these schemes are being delayed, potentially for the right reasons. Has work been done, or is work going to be done, with skills suppliers and manufacturers to ensure that they do not suffer a negative impact and that organisations gearing up to offer apprenticeship places in order to meet this work do not suddenly find themselves gearing up for something that is not going to happen? What assurance can the Department give the Committee that work will be done so as not to leave those people out on a limb as a result?

Mr McLoughlin: Mr Menzies, what I can say is that I want to see development of skills. I want to see the Department putting more emphasis on that. I will certainly take forward the message that you have just given me as well.

Q41 Mary Glendon: Secretary of State, why has the over-budget and delayed great western main line electrification been prioritised over the electrification of lines in the midlands and the north?

Mr McLoughlin: Mainly because of the new trains that have already been ordered for that particular line—the new IEP trains that are coming on to the great western. As far as the north is concerned, the north is going to get the new IEP trains; they are going to be operating out of King’s Cross by 2019. A lot of other things are being evolved for the north as well, not least the abolition of Pacers. There is quite a lot going on in the north. It is also about trying to give each part of the United Kingdom its share of the rail investment programme.

If I look at what is happening as far as the north is concerned—you would probably decide that the north is a lot further north than most of us would, and that goes for the rest of the Committee, but perhaps not as far as Mr McDonald might decide the north is—a lot of work is already progressing in those areas. It is a matter of making sure that every area gets the opportunity for the rail investment they see. You will get the advantage of the new IEP trains which are being built at Newton Aycliffe, as will the west country.

Q42 Chair: How much will the Department have to pay Agility Trains if the electrification is not done in time? We were told there would have to be compensation paid. How much will that be?

Philip Rutnam: The Department is committed to buy the service provided by the trains. As I understand it, we are liable to pay that. If the infrastructure is not delivered to be ready for the trains, that is our liability. I am afraid I do not have a figure in my head for how much exactly we are liable to pay for the trains, but this is a very significant order.

Q43 Chair: What is very significant? What are the figures?

Philip Rutnam: The present value over 27 and a half years of the IEP trains for the great western main line is nearly £3 billion. That is over 27 and a half years, so it is a very significant order, which goes to the Secretary of State’s point about why it is a top priority to see the electrification of the great western main line completed. Electrification on the east coast main line has already been completed. We are confident that the trains which are on order for the east coast main line can be brought into service. We need to see the trains for the great western main line brought into service as well. This is a top priority for the Department and for Network Rail.

Q44 Chair: What are the chances that you will have to pay compensation? Are you expecting that will happen?

Philip Rutnam: I am not expecting to pay it, but I am very concerned to make sure that we do not end up paying for the trains while they are not in productive use. Of course, we want to see them being brought into productive use. It is very clear to Network Rail and very clear in the Department that the top priority must be electrification of the great western main line. It is a very complicated project. There is a whole range of different parts of the great western main line that are subject to electrification. Different parts of it have different degrees of interdependency with the train order, but the overarching point is that it is a top priority to see that project progress.

Q45 Chair: When did the Department sign an agreement that said compensation would be paid to Agility Trains?

Philip Rutnam: Just to be clear, I do not think the word “compensation” is quite right. What the Department has done is enter into an agreement for the trains to be made available. It is a service agreement, so the trains are to be provided ready for use each day.

Q46 Chair: What would you call the payments? It is a liability the Government would have.

Philip Rutnam: It is a payment. Yes. The Government is liable to pay for these trains. If the infrastructure is not ready for the trains to use, that is a risk which principally falls to us. Of course, as we are de facto owner of Network Rail it is not very much good necessarily expecting them to compensate us, so it is a risk the Government is taking. When did we enter into that agreement? From memory, the great western element of the IEP programme was concluded in June/July 2012. It was the first part of the IEP programme that reached financial close.

Q47 Chair: You accepted that liability at that stage.

Philip Rutnam: Yes, the Government accepted that liability. The Government recognise that the production of the trains and the production of the infrastructure need to be synchronised. Imagine if I were in the situation where the track looked like it was being electrified but we did not have trains to go on it. The two things clearly have to go together, so then there is a risk. Somebody has to bear the risk associated with the two things being provided at the right time, together.

Q48 Chair: That situation arose on the Todmorden curve, didn't it? A year went between the line being ready and trains being available. Are you telling us that could not happen again?

