

Transport Committee

Oral evidence: Rail Electrification, HC 702

Monday 22 January 2018

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Members present: Lilian Greenwood (Chair); Steve Double; Paul Girvan; Huw Merriman; Luke Pollard; Iain Stewart; Graham Stringer; Martin Vickers; Daniel Zeichner.

Questions 1 - 140

Witness

I: Rt Hon Chris Grayling MP, Secretary of State, Department for Transport.



Examination of witness

Witness: Rt Hon Chris Grayling MP.

Q1 **Chair:** Welcome, Secretary of State, and thank you for coming along. For the purposes of our recording, please can you confirm your name?

Chris Grayling: I am Chris Grayling, Secretary of State for Transport.

Q2 **Chair:** Thank you. The last time you appeared in front of the Committee you promised to provide us with full impact assessments for the cancelled electrification schemes: the midland mainline, south Wales and the lakes line. I am disappointed that we do not have the full information in front of us.

We have been able to secure information only through third parties who have passed it through a freedom of information request. It is disappointing to me that the Committee has to recall you to answer further questions when that information could have been provided in correspondence, as we asked.

You have said that the benefits of electrification schemes can be secured by a different, cheaper approach. Can you explain to us today why partial electrification and bi-mode operation was not considered in 2012 when these schemes were first given the go-ahead.

Chris Grayling: I will start by saying that what I promised to give you, and what we did, were the absolutely up-to-date BCRs for these projects. There has been quite a lot of confusion about which report was what. A number of BCRs were not about electrification. For example, you raised with me in a letter the question of the 9.4 BCR that was estimated for the midland mainline project. Of course, that was the whole midland mainline upgrade project, most of which is still happening. It included the remodelling of Derby station. It included the straightening of the track at Market Harborough. It included the doubling of the track to Corby. None of that is affected by the electrification decision.

Your question was very specifically about electrification. What we provided you with is what I promised to provide you, which is our up-to-date assessment and the assessments of the actual electrification piece on which we took those decisions. It was the marginal BCR of the electrification key output 2. Key output 1 is almost all of the modernisation of the midland mainline, for example. Key output 2 is purely the electrification from Kettering to Sheffield.

Q3 **Chair:** I do not want to have an argument about it, Secretary of State. We asked for full business case information, and the fact is that we did not have that information in front of the Committee. Of course, we have now seen the information through a different route, and it was helpful to see it. Nevertheless, let's focus on the questions at hand.

First of all, because we have seen that full business case through the FOI, can you tell me why partial electrification and bi-mode were not



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considered as one of the options back in 2012?

Chris Grayling: I do not know why it was not considered in 2012. The original plan—to take the Great Western mainline—was simply to replace the existing 1970s high-speed trains with diesel trains. After that, once the decision was taken to electrify part of that network, the decision was to move on and have a mixed fleet of electric and bi-mode trains. The decision subsequently, which had been taken before I became Secretary of State, was to have a full fleet of bi-mode trains.

I do not know why, but what I do know is that the technology is moving forward. Bi-mode trains are becoming more common. For example, the Germans have just ordered their first fleet of bi-mode trains, and they are being used more extensively in France. I do not know why the decision was not taken at the time, but it is certainly the case that in the period after 2012 there was increased decision making around partial use of bi-mode trains and partial electrification, because that is the way the whole of the Great Western modernisation programme was founded. Some of the routes were designed to be electrified and some were not, and there was a fleet of trains that could do both.

Q4 Chair: I am still not sure that I understand. I appreciate that you were not the Secretary of State at the time, but in the Great Western electrification bi-mode trains were always part of the plan. These are the bi-mode trains that will be operating on the line that is now going to be electrified for part of the way, and not as far as was originally set out.

What is your assessment, looking back at the work of your predecessor, of why those trains have not changed? They are the same bi-mode trains. Why was the decision to fully electrify the line as far as Swansea when bi-mode trains were already available? What is your understanding of why that decision was made?

Chris Grayling: I genuinely do not know why that decision was taken. The decision was taken. It has, and always had, a very low BCR, but the reality is that the decision was taken to push all the way through to Swansea. When I came along in 2016, as the new Secretary of State, I looked very carefully at it, as you would expect. We had a very broad-ranging investment programme, and of course the decisions you are talking about in 2012 took place before the Hendy review and before the reframing of the capital programme. I looked very carefully at the capital programme going forward for the rest of CP5, and indeed what was likely to be achievable in CP6, and what we had to spend our money on.

I came to the view that in a network that has significant capacity constraints it was better to focus our spend on things that delivered capacity improvements. Ironically, that is something the last Labour Government thought when they considered the issue of electrification back in the latter part of the last decade. They decided to concentrate on capacity enhancement rather than electrification, and that was very much



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my view as well; we should concentrate on capacity enhancement and delivering benefits to passengers.

The whole point about Swansea, for example, is that we are going to be spending £500 million on running the same trains on the same track to the same timetable and at the same speed without any clear passenger benefit. I would rather spend that money, for example, on the MetroWest system around Bristol where we can actually deliver a reduction of congestion in the centre of Bristol, and capacity enhancements on the railways there.

- Q5 **Chair:** Let me come back to the point. When those decisions were made about electrification to Swansea, they considered bi-mode and partial electrification as an option, and discounted it and decided to go for full electrification. You say now that bi-mode and partial electrification offers good value for money. What has changed such that it is now good value for money, yet previously those options were discounted? Either you think that your colleagues made a bad decision and chose to provide something that was poor value for money, or you just have not looked at the answer to that question.

Chris Grayling: I suspect that back in 2012 the electrification process seemed to be simpler and easier to achieve than it actually is. You have to bear in mind that these programmes are hugely disruptive. The electrification to Swansea led to the closure of the Severn Tunnel for six weeks, for example. These are very disruptive programmes. They involve weekend closures and disruption to services. The electrification of the Great Western route, as is well documented, has taken much longer than expected to achieve.

The Public Accounts Committee has questioned the value for money elements. I think everybody started this process with good will and intent. We now understand more about what can be achieved with bi-mode trains. We now have bi-mode trains operating on the network, and it has enabled me to take a more informed decision, five years later, about what is going to deliver passenger benefits. Ultimately that is what matters. If we have money to spend, my goal is to deliver the best possible passenger benefits and the best value for the taxpayer.

- Q6 **Chair:** What has changed in terms of what you know about bi-mode trains that was not known when bi-mode trains were procured?

Chris Grayling: Even in the last 12 months, if you look at what we have been doing on the Great Western line, there have been delays in the bi-mode programme. One of the questions was, what was the performance of those trains and what can they deliver in terms of timetable? We are learning all the time about the Hitachi trains, how they operate on the network and what their potential is. We also have other manufacturers, and they are developing their technology all the time. We talk to them regularly about what can be achieved and what they think they can now do. This is a technology that is evolving all the time.



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Q7 Chair: So you are not able to say whether partial electrification and bi-mode was costed as an option when the decisions were originally made about electrification.

Chris Grayling: To take the midland mainline north of Kettering, I am not aware of a costing that was done on the model we have adopted, which is to complete key output 1 but not key output 2.

Q8 Chair: Let us come back to midland mainline, as you raised it. You have provided us with the appraisal results for the partial electrification and bi-mode option on midland mainline, which showed that the BCR was 1.2 and provided £35 million in net present value benefits over the appraisal period. Was that figure sourced from the business case for rolling stock on the East Midlands franchise that was published in February 2017?

Chris Grayling: No, because the business case for rolling stock on the East Midlands franchise also contained assumptions about the configuration of trains, for example. If you look at the issues that you have raised around other BCRs, there are BCRs for the modernisation programme that include other elements apart from electrification. The BCR you are referring to contained a variety of assumptions around train configuration and was not simply limited to the electrification/non-electrification debate.

Likewise, the BCR of 9.4 to which you referred in your letter to me included all the elements of the midland mainline modernisation, not electrification or otherwise; it was electrification plus all the capacity improvements. There is no doubt that the capacity improvements are extremely important. They are the things that make the biggest difference to journey times and the passenger experience. They are due to be delivered in about two to three years' time. That work is happening at the moment. It is really important and certainly will be completed as part of our investment programme.

Q9 Chair: We have seen the business case for rolling stock on the East Midlands franchise from February 2017. Are you suggesting that the BCR figures of 1.2 and £35 million net present value, which were in your letter, are purely coincidental, and that the two things are not related?

Chris Grayling: What I put in my letter to you was the BCR that had been prepared for me by my team, which looked at the BCR for the approach I was taking and the BCR for electrification, which was electrification without HS2. You have to bear in mind that, when we talked about the nine-plus BCR, it included the assumption that HS2 was not built. When you take into account the fact that HS2 is going to be built and is going to go up through the east midlands, the BCR on the midland mainline drops substantially.

If you assume that there is no HS2, the BCR for key output 2 is 1.43, and with HS2 it is 0.77. The decision I have taken not to go ahead with key output 2 is based on the fact that it has, in isolation and purely based on



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the electrification decision, a BCR of 0.77. That is what I put in my letter to you.

Q10 **Chair:** But are you aware of the business case for rolling stock in the East Midlands franchise document of February 2017?

Chris Grayling: I am, but it contains provisions that are much broader. It is not purely an assumption about electrification or bi-mode trains. It is also about the configuration of trains and how they are used.

Q11 **Chair:** That same document reveals that fully electrifying the midland mainline had a BCR of 3.65 and a net present value benefit of £390 million. You are saying that we should take no notice of that and that it is not relevant to the decision.

Chris Grayling: We are electrifying part of the midland mainline.

Q12 **Chair:** But that was for running the bi-mode trains that you have now decided you are going with, at a BCR of 1.2, which is low value for money. Yet that same document looks at bi-mode trains on a fully electrified midland mainline and produces a BCR of 3.65, which of course is high value for money. Obviously, you were aware of that number when you made your decision.

Chris Grayling: This is the point. You are comparing apples with pears. The high value piece of the modernisation programme and the electrification is the piece south of Corby. It enables us to replace the midlands services—the express trains to the midlands that do a huge amount of commuter work on the lower end of the line—with what I expect to get there, which are 10 or 12-coach suburban electric commuter trains that provide much more capacity from Corby, Kettering and Wellingborough to London. If you are getting on a train in the morning at the busiest times from Kettering or Wellingborough, and it is an express train from Nottingham or Sheffield that is full already with a shortage of seats, that will create much more space and capacity on that route. There will be much more space for commuters. There is a lot of housing development planned up there.

What you are doing is conflating the two. There is a perfectly good and strong business case for electrification to Corby and running bi-mode trains to Sheffield, Nottingham and Derby. At the marginal piece, key output 2 electrifies from Kettering to Sheffield. That has a sub-1 BCR in its own right, taking electrification in isolation.

Q13 **Chair:** If you are saying that the document we have seen—this business case—is not the relevant one, and if these are not the appraisals on which you based your decision, please can you provide the Committee—

Chris Grayling: But those are the ones I sent to you in my letter explaining the decision. I sent you a letter explaining what the BCRs were on which I had based my decision. I also explained that it was not just about that. You have to weigh it. We have trains in 2020 that are never



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going to be disability compliant. I would like to get new trains on that line as quickly as possible. If we do key output 2, people will have to wait years longer for the new trains. It was not just about BCRs. It is also about getting new trains quicker.

Q14 **Chair:** I appreciate that, but on the business case we have seen for rolling stock on the East Midlands franchise, the BCR of 3.65 is key output 2, which does not seem consistent with what you are telling us today.

Chris Grayling: Yes, but you are taking the whole project.

Q15 **Chair:** Key output 2 is electrification north of Kettering.

Chris Grayling: It is the marginal benefit. You have various situations in the document. The documents are provided by the civil service—

Q16 **Chair:** But you have not provided us with the documents. You have only provided us with one figure, which is 1.2.

Chris Grayling: You asked me for the evidence on which I based my decision, and I have written to you with the BCRs upon which I based that decision. It was not the only factor, but it was a key factor.

Q17 **Chair:** You have provided us with two numbers: a BCR of 1.2 and a net present value of £35 million across the appraisal period. We do not have your full business case. We have this business case, which makes the direct comparison between partial electrification and rolling stock, and provides a BCR of 1.2 and a net present value of £35 million, which sounds suspiciously like the figures you quoted to us. The same document talks about full electrification based on key output 2, with a BCR of 3.65 and benefits of £390 million. In the absence of other information, do you not understand why we reached the conclusions that we have?

Chris Grayling: I simply gave you the figures upon which my decision was based. I have said to you that the BCRs that exist for different parts of this project contain much more than the simple question of electrification. They include things like the configuration of trains. They contain capacity improvements and implications for commuter traffic south of Kettering, and so on. Yes, you can take a document and say that it does not add up, but I have given you what you asked for, which is the BCR analysis upon which I took my decision.

Q18 **Chair:** We asked for the full business case, not just the figure. You have to account for and justify the decision that you made. We simply do not have that information.

Chris Grayling: I said that the electrification from Kettering to Sheffield, with the construction of HS2, which is an assumption in this all along, has a BCR of below one. This decision was not taken purely on the basis of BCRs. It was taken on a number of other factors, including the fact that we got new trains earlier and that this would involve spending £1 billion



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on the midland mainline for no obvious passenger benefit at a time when we have capacity constraints around the network. I want to use the money I have, where possible, to deliver the best possible outcome for passengers. It was not the only reason. I did not sit there totting up BCRs here and there.

- Q19 **Chair:** But those benefits form part of the business case. The business case for rolling stock on the East Midlands franchise shows the cost of completing key output 2, which, as I understand it, is electrification north of Kettering, and it shows the benefits, many of which will arise from improved air quality and reduced carbon emissions. They are significantly greater at £390 million compared with £35 million. I find it hard to understand. There are other figures you have clearly relied upon but that you say we do not have, yet you have not provided those to us.

Chris Grayling: I did. I sent them to you. The figures upon which I took my decision are those in the letter I wrote to you.

- Q20 **Chair:** But we do not have a full business case. The information you have provided to us is minute.

Chris Grayling: I will provide you with a background as to how they did those figures. You cannot be much more transparent than this. I could not see the rationale for spending £1 billion and saving a minute on the journey time to Sheffield, rather than spending the money on projects elsewhere on the network where it would make a genuine capacity difference, on a project that had a sub-1 BCR and which meant people would have to wait four or five years longer for new trains. It is no more complicated than that.

- Q21 **Chair:** But that does not fit with the information we have seen in the business case from February 2017.

Chris Grayling: But I am telling you that that is why I took the decision.

- Q22 **Chair:** You are asking us to take your word for it rather than having provided the full business case.

Chris Grayling: It is a matter of record that key output 2 was not due to finish until the best part of 2025. We are intending to get new trains on this line. With a fair wind, we will have the first new train running in late 2021. It is a matter of record that the Department have said that key output 2 makes virtually no difference to the journey time to Sheffield. All the benefits to passengers come in key output 1, which is about capacity improvements and the expansion of commuter services to Corby, Kettering and so forth. Those are facts. I can write them down in a longer document if you want, but that is the reality.

- Q23 **Chair:** My understanding was that full electrification was due to be completed by 2023. We are not expecting to see the new bi-mode trains until 2022, and key output 2, which is electrification north of Kettering, produces a BCR of 3.65 in combination with—



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Chris Grayling: I am telling you that it has a BCR of 0.77. If it helps, I will write to you with further explanation of that, but the basis on which I took my decision is 0.77 BCR.

Q24 **Chair:** I thought we might have seen the full business case, but let us move on.

Chris Grayling: In terms of the completion dates of key output 2, the one thing that you will have spotted as a Committee is that the progress of electrification is not going as smoothly as I would have wished. The earliest I expect to see it completed is 2024. We have given clear instructions to the bidders that we want the first trains to start to run by late 2021. It is a matter of some years.

As you know, because it is your own line, we have an issue with the existing trains from 2020. Whatever happens, even with 2021 and 2022, we are going to have to patch and mend for a while. I want to get new trains on your railway line as quickly as we can.

Q25 **Steve Double:** When the electric spine plans were first proposed, can you explain why the current proposal for partial electrification and bi-mode trains was not considered?

Chris Grayling: It is quite interesting. The freight companies have literally started to order. The first bi-mode freight locomotives have just been launched. Frankly, five or six years back, there were two things. There was an underestimate of the complexity of electrification. We tried to do too much electrification in one go. We had gone 40 years without electrifying anything, and then we came along and tried to do the whole network in five years. The Hendy review rather unpicked that and said, "You can't do this, that and the other."

To my mind, it is not about systems of traction. It is about passenger and freight outputs. We have a railway system that is heavily congested. What matters to me is how we deliver more capacity and better output for the users.

The technology is moving all the time, and the more we get manufacturers to supply hybrid trains, the more they will develop the technology. It has been quite interesting in other countries. As I say, the Germans and the French are two examples. The French were already using hybrid, bi-mode trains. The Germans have just ordered their first fleet. Our freight operators have spontaneously ordered their first bi-mode locomotives. Some of our other train operators—Abellio, for example, in East Anglia—have completely spontaneously come forward with plans for bi-mode trains, the first of which is due to hit the network relatively soon.

It is just about greater understanding of the potential. It offers flexibility. A bi-mode train can go anywhere, whereas a pure electric train can only go to parts of the network. It is just an emerging understanding of the flexibility the technology offers.



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Q26 **Steve Double:** You would say that at the time the appraisal process was carried out it was a good process, but things have changed since. Is that fair?

Chris Grayling: Yes, I think genuinely that it has changed. It is changing all the time. The interesting question about bi-modes is this. I have talked to senior people in the industry who believe that there will only be one generation of diesel engines on the bi-modes, and the second generation will be hydrogen engines. We are now looking to get the first hydrogen trains on our network within a very short space of time, and the Germans are doing the same. The technology is really moving apace. Battery trains are becoming a real possibility. We have to focus on outputs rather than on the means of locomotion.