Philip Rutnam: I am less familiar with the Todmorden curve. I was not aware that the trains were ready before the track. I knew the infrastructure was delayed.

Mr McLoughlin: I think there was a shortage of train availability. The track was done but it was the availability of rolling stock.

Q49 Chair: But the two were not aligned.

Mr McLoughlin: The two were not aligned. It was a different way round, though.

Philip Rutnam: It is absolutely a classic problem, or a classic challenge, in relation to railway projects. You have to synchronise, especially when you have very large and complex upgrades, elements of infrastructure and elements of rolling stock. In this project the train element of the project is making good progress. Agility Trains is strongly incentivised to deliver the trains to time, to quality and to specification, to meet all the desirable characteristics we want to see. What we now need to do is to make sure that the infrastructure programme is delivered so that the risk we are talking about does not materialise. I assure you that nobody is more concerned to make sure that risk does not materialise than I.

Q50 Stewart Malcolm McDonald: How is staff morale at Network Rail?

Mr McLoughlin: I am not sure I am in a position to answer that question. Obviously after the announcements that I made there will be people who are concerned about what is happening, but there is a huge variance in staff at Network Rail. Some of the people you see right at the front end of delivery are always working very hard to get the services done. One of the challenges with electrification is the actual time you get to go on site to do the work, because at the same time you are trying to provide a railway that is in operation moving 4 million people a day.

Q51 Stewart Malcolm McDonald: Do you intend to undertake any activities to better furnish yourself with how staff morale is at Network Rail? I did not really hear anything that gave me an answer there, Secretary of State.

Mr McLoughlin: That is one of the things for the chairman and chief executive to do at Network Rail. What is certainly true, as far as investment on the railway is concerned, is that never have a Government committed so much money to investing in the railways as the present Government have done. From that point of view, morale should be very good indeed. The importance of the railways, the growth and the usage of the railways has never been higher; basically, we are seeing more than 4% growth each year.

Q52 Stewart Malcolm McDonald: I have listened a lot, Secretary of State, to what you have been saying to other members about the delays in projects, the general performance and all the rest of it. I can quite understand why the decision was taken to end bonuses for senior management, who already earn significant amounts of cash. Is that going to filter down to front-line staff as well? Are the other 30,000-odd employees of Network Rail going to have their bonuses suspended?

Mr McLoughlin: Different people do different jobs. A number of people are not in a position for bonuses in Network Rail, but if they are in a position for bonuses and they do the job with the delivery that they are supposed to deliver, presumably those bonuses will still be paid. That is really a matter for the chief executive of Network Rail.

Q53 Stewart Malcolm McDonald: Do you think the chief executive's salary of £675,000 is value for money?

Mr McLoughlin: I think to get the right kind of person to take on the complexities of Network Rail you are going to have to pay a—

Q54 Stewart Malcolm McDonald: That is almost five times the Prime Minister's salary.

Mr McLoughlin: It is almost five times the Prime Minister's salary; you are quite right. If you were to look at any of the big engineering companies, I do not think that salary is out of context with what somebody, taking on the responsibility—

Q55 Stewart Malcolm McDonald: Do you think that will improve staff morale or put a chunk in it?

Mr McLoughlin: If we did not recruit the best people to those jobs and we did not get delivery of the services, the Committee would be complaining to me too. The next argument would be that we were not prepared to pay the right kind of salaries to attract the best people.

Q56 Stewart Malcolm McDonald: I agree we need the best people. I agree you have to pay them properly. I just question whether “properly” comes to £675,000, given all the problems that we have listened to this afternoon. I think staff members of Network Rail, and indeed the public, would question where we are on this by paying £675,000 to one individual.

Mr McLoughlin: That is a view that you may take.

Q57 Stewart Malcolm McDonald: I think quite a lot of people would share that view.

Mr McLoughlin: Of course. If we are starting to think about whether people think we are overpaid, if we go and ask a member of the public whether you and I are overpaid, they would say yes.

Stewart Malcolm McDonald: They would have a valid point.

Mr McLoughlin: They might have a valid point.

Q58 Chair: Let’s keep to the topic.