Q27 **Chair:** Secretary of State, we are keen to focus not on modes of traction, but on understanding the reason behind decisions. In a recent parliamentary question Paul Maynard, who was the Rail Minister, said that the Department was happy to publish the midland mainline economic case that was prepared for the Department by Atkins in March 2016. Has that now been published?

Chris Grayling: I have absolutely no idea, but I will check that it is not a secret and we are happy to do that. I think we have released it under freedom of information. The thing about the Atkins report is that it does not actually reflect the option we have chosen. There has been a question about one of the options in the Atkins report. It suggested that the bi-mode option was much more expensive, but it assumed full electrification of the midland mainline and buying bi-mode trains, which is clearly much more expensive.

Q28 **Chair:** It was released by your Department in response to a freedom of information request. Why didn't you give it to us when you were responding to our questions? Why did we have to find it by accident?

Chris Grayling: Because it does not actually reflect the decision we have taken.

Q29 **Chair:** No, but it reflected the previous decision, and therefore it was useful for comparison information about the original case.

Chris Grayling: But it is actually quite misleading. I would not want to mislead the Committee by providing it with information that was not relevant to an inquiry. The Atkins report provides a bi-mode option, but that includes the full cost of electrifying all the way to Sheffield and then assuming that we also buy bi-mode trains. It is an invalid comparator.

Q30 **Chair:** Coming back to that case, is the reason you are rejecting the exceptionally high value for money from full electrification option, which was in the Atkins report, with an exceptionally high BCR of 9.4, that it did not include the impacts of HS2?



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Chris Grayling: No, that is not right. The BCR of 9.4 in that is not about electrification. The BCR of 9.4 is about the full midland mainline modernisation project.

Q31 **Chair:** Including electrification.

Chris Grayling: Including electrification. The principal benefits to passengers of the midland mainline upgrade are things like the Derby station remodelling and the straightening of the curves at Market Harborough. If you just simply ran diesel trains on that route with no electrification at all, you would still deliver most of those passenger benefits. The midland mainline upgrade is really important. It is a capacity project, not a traction project. It is the capacity improvements that make the difference.

Q32 **Chair:** In which case it is hard to understand why it was agreed that it would be fully electrified on the basis you set out.

Chris Grayling: Therefore, I took the decision that, although I could understand why people might have argued for full electrification, my job was to try to maximise the benefit to passengers of the investments we make. Spending £1 billion shaving a minute off the journey time to Sheffield at a time when there are capacity constraints elsewhere on the network that I want to see tackled did not seem to be the best use of money. Emerging bi-mode technology, which provided real flexibility to the rail companies, was a better way of going for it.

Q33 **Chair:** In our letter, we asked for the most recent business case, not the most recent BCR. Is there a more recent business case in full than the work that was done by Atkins in 2016?

Chris Grayling: In terms of the whole project, no. In terms of an analysis of the marginal benefits of key output 2, I supplied you with the headline figures. If you want some more analysis about how those figures add up, I will happily provide it, but my memory is that you asked me for the BCR numbers.

Q34 **Chair:** I think we asked for the most recent full business case. The fact is that you have just said, "We gave you headline figures." It is not headline figures that we wanted; it is the full argument on which you made your decision. I do not believe that somebody just put a piece of paper with 1.2 and £35 million in front of you.

Chris Grayling: No, but I have explained that the basis for the decision was that this shaves a minute off the journey time to Sheffield at a cost of £1 billion, delivers trains later and has low BCR. That is the basis for the decision. There is no great magic beyond that.

A finite amount of money is available to me in the next rail investment period. I want to make the best possible use of that to deliver improvements for passengers and for the passenger experience. I think it is more important to focus on capacity, as indeed the Labour party did



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when it was in government before 2010. It took a very similar decision about electrification. There is a case for electrification in some places on the network where it makes a difference. In other cases, the benefits are marginal. If there is a flexible train that can deliver those benefits and allow you to spend the money on capacity improvements elsewhere, that seems to me a prudent thing to do.

Chair: There would be substantial benefits to electrification on the midland mainline, in terms of speed, environmental impact and lower operating costs. Those would be reflected in a business case as the benefits that would accrue. That is why we wanted to see the full business case. If it shows that there are no benefits, as you say, there will still be questions for the Department to answer as to why it was ever agreed. Nevertheless, we have not seen it.

Q35 **Huw Merriman:** I am quite excited about the new advances in bi-mode. It strikes me that they make it possible for economic business cases around parts of the country that perhaps do not justify such huge spend with electrification to go ahead. One example near me would be the extension from Ashford to Hastings. That would be a £600 million cost for electrification, which, I have to confess, would not really stand up to a business case, but it would probably be about a quarter of that on bi-mode. The big question then is whether bi-mode technology works to the equivalent of electrification. If it does, it is fantastic at a quarter of the price, but, if it does not, it means that there is no delivery of a railway. Is the current technology really there for bi-mode?

Chris Grayling: We believe bi-mode can go up to 125 mph. What we do not believe at the moment is that we are at the point of saying it can go further than that. Do I think we can run bi-mode trains on HS1? I am not sure. There is no question that you would try to do HS2 on anything else but electric traction. The technology is changing all the time. Obviously, we have talked extensively to the manufacturers about the potential, but I am not yet able to give any indication that we would be able to go beyond 125 mph.

It is interesting that TransPennine Express, for example, has bi-mode trains—the same Hitachi trains—being delivered in the next year, several years before the trans-Pennine upgrade will be completed. There is quite a lot of electrification around Manchester and Leeds. Some of those trains will go through on to the east coast mainline. The flexibility of being able to operate one segment on diesel and one segment on electric is very obvious and gives huge flexibility.

Your point about the Ashford route down to Hastings is absolutely right. I would like it to be possible for that to happen. Right now, I am not certain that we can deliver bi-mode technology there, but I would like us to be able to.

Q36 **Chair:** Do you have evidence that bi-mode trains, when in diesel operation, can consistently meet 125 mph?



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Chris Grayling: That is what the manufacturers are telling us. We know that on the Great Western mainline the trains we have there, which were not designed for that, are pretty much doing that. The manufacturers are all absolutely certain that they can deliver 125 mph.

Q37 **Chair:** There is evidence of the train in use able to consistently hit 125 mph in diesel operation.

Chris Grayling: Yes. I know from having travelled more than once in a cab on the midland mainline that it gets up to 125 mph. It is usually a few mph below that, but what we are experiencing on the Great Western mainline is that a speed of 125 mph is realistic for them.

Q38 **Huw Merriman:** I was going to ask a question not so much about the speed but about the distance of trains that have a battery pack underneath them. They are charged up on electric and that carries them along the non-electric track. Is the technology there for those to travel significant journeys in order to complete the electrification by charge, as it were?

Chris Grayling: We do not yet have access to battery trains that can do more than a short distance. Vivarail, which bought the old District line trains in London, have refurbished them and are looking to sell some of them for battery operation. They believe they can do short journeys, but I do not think we are going to be in a position where they can do longer journeys on battery. Battery and electric hybrids are a very real option, but hydrogen may well be the thing that provides the option for low emissions.

I am personally of the view that hydrogen is a great opportunity for the future. While we do not have a filling station network on the roads for hydrogen, trains only have to go to one place at the end of the day. Certainly, my team and some of the rail companies are working quite hard looking at whether we can get a hydrogen trial pretty soon on the UK network.

Q39 **Chair:** I want to come back to the question around operation of the bi-mode trains when they are in diesel. Specifically, is there evidence of them operating consistently at that speed? That is not the information being circulated in the industry—that with the existing engines, they can consistently hit 125 mph.

Chris Grayling: We now have bi-mode IEP trains operating the timetable and services on the Great Western mainline, which is a 125-mph railway. Those trains are being introduced all the time. As you know, the electrification is only partial. Indeed, until about two weeks ago, it only went as far as Maidenhead. Those trains are currently operating on an intercity 125 timetable.

Q40 **Iain Stewart:** Before I ask specifically about Great Western, in an earlier answer you mentioned that one of the reasons you have reappraised electrification projects is the cost and time overrun of Great Western.



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This is a general question. There is growing concern in the industry that these electrification projects are done to a gold standard of specification that is not necessary for safe operation. In previous electrification schemes such as the Paisley Canal line in Scotland, you were able to come in at about half the initial budget. Is there a case for reappraising all current and future electrification projects and looking at them with a different specification that would allow electrification to proceed, but not with the gold standard spec that seems to be prevalent?

Chris Grayling: First of all, Network Rail does some very good work. If you look at what has been done over the Christmas period, there was a huge logistical exercise all around the country and they did it very well. That said, I think it is really important to have contestability. Network Rail has a particular way of doing things. Unless there is proper benchmarking and proper challenge in the industry, we will not get to the point where we establish whether you are right and the costs are higher than they should be. We are working quite hard to bring contestability to the industry, whether through the establishment of East West Rail as a separate project or inviting others to come forward to take on particular projects.

We are not going to break up or privatise the network, but I want innovative ideas about how to do things going forward. We are working with Network Rail, in the wake of the Hansford report, to look for opportunities to get challenge in. We are looking through East West Rail to get challenge in. You may very well be right. There is no doubt that the Great Western mainline is being done to a very high spec.

At the same time, there are situations where electrification just proves more complicated than expected. Right now, around Bolton, for example, the electrification from Manchester to Blackpool has run into some short-term issues because they found far more mine workings under the line than were expected in the first place. Operational and practical difficulties like that emerge. Yes, lessons need to be learned from Great Western about whether you need to do things to that same spec.

Q41 **Iain Stewart:** Specifically on Great Western, could you tell me the cost saving associated with the changes you announced to the scheme in July last year?

Chris Grayling: The provisional estimate—they have a habit of going up—for Cardiff-Swansea was £500 million. It is worth saying, having been given a hard time by the Welsh Government for that decision, that it now looks as if the Welsh Government are going to take the same decision on the valley lines, so I am not expecting all the valley lines to be electrified either. There is a pragmatic Minister on the other side of the political fence. He is almost certain to take a similar decision on that bit of infrastructure.

Q42 **Iain Stewart:** What was the BCR for full electrification beyond Cardiff?



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Chris Grayling: The BCR for electrifying from Cardiff to Swansea was 0.28.

Q43 **Graham Stringer:** It is quite understandable when some of the routes are mid-19th century that you find mine workings that you did not know were there.

Chris Grayling: Absolutely.

Q44 **Graham Stringer:** The industry literature on the Great Western line seems to indicate that they were doing simple things to over-specification such as digging holes too deep for the transoms. Do you have evidence of that? Was that changed during the process of electrifying the Great Western line?

Chris Grayling: They certainly made changes to the project. In terms of the detail, you will have to get the Network Rail team in to grill them about it. In the early stages of the electrification, they made slow progress. They did not achieve what they needed to do. About 18 months or two years ago, they got a grip on the project. You will remember that the NAO report said it had improved. They had a much tighter approach to management and to getting the job done, and it is now making good progress, but at the start they did not get things right.

Q45 **Graham Stringer:** I accept that you are not the chief executive of Network Rail and will not know all the details.

Chris Grayling: I do not know all the engineering details.

Q46 **Graham Stringer:** But you must have some sense of what was changed. I would be grateful if you could explain what you think was changed and where the over-specification was. The Department must have a view on that.

Chris Grayling: One of the things that has been done to a greater degree is that there has been much more integration between Network Rail and the train operator, which is really important because then you start planning together. One of the biggest costs of any upgrade programme is the possessions and how you manage the engineering works. That obviously has a knock-on effect on revenues. I think they have taken a smarter approach to that.

There is no doubt that the particular choice of overhead catenary system they used is of very high spec indeed. Before we get on to the trans-Pennine programme they need to take a frank decision about the specification they need to do things. That point is absolutely right.

It is also about having a degree of contestability. I do not think anybody is saying to a great enough degree, "Do we actually need to do it this way?" At East West Rail, the team has managed to prune money off the cost by saying, "We do not need to do it that way; we can do it this way instead."



Q47 Daniel Zeichner: Going back to the Great Western case, can you tell us about the monetised benefits of the revised scheme and how they varied from the original scheme? Have they changed?

Chris Grayling: The revised scheme said that Cardiff-Swansea saves about £500 million of capital costs. Of course, the hybrid trains are already operating on that route. We are, effectively, taking the same trains on the same lines, operating for a short distance in diesel mode on tracks where they cannot get much above 70 mph. The principal benefit there is the saving of the capital cost.

Q48 Daniel Zeichner: Going back to the issue of bi-mode operation, and taking into account noise, local air quality and greenhouse gases, I think there was a written question a while ago about the difference through introducing bi-modes and showing that over a 60-year period, using diesel would deliver £11 million of greenhouse gas emission savings while fully electric trains would deliver £271 million of greenhouse gas savings. We are losing a huge gain, aren't we, in cutting greenhouse gas emissions?

Chris Grayling: I do not think trains will be diesel for 60 years. We are talking about 10 years of technology. My expectation is that trains will migrate from being diesel-electric to a different type of traction well before the end of their lives. Senior people in the industry expect these trains to have second-generation hydrogen engines rather than diesel engines. Even the diesel engines today are state of the art Euro 6 engines. They are not the smelly things that you get in stations with old trains.

Q49 Daniel Zeichner: Doesn't that make the whole process of trying to assess the costs in the future really rather difficult? If you have a system and then say, "I don't think that's what is going to happen because the technology is going to change," it becomes a finger in the air job, doesn't it?

Chris Grayling: You are absolutely right. That is also why one of the parts of the decision about the money I have to spend in that period of time is about the things that deliver the biggest benefits. I would rather spend the taxpayers' and my Department's money on, for example, the MetroWest system. Bristol is a city that is absolutely congested and to my mind desperately needs an improved commuter rail system. In Cambridgeshire, I have said that one of the early priorities for CP6 should be Ely North junction. That both unlocks more capacity for freight to go from the east coast ports up to the midlands and makes for better rail connections in a part of the country that is experiencing significant growth.

It is about what makes a difference to us now. When we talk about emissions going forward, easing congestion and getting people off the roads now and on to trains is also a benefit. It is quite difficult to quantify, but to my mind it is about delivering the best passenger



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benefits and the best possible capacity, and doing the things that make the most sense. I absolutely stand by the decisions we have taken. We have not abandoned electrification; we are still electrifying suburban lines around Manchester, for example. We want to spend money on electrification where it makes a genuine difference to passengers.

Q50 Daniel Zeichner: I am not going to disagree with you about Ely junction. Many commentators say that moving to bi-mode gives you the worst of every world. It is not as good as electric and not as good as diesel. Why on earth move to that as the intermediate stage, if you are looking ahead to cleaner trains in future?

Chris Grayling: I would not agree. If you look at the decisions that are being taken in your part of the world, Abellio and Greater Anglia are buying hybrid bi-mode trains for the cross-country routes in East Anglia that will come through Cambridge. On the bits of the route that are electrified they will run in electric mode, but there is flexibility to take those trains all round East Anglia on the lines that are not electric. It provides much more flexibility to get brand new trains and to benefit from what is on different parts of the network.

Q51 Daniel Zeichner: On local and regional services, yes, but on the longer services surely the experts are saying that this is not such a good idea. It goes back to the observations that the Chair was making a few moments ago.

Chris Grayling: The point is that these are going to happen anyway. On the east coast mainline, we will have bi-mode trains going to Aberdeen because it is not diesel. On the Great Western network, we have the Cotswold line and the line up to Worcester, and there is the line down to Penzance. Clearly, trains have to be diesel to get down there, but closer to London they can run in electric mode. That reduces emissions in the urban area but provides the flexibility to take advantage of electrification where it works best, and to use diesel where there is no choice but to use diesel. In the future, I suspect that diesel will be replaced by cleaner technology.

Q52 Chair: Surely, the question is about where there is a choice between operating in diesel mode and extending electrification. It was never going to be electrified all the way to Aberdeen, but there are parts of the network where you can electrify.

Chris Grayling: That is the whole point.

Q53 Chair: What you said to Daniel in response to his question about the monetised benefits of electrification in relation to air quality and carbon emissions seems extraordinary to me. You said, "I believe that they will not continue to operate as bi-mode trains and therefore you cannot use an appraisal over 60 years." How on earth can the Department make decisions at all using the current arrangements, if you do not believe in the figures you are producing and you are suggesting that those appraisal numbers do not apply because at some point that train will be converted



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to a hydrogen fuel cell?

Chris Grayling: But should my decision be taken on the basis of what is going to make the biggest difference to passengers and the economy over the next 10 years, or what might happen technologically in 50 years' time?

Q54 **Chair:** I think you should do it on the basis of the evidence in front of you. You are suggesting that the evidence in front of you is not reliable.

Chris Grayling: No. I am suggesting that the evidence in front of me is pretty clear. Spending £500 million to enable the same trains to travel on the same track at the same speed on the same timetable between Cardiff and Swansea is not a terribly good use of taxpayers' money, when that money could be better spent on capacity improvements in other parts of the country that would generate measurable improvements for passengers, take traffic off the roads and improve congestion.

Q55 **Chair:** But if you are looking at an appraisal figure and it suggests that there are big environmental benefits that have been costed, and those show that something has good value for money, you are almost saying, "I am going to discount that because I would rather have a short-term improvement to some other things."

Chris Grayling: There is not something that says there is going to be an environmental benefit of full electrification that outweighs bi-mode trains, which is what you were describing. There is no figure that describes to me what you just said.

Q56 **Chair:** But you would accept that there is a significant benefit in terms of air quality and carbon emissions from operating under electric traction. The question that Daniel was asking was whether you accept that, and you suggested that it does not matter about those figures because we are going to convert from diesel to something else. I was just asking how you can make those choices if you do not trust your figures.

Chris Grayling: What I am saying is that right now I think our priority should be to expand the capacity on our rail network, to take passengers off the roads, to ease congestion around our big cities and to use taxpayers' money to deliver the best possible outcomes in that respect.

Q57 **Daniel Zeichner:** You did not mention air quality in that list of things you think are priorities.