Mr McLoughlin: I am trying to answer Mr McDonald’s question. I am merely saying that, if we subjectively ask whether people think we are worth the money we are on, most people probably don’t think that anybody is worth more than they are earning. The simple fact is that the chief executive of Network Rail is a job running a very major safety-conscious organisation which is responsible for moving 4 million people a day.

Q59 Stewart Malcolm McDonald: But it is in a bit of a mess right now, isn’t it?

Mr McLoughlin: We are always prepared and always willing to look at just the negative sides of what Network Rail have done. I have told you today about certain instances where they are doing a very positive job and fulfilling the role that is expected of them. There are some areas where we are having some difficulty. I do not believe in condemning every single person who is working incredibly hard to deliver the rail structure that we want for the future.

Q60 Will Quince: I thank Mr McDonald for raising this issue. It was one of the questions I had. Secretary of State, you rightly said in your statement that the Network Rail bosses will not receive a bonus for the past year. The ramifications of that are for the whole control period. When you add it to the performance and reliability of Network Rail over the past few years, a lot of commuters would question whether bonuses should not be handed out to the bosses for the whole control period—and not just the past year.

Mr McLoughlin: Let us take one stage at a time, shall we? Decisions have been made on last year's bonuses. I hear what you say, Mr Quince, about the future.

Q61 Robert Flello: Secretary of State, before I move on to the questions I really want to ask, I am still not quite clear on this whole pause and what it actually means in practice. My dictionary tells me that a pause is a momentary hesitation, whereas a postponement is putting something off to a later time. Is this really a postponement? If so, until what later time? If it is a momentary hesitation, it is a very long moment.

Mr McLoughlin: If a momentary hesitation in a five-year plan is two to three months, while the new chairman does the work that I have requested of him—

Q62 Robert Flello: Two to three months.

Mr McLoughlin: I am hoping to have the report by Sir Peter Hendy later this year, in September or October time. He only started work on the job last Thursday. I will be talking with him to see when he can come forward with his report. I will make that available to Parliament and to the Committee as soon as possible.

Q63 Robert Flello: But your aspiration might be September or October.

Mr McLoughlin: Yes. It may slip to November.

Q64 Robert Flello: We will be into December and January next. So far today you have talked about trying to put the positive against the negative that we are raising. All the way through you have talked about increased passenger numbers and how many passengers per day, but we have not really heard any mention of freight or what the impact of these pauses will have on the ability to shift freight around the country, which is absolutely vital.

Mr McLoughlin: You might not have quite been listening when I was talking about some of the work on the midland main line, because I did talk about freight there. I think you are right: it is one of the areas that often gets overlooked when we just talk about passenger numbers. There has been huge growth as far as freight is concerned. With some of the electrification models, some of the extra line capacity is more important for the freight industry. As I saw today coming down the midland main line, a lot of work being carried out there will improve freight availability on that line and will mean it is not competing quite so much with the passenger lines. That is certainly very important.

Q65 Robert Flello: Certainly the freight industry believes that rail freight is seen as an inconvenient side-effect to passengers. The figure I saw was that only around half of freight operators have any satisfaction with the way Network Rail operates. What is being done to address that?

Mr McLoughlin: I am very keen to see more freight. You ask what is being addressed. One of the big arguments why extra capacity is so vital on the rail network is so that we can get more freight on to the network. You can go to the new London port, DP World, and see the freight availability there. You can go up to Liverpool and see what is happening at Liverpool port where a new dockside is being built, which will enable it, when it is fully completed later this year, to take 95% of the world's shipping fleet, as opposed to the 5% it is limited to at the moment. There are obviously great opportunities

as far as rail freight is concerned from all those ports. Felixstowe is another important user of freight. Indeed, a lot of the work done at Reading station was to enable greater freight capacity to go down from the midlands to Southampton. Certainly I do not see freight as an inconvenience. I see it as a very important part of the railway story and future.

Q66 Robert Ffello: I will just take your example of DP London Gateway up to Liverpool. Surely splitting Network Rail into eight regional businesses will make things even more complicated. If you are a freight operator trying to get from Gateway up to the north of England, it is going to be easier just to stick it back on the ship and sail it there.

Mr McLoughlin: Mr Ffello, you should not believe everything you read in the newspapers.

Q67 Robert Ffello: So what is happening? Are you saying it is not going to be split into eight?