Chris Grayling: But what I have said to you is that these are state of the art Euro 6 engines. I have said to you that I expect that that technology will itself change. As you have heard, the BCRs will factor in environmental elements, because they do, as you know. I have not taken a decision to scrap a project that has an excellent BCR. I have taken the decision to scale back a small number of projects where the marginal BCRs of the last bit do not make sense.

Q58 **Chair:** We were asking what the difference in monetised benefits is.



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Clearly, there are going to be significant differences in the benefits based on whether you are operating bi-mode or under diesel.

Chris Grayling: Yes, and the monetised benefits are taken into account in the BCR. It is more expensive to run a bi-mode train. On the midland mainline we expect it to cost about £23 million a year more, at maximum. It may well be much less than that because of what the manufacturers are doing to bring down costs and create more efficient trains. What I weigh that against is spending £1 billion over the next few years on a project that does not actually deliver benefits to passengers.

Q59 **Chair:** I agree that we have to look over the period of the scheme. In railways, we are looking long term, but you have to look at the costs and the benefits over that long period. You cannot assume that those trains are suddenly going to be converted from bi-mode diesel into a hydrogen fuel cell, otherwise you would not be able to make the decisions.

Chris Grayling: I am not assuming. All I am saying is that I think it is more important to take the decision on the basis of what is going to make a difference in the near term. I have not ignored the 60-year window, but we have money to spend in the next five years. We have some real capacity challenges, which we will no doubt talk about in a separate inquiry at another time. I have simply taken the decision on three projects to reduce the extent of those projects in order to ensure that we can invest in capacity improvements elsewhere.

Q60 **Daniel Zeichner:** Basically, you are trading a long-term set of decisions for some short-term gains.

Chris Grayling: I am not trading. I am taking a decision not to proceed with projects that have very low BCRs, which take into account the environmental benefits, in order to pursue the relaxation of capacity constraints to get more people off the roads and to provide more opportunities for people to travel on a mode of transport that is seen as being much more environmentally friendly.

Daniel Zeichner: I think that is a much longer version of what I said, but never mind.

Q61 **Luke Pollard:** Secretary of State, what are the contractual costs associated with the decisions you made compared with contracts that have already been signed by your Department?

Chris Grayling: I am not aware of any contractual costs. Key output 2 had not started; the Windermere electrification had not started; and Cardiff-Swansea is nowhere near starting. Nobody is contracted to do them. The only implication of the decision is that a very small number of bridges on the midland mainline north of Derby have been upgraded. The analysis from Network Rail is that that work would have had to be done in due course anyway, as part of the asset maintenance of the network. There may be some marginal costs around the edges, but we have certainly not had to cancel contracts as a result of doing this.



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Q62 **Luke Pollard:** In terms of work done to prepare for electrification that is no longer required, such as the bridges you mentioned, do you have an idea of how much that is, both on the Great Western and the midland mainline and other lines?

Chris Grayling: I am not aware of any works that have been done on Great Western. The issues are on the midland mainline north of Derby. What I have been told is that the work would have had to be done anyway. I do not know an exact amount, but I have been told that the bridges would need to be upgraded anyway because of their age.

Q63 **Luke Pollard:** There are no bridges or level crossings that would need to be upgraded.

Chris Grayling: I am not aware of anything that has been specifically lost. As I say, there may be some stuff around the edges, but there is not a great block of write-off of work that was never going to be needed.

Q64 **Luke Pollard:** Have there been any changes to the rolling stock orders on the basis of this decision, or have you kept to the same orders?

Chris Grayling: The orders happen as part of franchise renewal. I am expecting the bidders to come forward with their plans for new rolling stock then. We have not had to change rolling stock orders.

Q65 **Chair:** On the IEP, the bi-modes, are you saying that there has not been any increase? My understanding was that the power output in diesel mode was being changed in order for them to meet the 125 mph.

Chris Grayling: I am sorry; I thought you were talking about the new orders. On the Cardiff-Swansea issue and on the Great Western, because of the delays to the project, which was running about 12 months late, and because of the fact that there was a complicated cascade of rolling stock around the network, we have had to unmuzzle the initial IEP trains that are in use in order to enable them to fulfil the timetable over the next 12 months. Not all but some of the IEP trains on the Great Western were muzzled so they only ran up to 110 mph. They can run faster and they are doing so now, but there is a cost in doing that because the engines wear out more quickly. That is to do with delays to the Network Rail work on the main electrification. It is not to do with Cardiff-Swansea.

Q66 **Chair:** Am I not right that the rolling stock, as a result of having to travel further under diesel traction, need to be higher powered for the diesel component, in order to be able to hit 125 mph?

Chris Grayling: That is not in relation to Cardiff-Swansea. You cannot do 125 mph between Cardiff and Swansea. They chug along at 70 mph. The issue of unmuzzling the trains is entirely due to the delays in the programme, because of the delays to electrification. In fact, originally we were supposed to be most of the way to Cardiff by now, and we are not. That was the issue that was looked at by the NAO and by the PAC. The long delays and early problems in the programme meant that the electrification was not there and the trains, in order to be introduced on



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time, or with only a slight delay, have to run to Cardiff and Bristol initially in diesel mode. The electric mode was London to Maidenhead and is now London to Didcot. It is unconnected to the Cardiff-Swansea decision. Cardiff-Swansea was not due to be done until after 2020, by which time the unmuzzling issues would have gone.

Q67 Chair: What is the extra cost associated with what you have described, albeit as a result of delays to the rail electrification?

Chris Grayling: Off the top of my head, I would not want to give you an exact figure. I am very happy to write to you, but it is really important to say that it is unrelated to the decisions I have taken. It is very annoying, but it is all to do with the early delays to the programme, the timings for the initial order of the trains and the actual arrival of electrification.

Q68 Luke Pollard: This follows on from that question. If the argument you have been putting forward that the BCRs and the business case for these upgrades were somehow at fault, and if a decision had been taken earlier by your Department, have you done an estimate of how many more savings could have been made if that decision had been taken by one of your predecessors rather than by yourself?

Chris Grayling: I do not think there would have been any savings. You could argue that, apart from the small number of bridges north of Derby, these are future projects. Cardiff-Swansea was due to start in 2020. Key output 2 was due to start in 2021-22. Basically, what I have done is scale back projects that were timetabled for early in the next decade rather than projects that were timetabled for now.

Q69 Luke Pollard: Changes for the electrification of the Severn Tunnel and raising bridges between London and Cardiff might have been programmed against the previous timetable, which might now be a different timetable. Has there been an estimate of what the cost implications are?

Chris Grayling: It has not changed at all. The way each of these projects has been set out is, effectively, to do London to Cardiff and London to Bristol, followed by Cardiff to Swansea. On the midland mainline, key output 1 was always to go to Kettering and Corby. Key output 2, with all the capacity improvements, is due to be done by the end of 2020, and includes Derby station re-signalling. It includes the reconstruction of Market Harborough station, the bend and so on. Those are happening anyway. They are contracted and are going through normally as planned. These are future projects. If I had been around and taken the decision two years earlier, it would not have made any difference. These are future projects that have not started. It might have saved some design work within Network Rail, but it has not, to the best of my knowledge, made a difference, certainly in terms of contracting and construction work and so forth.

Q70 Luke Pollard: You mentioned that these decisions have saved money that you can use elsewhere in the network.



Chris Grayling: Yes.

Q71 **Luke Pollard:** Have you reallocated those moneys yet?

Chris Grayling: As you will know, we have £47 billion in total for CP6. The decision we have taken is significantly to increase the amount of money spent on renewals. All of us experience that the system is not nearly reliable as it should be at the moment, with far too many signal failures, points failures and so forth. The bulk of the money—about £20 billion—is being spent on renewals.

There is a £9 billion enhancement programme initially. We may win the argument with the Treasury to do more than that in future, but there is a £9 billion enhancement programme. About a third of that is the trans-Pennine upgrade. On top of that, we have the western section of East West Rail, which is starting in the public sector but will eventually migrate to the new arrangements. We will do Ely North junction. We have work to do on the east coast mainline and other things. There is a £9 billion programme, which is predominantly the Hendy tale.

Q72 **Luke Pollard:** Are the savings you have spoken about—£1 billion here and £500 million there—simply replacing a bit of a programme in the next spending period? It is not additional moneys now being used for something additionally because you made those decisions.

Chris Grayling: It is what enables us to do Ely North junction, for example. I have a package that means, I hope, that I can deliver the things that are in the pipeline to be delivered. We can also do a substantial renewal programme, replacing track and so forth.

Q73 **Luke Pollard:** It is paying for stuff that is already planned rather than additional.

Chris Grayling: The renewal programme was not already planned. You ask what the big difference is in what we have brought in for CP6. It is actually to try to spend more on the existing network to bring it up to scratch.

Q74 **Luke Pollard:** I am trying to understand. There are a lot of communities right round the country that feel very aggrieved by the decision you have taken; they feel very betrayed and let down. For those communities, not having their service electrified, with the associated benefits, can you point to somewhere else on the rail network and say, "You haven't had the upgrade there, but the benefit that was being put there is now being put here instead"?

Chris Grayling: I would phrase it completely differently. I would be saying to people affected on the Cardiff-Swansea route, "You have brand new electric trains. They are more comfortable and have more capacity. There will be better journeys to London and they have started already, so, actually, your benefits are there now, and I am very proud that we



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have delivered the first new trains on your railway for a very long time indeed."

Q75 **Luke Pollard:** But you could not tell the Committee where that benefit has moved from one area at the moment.

Chris Grayling: My argument is that I have not, barring one minute on the journey time schedule, taken away any passenger benefits anywhere. These changes do not affect the passenger experience at all.

Q76 **Luke Pollard:** There has been spend in the locality, but there will no longer be spend in the locality or within the supply chain for that project. You cannot identify anywhere you can say, "We are not spending £1 billion on the one-minute saving," which you mentioned earlier, "but we are using the money here instead."

Chris Grayling: When you talk about locality, what it actually means is that you are getting the passenger benefits without all the disruption. On the Great Western route, there have been years of disruption at weekends for local residents while the work was being done. The passengers on Cardiff to Swansea are going to get the benefits, and indeed are getting the benefits, of the new train without having their railway line closed every weekend for three years while electrification work is done. I do not buy the argument that any rail user is losing out as a result of this decision. We have been very careful to protect the passenger benefits. We really have to get away from the idea that the mode of traction on a train is what determines the passenger experience.

Q77 **Luke Pollard:** I have tried asking it a few different ways, but effectively you cannot point to the spend and say, "The money is not being spent on these projects now, but instead the money is being spent on these projects."

Chris Grayling: I can give you a practical example. I think it is more important to spend money on suburban rail services around Bristol. That makes more difference to the experience of passengers in that part of the world than doing some electrification.

Q78 **Luke Pollard:** Some of the money from electrification has now gone there. Is that what you are saying?

Chris Grayling: It is one of the things we are going to do in the next few years. I have not said, "Right, we can take this block of money and do that." What I am trying to do is shape a programme based on the money available that makes the best possible difference to capacity. Part of that, and a greater focus, is just making sure that there is not a points failure that means that your train does not run in the morning. Yes, we are spending more money on renewals, because I think that is what is needed, but there are no passengers whose travel experience is going to be worse as a result of the decision I have taken to use bi-mode trains. You get the same journey times on the same tracks, in the same trains.



In the case of the midland mainline, they get their trains three years earlier.

Q79 Daniel Zeichner: Listening to what you are saying, it seems to me that there is a different appraisal mechanism being used now, which is passenger benefit. That is perfectly reasonable, but it seems to be a narrower test than the benefit-cost ratio, which includes other external issues as well. If that is the change you have made, are you going to be explicit about it?

Chris Grayling: We are not stopping the use of benefit-cost ratios, but, if a project has a low benefit-cost ratio and there are no extra benefits to passengers, it would be slightly surprising if a Secretary of State in my position thought it was a good idea to carry on with it.

Daniel Zeichner: I think you have answered my question.

Q80 Chair: Secretary of State, I want to come back to your answers to Luke earlier. It comes back to the question of why the Department agreed one set of plans around electrification and why you now have reached the view that it was, effectively, the wrong decision and bi-mode operation is more effective. At Great Western, there are things like the disruptive works you have described, which were also costly. For example, what was the cost of electrifying the Severn Tunnel? If you were on bi-mode, you could go into diesel operation for the bits that would have been very difficult to electrify. Why didn't your predecessors take that into account?

Chris Grayling: It is an interesting question about the Severn Tunnel. It had a lot of internal repairs done at the same time, so it was not purely an electrification programme. If you take the Standedge tunnel on the trans-Pennine route, the trans-Pennine upgrade will involve electrification, but I struggle to see why passengers benefit from having the railway line closed for a period of time to electrify through the Standedge tunnel when the same trains will be travelling through it anyway.

What we need to try to do is deliver the best possible projects and the best passenger benefits with the money we have available, but not necessarily always spend huge amounts of money redoing Victorian architecture if we can avoid it. Sometimes we cannot avoid it, but sometimes we can.

Q81 Chair: What does this decision mean for trans-Pennine rail? How much of that route do you expect to be electrified? Will all of it be electrified or not? You have already said that a third of the money in CP6—the £9 billion of enhancements—is available for trans-Pennine. What is it going to be spent on?

Chris Grayling: We have a budget of £2.9 billion in CP6. It is going to be a rolling programme. This is not something where there is a single thing that delivers all the benefits. Our goal is to improve journey times and improve the passenger experience. We want to reduce journey times as



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far as possible. We have literally just had the solution from Network Rail with different options. It is going to be a rolling programme.

There may be some things we do that are quite bold. There is a case, subject to consultation, for much more extended possessions. One of the problems is that the work is done for three hours in the middle of the night or for a weekend. If we could set up a plan to close the route for a month one summer and divert the trains elsewhere, we could do a whole lot of extra work. We are working through the detail at the moment.

I do not expect in the initial stages to electrify the whole route. It may be, in the end, that decisions are taken to electrify the whole route, but I suspect I will not be around by the time we get to that, because it is a project that goes way into the 2020s. My view is that we should spend the money on a rolling programme in a way that delivers the most passenger benefits as early as possible.

Q82 Chair: Do you know what proportion of the route is going to be electrified? What will the plan look like and when will we know that?

Chris Grayling: Not exactly yet, but very shortly. We are working through that now. We have had initial thoughts from Network Rail and we will come back with those very soon.

Q83 Graham Stringer: Secretary of State, you are making a coherent case for the sensible use of public money for passenger benefit and the UK's economic benefit. That implies that your predecessor—both the Secretary of State and the Department—made terrible decisions, does it not?

Chris Grayling: I would say that we now understand much more clearly—other countries are doing the same—how flexible train technology can create opportunities that perhaps were not seen to be there five years ago.

Q84 Graham Stringer: Your evidence is fairly devastating. Was it £1 billion or £500 million for a minute's saving? Your predecessor thought that was good value. Is that to do with officials not understanding it, or is it that Patrick McLoughlin got it wrong?

Chris Grayling: We now have bi-mode trains working on the network and they are operating. We can see that it is a realistic option.

Q85 Graham Stringer: That is not a complete or full answer, is it, Secretary of State. You are giving us a view now. You are really saying that the Department got things dreadfully wrong from top to bottom.

Chris Grayling: No. The world is full of examples where hindsight is a wonderful thing.

Q86 Graham Stringer: But £1 billion for a minute is not hindsight. It is very simple arithmetic, isn't it?

Chris Grayling: We are now in a position where we see the development of hybrid technology working, doable, practical and offering options for us



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that officials probably just did not think were there five, six or seven years ago.

Graham Stringer: I understand why you will not criticise your predecessor, but the Committee needs to reflect on what you are saying now about the assessments you have made and what your predecessors did.

Q87 **Chair:** We would like to touch on a couple of other issues that have arisen in recent weeks. The first is the arrangements on the Virgin Trains East Coast franchise. We have seen and heard a host of reasons for the impending failure of the franchise to deliver its full premium across the period, including that the operator overbid based on entirely unrealistic passenger and revenue growth assumptions. Why did the Department accept such an unrealistic bid, particularly on a part of the network where there is a history of operators struggling to fulfil their contractual obligations?

Chris Grayling: When you have a bidding process, it is quite difficult not to take a winning bid. Since then, and certainly in the more recent franchises, we have looked to take a more sensible approach to the risks in the franchise. Interestingly, in the South Western Railway bid we did not accept the highest bid. We took the highest quality bid. I want to move us more clearly towards quality in the bidding process. I actually think that the higher the quality of the service, the more the revenues flow in. The Department took a decision at the time based on its best judgment of revenue forecast and passenger forecast going forward.

Q88 **Chair:** Essentially, as on electrification, you are saying that in the past they did not take these things seriously and did not make the right decision in the Department.

Chris Grayling: It is quite difficult when you have a bidding process to turn away the top bid. Again, hindsight is a wonderful thing. There is no doubt that the projected growth of passenger numbers going forward has not stopped growing; it is just not growing quite as fast.

Q89 **Chair:** Different people blame each other for the problems. We wrote to both Network Rail and Virgin Trains East Coast to try to understand better what happened. Network Rail told us that much of the work required to enable implementation of the new intercity express rolling stock by the train operator was at an early stage of development, and funding had not been committed when the franchise was let in 2014.

Virgin Trains tells us that it had a firm agreement with Network Rail and DfT that the works would be completed in time to run a new timetable with new rolling stock from May 2019. Those things seem irreconcilable. What is your explanation?

Chris Grayling: Let us take the moment and then the 2019 issue. The reason that this franchise has run into difficulties is purely and simply about the revenue that it has received to date and the fact that, as a matter of record, last summer Stagecoach announced it had already used



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up more than half the parent company capital bond it had put in. The issues in the franchise today are entirely due to revenues received or not received.

Q90 Chair: Are you saying that the revenues are not related to the provision of service by Network Rail?