Mr McLoughlin: Obviously since reclassification, the position of Network Rail has changed in the way it delivers projects. There are two reviews going on. I would not call the Hendy work a review as such; I would call that a target as to delivery of the process, but the Colette Bowe report is concerned with how we got to the position of agreeing CP5, what the lessons are for future control periods and how we make sure we do not make any mistakes or overthink what can be delivered. There is the work by Nicola Shaw, which is being done in conjunction with Peter Hendy, and she will report for the 2016 Budget. We will be in a position to draw conclusions on what her report says. There are many different options that people say could be the way in which Network Rail should be operated in the future. It is right for a Government to look at all of those options.

Q68 Robert Ffello: What instructions are you giving to the various people doing those various reports to make sure that freight is not just an afterthought?

Mr McLoughlin: It is not an afterthought. If we have not already published the terms of reference of each of those three inquiries, I will certainly make sure we publish them.

Philip Rutnam: It is certainly within the scope of the work that Peter Hendy will be doing looking at the CP5 programme. Freight is a very important customer group—very important. I hear what you say about the level of satisfaction that the freight operating companies have with Network Rail. I have heard that myself directly from them. It may just be worth noting that at the moment Network Rail is out-performing on its operating target in relation to freight; in terms of performance and reliability, I think it is actually out-performing. It is not all a story of negatives. There are huge projects such as the Reading improvement project, which the Secretary of State mentioned.

Q69 Chair: Does that mean that Sir Peter Hendy will be recommending whether a pause is a pause or a postponement, or a cancellation?

Mr McLoughlin: It means he will be recommending the best way to fulfil the commitments in CP5. However you describe that, Chair, is for you to describe and not me.

Q70 Iain Stewart: Mr Ffello has touched on a lot of the questions I was going to ask, which were about the three reviews. I just want to be clear in my mind how they are all going to dovetail together. Do you envisage that the Hendy and Bowe reviews will feed into Nicola Shaw's and that she will produce the best route map for Network Rail going forward?

Mr McLoughlin: Nicola Shaw will work with Peter Hendy in the process running up to her report. The Colette Bowe report will come sooner. I expect that to be available to me by the end of September. Nicola Shaw's report is due at around the March 2016 Budget. I do not yet know the date of that Budget—it would not be my position to say. That work will obviously feed into the work that Nicola is doing.

Q71 Iain Stewart: It was reported in the industry press in the last couple of months that the deep alliance initiative between Network Rail and South West Trains has been reshaped. Do you think that sort of arrangement will form part of her long-term review?

Mr McLoughlin: I am pretty sure she will be taking a look. One of the things we need to bear in mind for future control periods is how we involve not just the train operating companies but also the passengers in how there is a better service for their areas. If I may point out to Mr Vickers, when there was a threat to a particular service in his constituency, he did a huge amount to raise awareness of that service. As a result, a vigorous campaign was launched to save the service, which was successful. Some of the work that is being done by those reviews will focus not just on what is being said by Network Rail but also on how passengers can feed into it—what improvements they want to see in the rail service.

Q72 Mary Glendon: Do the proposed changes to the network grant for CP6 pre-empt the findings of Nicola Shaw's review into the governance and funding of Network Rail?

Mr McLoughlin: No, I do not think it pre-empts. The simple fact is that we have not really started work on CP6—I say that we have not started; there is no final determination. I am very keen that we have learned the lessons from CP5 for work that is done on CP6. As I said, if you look at some of the things that were in CP4, they have actually run over into CP5. Birmingham New Street station, when it opens later this year, will be a fantastic improvement as far as capacity for the station is concerned. There were times in the past when that station had to be closed because of the amount of capacity and usage by passenger numbers on the station. That will be a major upgrade, but it is a project that has run slightly later into the CP5 period. It should have been finished 12 months ago.

Q73 Mary Glendon: Do you think the fact that you have chosen to channel the funding money through private companies will reduce your control over Network Rail?

Mr McLoughlin: No. Some of the contracts let by Network Rail are contracts with private companies, but they are done by very strict delivery criteria.

Q74 Mary Glendon: Is there an acceptance of the ORR's failure to incentivise Network Rail to support passengers?

Mr McLoughlin: I want to see a lot more notice taken of passengers. There are a lot of improvements coming for passengers, which I hope they are pleased with when they see them. There was a very interesting letter in *The Financial Times* the other week from a

professor at Liverpool university, praising the service: “I can now catch an electric train from Liverpool Lime Street to Manchester Victoria, arriving only 31 minutes later. Alternatively I can travel direct to Manchester airport in slightly over an hour, with four trains an hour. By comparison, it took me the best part of an hour last week to get from Peckham to central London using public transport.” That was Professor Ian Wray. I am rather pleased to see us levelling a bit of the playing field as far as connectivity is concerned.

Q75 Graham Stringer: The Office for National Statistics defined Network Rail as being in the public sector. We discussed the governance of Network Rail at the Select Committee and you expressed your satisfaction with that governance and did not see any problems, even though there were no shareholders and no elected people responsible for it. Why did you sign it off when it has now been shown to be an unsatisfactory and flawed structure?

Mr McLoughlin: At the time I was very keen, and still am keen, to see the delivery of CP5. I was convinced at that time, having listened to people, that it was the best structure that could deliver that, and I did not want to bring in a huge amount of change. Since then further information has changed my view on that, and that is why I changed the structure of Network Rail with its public members. I made that announcement when I made the announcement to the House on 25 June.

Q76 Graham Stringer: What principle could possibly have informed your original decision when there were no lines of accountability at all for this huge level of public expenditure and public debt?

Mr McLoughlin: The lines of accountability and responsibility have changed, and they now rest with the Department for Transport and the Secretary of State.

Q77 Graham Stringer: They do, inasmuch as Network Rail have to borrow, but the internal governance structures did not change, did they? You chose not to change those.

Mr McLoughlin: I chose not to change them at that stage.

Q78 Graham Stringer: That is the real point. The only changes that actually happened were who Network Rail could borrow off. When I asked Network Rail and yourself what changes these borrowing requirements made, both Network Rail and yourself said that they would make very little difference—marginal differences in the cost of borrowing to the benefit of Network Rail. Wasn’t that negligent, Secretary of State, because there was no line of accountability, was there?

Mr McLoughlin: There was a line of accountability to the Secretary of State. The borrowing position of Network Rail certainly changed, in that they could no longer borrow on the derivatives market, and they needed to rely on the Treasury for their borrowing power. There were powers that I had within the system which I have now exercised, but at the time of the reclassification there were a lot of other things going on. There was all the work that was coming forward at Christmas. There was all the possession work that was coming forward at Easter. That only happened in September of last year.

Q79 Graham Stringer: Yes, nearly a year ago. What you said on the Floor of the House was that you had now “had a chance to think a bit more about what had to be done”. That was what you actually said. Don’t you think you should have thought a bit harder at the time?

Mr McLoughlin: No, because at the time I wanted to see, and still do, the delivery by Network Rail of a very ambitious programme for delivery of the contract that we have set for them as far as CP5 is concerned. That is at the front of my mind, not necessarily the structures as to the working of Network Rail. It was as a result of where we were in the electoral cycle. At that stage we were six months away from the start of a general election campaign—from purdah. I do not think there would have been time, given where we were in the electoral cycle. If I decided that changes needed to be made that required legislation, there would not have been the time to take that legislation through the House of Commons.

Q80 Graham Stringer: Let me take you back to your previous answer. You said you had no confidence in the figures coming from this structure, so by taking no decision for electoral reasons—

Mr McLoughlin: No, no. First and foremost, I do not think I said that I had no confidence. What I said was that the figures were not of a strong enough standing to be accurate, and they were changing. I do not want you to put words into my mouth which you then tend to think I have agreed with.

Q81 Graham Stringer: I would not presume to put words into your mouth, Secretary of State. If figures are changing and you are going back for them, I would assume that meant that you could not rely on those figures and could not have any confidence in them. I do not want to go over that ground; I will just leave it there. You left a structure that did not produce the work that you wanted, and I asked you at the start whether you regretted that decision.

Can I ask the principal accounting officer a question along similar lines? What gives you the confidence now that Network Rail’s internal controls will provide proper accountability for the vast amount of money they have in debt and that they are spending at the moment?