Chris Grayling: Let me come to that. The reason we are dealing with an issue on the franchise today is that it overbid. It has been using up parent company capital. That is a matter of record from its financial statements last summer. As I said in the Commons last week, I do not expect the franchise to make it to 2020.

If the franchise had made it to 2020, there would be, potentially, infrastructure issues down the track. What the letter does not say to you is that I have taken action—indeed I did some months ago—with Network Rail, which I expect to deliver the power supply necessary for the trains to operate north of Doncaster as well as south of Doncaster. We now have plans in place that will enable that to happen. There is no risk to the introduction of the intercity express trains.

There is an issue further down the road, in around 2020, about Virgin Trains' expectation of the arrival of expanded capacity for further trains on that route. This is not just a power supply issue; various other upgrades are required. It is its expectation of when that would happen, when it was actually stated in the franchise document that it would happen and, related to that, where exactly we are in time terms. Yes, there is an infrastructure issue, about when Network Rail can deliver all the capacity improvements, but it is not the case that there is a risk to the introduction of the IEP trains. They will happen, and the power supply is available to do that. The franchise difficulties are way before we get to that point.

Q91 Chair: In terms of the current position, you said that you were not even sure that Virgin Trains was going to be able to continue to operate until 2020, and from what you have said so far that is entirely because it overestimated the amount it would be able to generate in extra revenue. What should happen in those circumstances, if a train operator is not able to provide the premium payments to the Department that it has promised?

Chris Grayling: As we know from experience, when this has happened before, when there was no parent company guarantee—when National Express withdrew from the franchise in 2009—although it was said at the time that it was to be excluded from further bidding, that was not the case. The National Audit Office noted that there was an agreement between the then Government and the company that it would be able to carry on bidding, and it did. I want to deal with that myth. There was no ban when this happened before.



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As to what we do, if a circumstance arises—I emphasise today that that circumstance has not yet arisen—we will make a decision that I will happily share with this Committee. Since the matter is pretty price sensitive, I do not want to get into speculation today about a situation that has not yet arisen, even though I expect it to do so.

Q92 Chair: Is there something in the contract between the Department and Virgin that sets out what should happen if it is not able to deliver on the revenues that it has projected?

Chris Grayling: Prior to, up to and including the last time this happened on the franchise, there was no bond or forfeit if it happened. That is not the case now. With each franchise, the parent company now has to put up a guaranteed amount of additional capital that it will put into the business if it needs it. It is effectively a penalty bond if things do not work out.

In this case, Stagecoach has a bond of £165 million, which is roughly a fifth of its market capitalisation and which it loses if the business does not work. Effectively, it is a stand-alone special purpose vehicle—a stand-alone operating company—and, if it runs out of money, there is a commitment to put in £165 million. The end of that £165 million is the end of its contractual requirements, and it will have fulfilled its contract in entirety.

Q93 Iain Stewart: Have you done any analysis as to why the fare revenue and passenger numbers increase was not as much as was expected when the franchise was let? Was it internal factors for Virgin, in that it did not get its fare structure or marketing right, or something like that, or was it external factors such as the general economy, changing work patterns, fear of industrial action and so on?

Chris Grayling: It is a bit of both. There has definitely been a small change in the patterns. There has been growth like this for a long time, but now it is growth like that. You can put it down to a variety of things. It may be economic, but equally it may be about changed ways of working. More people are travelling three days a week rather than five days a week, for example.

Virgin is a long-distance railway, so it does not have much of a commuter base. I think it was just over-ambitious in what it thought it could deliver with its marketing. The irony, and this is really worth saying, is that this is a railway that, notwithstanding the financial issues, is performing well. It has increased ridership. It has increased customer satisfaction. It has a better customer service offer than it did before. This is not a failing railway, but it has not met what were very ambitious revenue forecasts. It is important to say that. It is not a railway that is about to go belly-up and fail in its operation and its delivery to customers. The problem is that it bid too much.

Q94 Chair: So it is not going to be able to make the commitments it made to



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the taxpayer via the Department.

Chris Grayling: I am not expecting the franchise to survive in its current form until 2020. As of today, there has been no change either to the contractual arrangements or to the state of the now franchise, but, as you would expect, being aware that there is a rather large risk hanging around, we have been putting in place a lot of contingency plans. It is why we have said we are going to move to the East Coast partnership in 2020, because I do not expect the franchise to survive until then. It is why we are also doing contingency planning in the shorter term.

Q95 **Chair:** Is it your contention that, if an operator puts in an over-ambitious bid, as you have just described it, and therefore is not able to meet its promises to the taxpayer, it can simply walk away without—

Chris Grayling: It cannot walk away without loss because it is just about to lose the equivalent of a fifth of its market capitalisation. After this, we will have to look very hard at it. To some extent, we have moved away already. The new franchise agreements are structured in a less driving way than this one was. I will happily share much more detail if the Committee is interested.

We are going to come back to rail franchising in much more detail and about how we structure franchise agreements now. With South Western Railway, we did not take the highest bid. It is my desire to move much more clearly to a franchise bidding system based on quality of service delivered, because I think that delivers good performance, and good performance drives up revenues. Changes have happened already. They are not enough and there is more to do. I would not wish us to put ourselves in a position again where we find ourselves in a situation like this.

Q96 **Chair:** Taxpayers were promised at the time the franchise was let that it was going to deliver them over £3 billion in premiums. That is not going to be met, is it?

Chris Grayling: It will deliver most of that. The railway continues to make an operating profit. Most of that profit flows to the taxpayer, and that will continue all the way through, whoever runs it. At the moment, it is not making us much of the operating profit that was forecast and was bid for, but the idea that somehow £2 billion to £3 billion is going to disappear is simply not right. Most of the operating profits for the railway will continue to flow in large measure to the taxpayer. It is not as much as was originally forecast, although there will still be enhancements and capacity improvements during the course of the franchise, which will continue to push up its profitability.

The upgrades and the new trains have far more capacity. The upgrades that are forecast will deliver more capacity. I still expect many of the benefits and ambitions in the bid to come to fruition. The issue right now though is that the early forecasts of how much Virgin Trains East Coast



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could drive up revenue in the short term have not yet been fulfilled, and that is why the business is struggling.

Q97 **Chair:** It almost seems like a self-fulfilling prophecy, potentially, with the Secretary of State suggesting that it will not last. Do you think that you might have precipitated its failure or accelerated it by saying that?

Chris Grayling: It is highly unlikely that anybody is going to say, "I'm not going to travel on the train from Newcastle to London tonight because the franchise might not make it to 2020." I have been very clear. It is a difficult line to tread because we are dealing with listed companies. We are dealing with a service that is important for the public. I am trying to be honest and open about where we are, without making statements that achieve what you say. It is a difficult balance to find, but I want to be as open as possible to the Committee.

Q98 **Chair:** Will you resort to a direct award if it collapses?

Chris Grayling: I am not ruling out any eventualities.

Q99 **Chair:** Will you go ahead with the new partnership from 2020, come what may?

Chris Grayling: That is my goal. I also think it is what people want and what they think is right. It is the idea of bringing back track and train together to have a railway line. If you think of the challenges of delivering the upgrades in the early 2020s, and making sure that this line maximises the potential, I am a passionate believer that the more that we can join up this railway in today's world when it is very congested, the better it will run. That was certainly the conclusion in Sir Roy McNulty's report.

Q100 **Chair:** In terms of uniting track and train on a track that has 15 different operators, how is that going to operate on East Coast?

Chris Grayling: Absolutely central to how we do it—I will come back and explain the design in more detail—is that there has to be protection in place for other operators, and there will be. One of the early discussions we had was with the rail regulator about how we do that. We are now in a working partnership with both the ORR and Network Rail to shape it.

Q101 **Chair:** It seems a very strange line on which to suggest integration with a minority operator. It is such a busy line with so many operators.

Chris Grayling: It is the operator that really operates across the whole route. The others are geographically contained. They are the most logical people to play that role, because they are the only ones who really cover the whole line.

Q102 **Graham Stringer:** Going back to the start of Lilian's questions about the award of the contract, of course we all accept that hindsight is 20:20. In this contract, the percentage increase in income and passengers was 10%. That is an extraordinarily high figure, year on year, which is not



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achieved anywhere else. Was it reasonable for the Department to award the contract on the basis of compound interest of 10%?

Chris Grayling: The expectation was that it would happen. It is a railway line that is getting new trains with more capacity, and that has infrastructure plans that should enable a significant increase in the number of trains that leave King's Cross at peak times. There was some over-ambition about when that could be achieved, but back in 2013 there were a number of areas of infrastructure improvements where there was overconfidence as to what could be achieved.

The issues right now are purely down to the expectation of the company about how much it could drive just by delivering better customer service. That has not come to fruition. There would have been problems further down the track with the franchise, as Sir Richard Branson said, with the delivery of infrastructure improvements that were crucial to providing extra capacity. We have not reached that point yet. It is something I have been working hard to address. I absolutely want to see that in the power supply. We are well on the way to sorting it out. This is a franchise around which, generally, there was too much ambition on all sides.