Philip Rutnam: First of all, could I go back to what you were saying earlier, Mr Stringer, about the nature of the powers that the Government took when reclassification came into effect? It is not the case that the only power we took was in relation to Network Rail’s debt. Yes, there were controls. A new limit on the level of debt that Network Rail could take was put in place, including also a requirement for Network Rail to borrow from the Government rather than to borrow from the markets. But there were many other provisions we put in place as well at that time. There is a detailed document on our website and on Network Rail’s website called “The Framework Agreement”, which sets out those controls, including, for example, the power to appoint or dismiss the chair, the power to appoint a special director, and so on.

Q82 Graham Stringer: Let me clarify that, as you have chosen to answer a different question. The fact is that the structure of Network Rail, which effectively meant that they marked their own homework, stayed the same, didn’t it?

Philip Rutnam: No, far from it. Network Rail, before and after reclassification, is subject to detailed and arguably quite onerous regulation by the independent Office of—now—Rail and Road. At every step of the lengthy process we have been talking about today in relation to CP5, Network Rail have been subject to regulation by ORR. The regulatory framework of ORR remained in place. That was a framework on which the Department put a lot of emphasis; as the ultimate customer for Network Rail before reclassification, the Department put a lot of emphasis on it in terms of its reliance. Since reclassification, we have continued to put significant emphasis on it because there is no way in which the Department can check everything that goes on within Network Rail. There is an important control and regulatory system associated with the ORR.

Can I go on to your question about governance, internal controls and so on? My role as principal accounting officer of the Department includes the oversight, as accounting officer, of Network Rail. The accounting officer within Network Rail is Mark Carne. As well as being chief executive he is an accounting officer under the requirements for managing public money, and he has a specific responsibility to me to provide me with assurances in relation to the internal controls in Network Rail—the governance system within Network Rail—and I can assure you that I discuss those regularly with him. There are specific and formal processes for him to provide assurance to me, so there is extensive governance around Network Rail. What this episode shows is that it is not so much around the machinery of governance but around the substance of what is required to cost projects and the level of uncertainty attached to projects, particularly at their very early stages and particularly when they are things which have not been done and tried at scale in this country for many years, such as electrification.

Q83 Graham Stringer: What I asked was what gives you the confidence. Are you saying that the discussions you have with the accounting officer give you the confidence?

Philip Rutnam: Gives me confidence in relation to what, precisely?

Q84 Graham Stringer: The overall expenditure of public money within the system as the accounting officer.

Philip Rutnam: In relation to the overall expenditure of Network Rail across all its different categories, not just enhancements but also operating and maintenance expenditure, and renewals—

Q85 Graham Stringer: Internal controls.

Philip Rutnam: All of that. What gives me the level of confidence I have will be Network Rail's business plan and business planning process. Under the framework agreement dating from reclassification, the Department has, first of all, the job of approving the overall business plan for the control period; secondly, of approving any material variation to the business plan in any year; and, thirdly, a statement of internal control—an assurance process—a duty that the accounting officer at Network Rail has to me in relation to internal controls and assurance.

Q86 Graham Stringer: In terms of the people who help and support you within the Department to look at the vast amount of information that must be coming from Network

Rail, what evidence is there that there are the skills and necessary experience within the Department to assess that flow of information?

Philip Rutnam: Things can always be better. I am always one for believing that organisations can continue to improve and should never regard themselves at a state of perfection. If you think that, you have it badly wrong.

Q87 Graham Stringer: We can agree on that.

Philip Rutnam: Things can always be better. What gives me confidence that we can scrutinise the material that Network Rail sends to the Department and the extensive discussions they have with the Department is, among other things, the following. I have a very experienced director general for resources and strategy—everything to do with money and corporate governance. I have a very strong finance director, who I can assure you is at least as concerned as I am, and probably more concerned, about financial information coming from Network Rail and the reliance we need to put on it, because we will need to consolidate Network Rail fully into our accounts. As well as visiting this Committee, of course I also visit the Public Accounts Committee and have a great deal to do with the National Audit Office. Both of those bodies will be very keen to check the quality with which Network Rail's financial information—its annual report and accounts, management accounts and so on—can be consolidated within the Department. I have significant skills within the Department and this is a very significant area of focus. I could go on listing the skills involved in the Department. I could probably list a dozen senior people who have Network Rail at the top of their list of priorities.

Q88 Chair: Are you satisfied that the system you have just described can deal with the inevitable uncertainties of planning—the sorts of uncertainties that the Secretary of State spelt out?

Philip Rutnam: The uncertainties of planning?

Q89 Chair: Planning. Planning projects.

Philip Rutnam: Planning projects is a slight subset of the overall. I would say that there are significant things to be learned from this episode by Network Rail, by the Office of Rail and Road and also probably by the Department. I am sure that the Bowe review will be very useful for all three parties in thinking ahead to the CP6 programme, and also in relation to the way in which we exercise our significant role on governance on a day-to-day, month in, month out and year-to-year basis.

Q90 Chair: There are at least three reviews announced. For two of those reviews the terms of reference have not yet been published, or had not been earlier today. The impression given is that these reviews are pretty much off the cuff and are not very co-ordinated. Is that correct?

Mr McLoughlin: No, I do not think so.

Q91 Chair: One seems to have come at the instigation of the Chancellor of the Exchequer, who seems to be taking a great interest in it.

Mr McLoughlin: The Chancellor of the Exchequer and the Treasury take a great interest in everything that goes on in Government, so we should not be surprised by that. I am more than happy to make the terms of reference available. I thought the Bowe review ones had been published. On the Peter Hendy things, basically I referred on the Floor of the House to what I wanted him to do. I am more than happy to publish the terms of reference of Nicola Shaw. They should not be seen as separate reviews. Some of the things that Colette Bowe will be looking at will feed into the role of the ORR and what the ORR should do since the changes of reclassification and what that means. That will obviously feed into quite a lot of the work that Ms Shaw will be doing as well.

Q92 Chair: You have already made a proposal that the grant to Network Rail should be channelled through the train operating companies. That is a major change. Isn't that pre-empting the conclusions of any of these inquiries?

Mr McLoughlin: I am not sure it is pre-empting the conclusions at all. That is talking more about future plans. I said just a few moments ago that we want to see much more involvement, not just Network Rail or the Department for Transport saying what is going to be in CP6, but what the train operating companies say will give the best speed line improvements and the best passenger services. We also want to involve the passenger groups. That is very important too.

Q93 Chair: You have not spelt that out. Are you going to consult passenger groups?

Mr McLoughlin: I thought I did say that earlier on. It is certainly my intention. I want to see Passenger Focus or representatives of passengers much more engaged in the process.

Q94 Chair: You have not included freight in that changed system. Is there a reason for that?

Robert Flello: I was just about to say that.

Mr McLoughlin: I apologise again. I will be much more reliant on including freight. I did say that some of the things I had seen today, as far as development on the midland main line was concerned, were very much freight related and freight involved.

Q95 Chair: But you have not included freight.

Mr McLoughlin: The work that I talked about for the Norton bridge flyover is a very important thing for freight, as is the Ipswich chord. There has been a lot of investment to help facilitate freight over the past few years, and I do not see that diminishing.

Q96 Robert Flello: But in terms of involvement of firms and businesses that rely on freight transport—

Mr McLoughlin: Of course there needs to be broad involvement across the whole industry.

Q97 Graham Stringer: Referring to an answer that Claire Perry gave on the issue of the pause in the trans-Pennine electrification, she seemed to imply that it was not just to do

with the costs on great western. She said it was not ambitious enough, that it could be “more ambitious” and was “poor value for money”. What changes do you envisage in the electrification of that route?

Mr McLoughlin: Do you have the reference for that particular question?

Q98 Graham Stringer: You can borrow my sheet, if you want.

Mr McLoughlin: As I said to you earlier about the Market Harborough straightening, Mr Stringer, if that is not done before electrification, it becomes a lot more expensive to do after electrification.

Q99 Graham Stringer: Is she talking about tunnels and straightening out routes?

Mr McLoughlin: That could be some of the options you are looking at. One of the most important and exciting prospects that have happened as far as the north is concerned is setting up Transport for the North and fully involving that in how you get better connectivity, and whether there are certain things that we might do before electrification that could have a very positive effect on the overall connectivity between cities, which become a lot more difficult to do after electrification has been done.

Philip Rutnam: Could I comment on the trans-Pennine? On the original plan for electrification there were to be, subsequently, a set of separate works for line speed improvements and capacity upgrades, which would actually have involved going back to all the infrastructure and altering it again.

Q100 Graham Stringer: Does it mean tunnel straightening?

Philip Rutnam: That particular set of works is not about tunnelling, or not about new tunnels. Of course, there is a separate, very important related piece of work around trans-north or HS3, which is about trans-Pennine connectivity, much bigger and more comprehensive solutions to trans-Pennine connectivity. The point specifically about trans-Pennine electrification is that it did not seem very sensible, as one looked at it, to first put up the wires and then separately go back to all the infrastructure and cause more disruption again to do the line speed and capacity improvements; putting in passing loops and things like that. The opportunity is to look at these things as a bundle.

Q101 Graham Stringer: That appears completely logical, but what does it imply for the scheduling and timetable for ending the pause? You are talking about not just pausing it while you look at the finance, but pausing it and looking at a redesign.

Mr McLoughlin: It is talking about looking at the best deal for connectivity in the north. I do not want to prejudge what Peter Hendy comes forward with. Those will be some of the things that I would want Peter to try and address in his report.

Q102 Graham Stringer: My final question is this, Secretary of State. You said before that you want to see development of skills, and we would all agree with that—skills, jobs and employment. Have you done any assessment of how many jobs and businesses have been lost in the supply industries following the pause in the midland line and the trans-

Pennine line? There must have been pipelines of suppliers waiting to do the work. Have you any assessment of the damage in terms of jobs and businesses?

Mr McLoughlin: I do not have any. As I say, I only announced the pause two weeks ago. Work which had already been commissioned is still ongoing. We have not stopped any work that had already started. There is lots of other work available on the railways in a lot of the other schemes.

Q103 Graham Stringer: If I ask you the question when we come back after the summer break, will you be able to tell us about the impact on the supply chain in terms of jobs and businesses?

Mr McLoughlin: It is three weeks since I made the statement to the House. Obviously if you ask me in another nine weeks what the impact is, I will be able to see if that has materialised or not.

Q104 Stewart Malcolm McDonald: I want to ask one question, Secretary of State. Why did you take the decision to end the role of public members in Network Rail?

Mr McLoughlin: Because I think it confused where the accountability was. It gave different areas of accountability. I want Network Rail to concentrate on delivering, not arguing or wondering where accountability lies. The position, now it has been reclassified, has changed and the accountability is to the Secretary of State.

Q105 Stewart Malcolm McDonald: Do you expect that Network Rail will lose anything from that decision?

Mr McLoughlin: I hope they will not lose anything from that decision, but that is something that we will see.

Q106 Chair: Finally, I would like one clarification. It is to do with the possible compensation payments to Agility Trains. Was the prospect of paying significant compensation to Agility Trains the reason that you appear to prioritise passengers travelling between Bristol, Swansea and Cardiff over those travelling between Manchester and Leeds?

Philip Rutnam: As I say, I would not describe it as compensation, but the Government have a liability to Agility Trains.

Q107 Chair: The Government's liability in paying money.

Philip Rutnam: Obviously the fact that the Government are carrying that risk is a relevant factor. It is not the only factor though. Of course, the great western electrification programme itself has many, many benefits. It is important to understand that on the great western electrification programme, unlike the midland main line, very large benefits to passengers are dependent on electrification and the new trains, because they allow a different service pattern and more frequent services as well as faster journey times. The same argument does not arise in relation to the midland main line, where the benefits of electrification itself, going back to something the Secretary of State was describing earlier, are principally financial in terms of lower costs of operation and environmental—greener trains. With great western, of course the exposure of the taxpayer is a material factor, but the benefits to passengers from electrification per se are also highly material.

Q108 Chair: What about the benefits on north trans-Pennine?

Philip Rutnam: Indeed, of course, there are significant benefits to passengers to come from trans-Pennine electrification, but, as I was trying to explain in my answer to Mr Stringer, in fact the benefits there come from both electrification and the line improvements, in terms of capacity and journey time. The previous plan—the one which, when we were here in March, we said could not now be achieved by 2019—had seen those two things being essentially separated. We will see where Peter Hendy’s work goes, but I suspect it is quite likely that we will find greater benefits from doing those things together so that, for example, passengers do not find two lots of engineering disruptions.

Chair: We will see. It sounds a little as if you are finding the justification after the event, but let’s see. Thank you very much, both of you, for coming and answering our questions.