Q103 **Graham Stringer:** That does not quite answer the question about whether it was reasonable to award a contract on a 10% compound interest basis. Is there any other railway of that age, where there are established passenger numbers—growing admittedly, because of good marketing in many cases—where 10% compound interest has been achieved?

Chris Grayling: It is about whether you believe that a combination of smarter consumer marketing, brand new trains and infrastructure improvements across a franchise period can deliver substantial levels of growth. What has been proved so far is that the early ambitions have not been fulfilled. There are some serious lessons to learn. We would not let that franchise again in the same way. In the public sector, it is difficult to say to somebody, "You bid too much." You can open yourself to legal challenge: "Well, you bid too much and therefore we are not accepting your bid." For the officials doing the work on this, it is a really difficult judgment to make.

Q104 **Graham Stringer:** And they got it wrong in this case. You said on 10 January in the Opposition day debate that I did not understand the financing of the contract. That may well be true. I would like you to explain it to me. Richard Branson has made a number of statements that the reason they are not delivering is that Network Rail has not upgraded the line. Was that part of the contract?

Chris Grayling: The franchise specification against which they bid set out capacity enhancements in the second half of the franchise. It is the case that there would have been a problem in the early 2020s, which we would have had to address, but that is not the problem today.

Q105 **Graham Stringer:** When Branson says that he is underperforming



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against the contract, it is not relevant to the agreement that the Department came to with Virgin and Stagecoach on this franchise.

Chris Grayling: The assumption about increased capacity was from 2019-20 onwards. It would not have happened yet.

Q106 **Chair:** Was that an assumption that it made as bidders, or was there a contractual obligation on the Department and Network Rail to complete the infrastructure to a particular schedule?

Chris Grayling: The ITT said there would be extra capacity available in 2020.

Q107 **Graham Stringer:** So there is no contractual obligation, as of now, on that basis.

Chris Grayling: No. Today, there is nothing that has not been delivered.

Q108 **Graham Stringer:** There is a second point, which again I might not understand. How does the promise to pay £3.2 billion over the contract relate to the bond? Is it just, "It would be nice to pay you this; it is a super profit that we will give you," or was it part of the contract to pay that full sum of money?

Chris Grayling: The £165 million was part of the contract.

Q109 **Graham Stringer:** No, not the 1.65; the total of £3.2 billion.

Chris Grayling: I am sorry if I was a bit in your face in the debate.

Q110 **Graham Stringer:** I don't mind; I just want to understand it.

Chris Grayling: There has been a lot of discussion about whether we are suddenly going to see £2 billion or £3 billion disappear. That is not the case. The best way of explaining it is this. If a railway is making a profit of £100, and £90 of that is the premium that goes to the taxpayer, £10 goes to the train operator. If the railway starts to make a profit of only £80, the taxpayer still gets £90. The operator is losing £10 rather than making £10 and pretty quickly runs out of money.

We then recast the whole thing. It still ends up being a railway that is making a profit of £80, of which most flows to the taxpayer. The reality is that the taxpayer continues to make a premium out of it and will make a premium out of it in all circumstances going forward, taking a substantial slice of the operating profit. The money that has been committed through the franchise period does not disappear in a puff of smoke, but it is certainly the case that there is not as much of it as had been forecast.

Q111 **Graham Stringer:** I understand that, but was the figure of £3.2 billion that Virgin says it was liable to pay a contractual obligation or not? Has it been let out of a contractual obligation?

Chris Grayling: Effectively, if a company defaults, the train operator basically goes bust. The train operator runs out of money and cannot carry on the business—"Here are your keys back." What happens in that



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situation now, or running up to that situation, is that the parent company is required to put a wad of money on the table. In this case, it is £165 million. It has to pump that into the business as a matter of routine to keep it going, or indeed, in this particular case, pay it to the Government as a premium if the money coming in from the railway is not enough to pay the premium. There comes a point at which the business goes bust and the parent company guarantee is fulfilled. At that point, you cannot force a bankrupt business to carry on paying you.

Q112 Graham Stringer: No, but you could take the money from a guarantee and rebrand it. First Group walked away from the south-west, and two franchisees walked away from the east coast mainline.

Chris Grayling: Effectively, we are doing that. We are continuing to receive the premium payments today. The premium payments have been paid in full, but they have been partly paid by the parent company. So far, we have had about £860 million back, of which a chunk of £160 million has been paid by the parent company.

Q113 Graham Stringer: You are taking that guarantee because they are in breach of the £3.2 billion. I think I understand that.

I have a more general question about franchises. I have sat on this Committee for a long time. I have seen Secretaries of State say that long franchises were a mistake because you could not change them when they went wrong. I have seen them say that short franchises are a mistake because you do not get the investment or the innovation over a period. I have seen Secretaries of State say that they do not want over-specification because it takes flexibility away from the operator. I am now hearing you say that you want to specify because you want high quality.

Chris Grayling: I do not necessarily want to specify every inch of the quality. I belong to the group who thinks we probably specify too much.

Q114 Graham Stringer: But you said previously that you wanted to specify quality, didn't you?

Chris Grayling: It is more of a focus. My view is that, if you have a tender process based entirely on money, you create the wrong incentives. There has been a heavy focus on money. I want to shift it towards quality of the service provided and not to simply say, "You must run the 5.03 from Bobworth to Bobworth South." In weighing up different bits, there should be a much greater emphasis on the quality of what is planned and not simply the money paid. In reality, across much of the rail network, the higher the quality of the service, the higher the revenues.

Q115 Graham Stringer: You have half answered a question I did not get round to asking. There are very difficult judgments to be made about short and long, and quality and specification. A number of times since you have been in post there have been problems with franchises over that period, and discussions. What is your final view on how franchises



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should be structured?

Chris Grayling: I am in favour of longer franchises, but it is not generally realistic to expect any company, or indeed any Department, to forecast everything economically 15 or 20 years out. The railway benefits from longer franchises and the ability to invest longer term, but we have to craft something that enables both sides to have some degree of get-out for non-delivery.

We are now looking very carefully at the franchise system and at what else we can do. I want a system that is robust, where companies are held to account so that they cannot just abuse the system and milk it for money, and where they have an obligation to deliver both investment and a high-quality service.

At the moment, we are in the process of looking at how we do things and how we can improve them. We have had some good results in recent years. If you look at the investment that is being put into new trains by some of the newest franchises, for example, the East Anglia franchise is replacing every train. At South Western, there are some innovative ideas about improving performance, and there is investment in new trains. The franchisees are bringing some good stuff with them—the newer ones—but we have still not quite got it right.

Q116 **Chair:** We were supposed to have reset the whole franchising system post 2012. I hear you talk about longer franchises, but this is a franchise that is only in its third year and it is already in trouble. How can we and the public possibly feel any confidence when, just three years ago, they promised that the franchise was going to deliver over £3 billion to taxpayers? Now it is going to walk away by 2020 without having delivered what was promised.

Chris Grayling: That says to me that we have not got everything quite right.

Q117 **Chair:** That is an understatement.

Chris Grayling: Indeed, but we have made changes since then. I must emphasise that. We are looking at what other lessons need to be learned now. If you ask me whether I am happy with the current situation, not at all. This is a franchise that we clearly have not got right. The company has not got it right. It is hugely frustrating, but you can only deal with the world as it is rather than how you would like it to be. We have to learn the lessons and understand how to do things differently.

Q118 **Chair:** When a company has got it that badly wrong that quickly, should it be allowed to bid for other franchises?

Chris Grayling: That is a question we have to ask, but it will, of course, have fulfilled its contract to the letter. I have to do what is lawful as well as what is desirable. I am constantly under attack from various politicians saying there are too many foreign companies in our rail network. This



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happens to be a British company in our rail network. It may have made a major mistake. Do we want to exclude it permanently from all participation in the rail network? At the moment, as we sit here today, it has not defaulted on the contract. The franchise is continuing to operate. The premium payments are continuing to be paid and it is delivering a good service to passengers.

Q119 **Chair:** But by bringing the process to a halt, or agreeing that you are going to renegotiate it, you are effectively going to allow it not to default on the contract. I am not saying that would be desirable, but it does rather seem that it is getting off the hook.

Chris Grayling: I do not think the question of allowing comes into it. What will happen will happen.

Q120 **Chair:** You are not going to step in to protect it from not being able to fulfil its contract.

Chris Grayling: I have no intention of protecting it at all. I will fulfil my contractual obligations to the letter. I will also make sure that we have all the precautions in place to make sure that we continue to run this rather important railway, and that we have a sensible strategy going forward. There is no question of bailing anybody out. There is no question of handing anybody anything. I can only deal with the contracts I have, and they will be held to every last inch of that contract. Then the question is, if that contract does not continue, what is the best way of ensuring continuity of service for passengers at the best value for the taxpayer? That is what you would expect me to do.

You would also expect me to have a longer-term approach to the railway, since I do not expect this franchise to make it to 2020, which is a way of putting it on to a more stable footing. I am absolutely of the view that unification of track and train across the rail network is the right thing to do, and this is an opportunity to do what Roy McNulty recommended, which was to have a proper public-private joint venture run it.

Q121 **Chair:** But, as far as you are concerned, a company that has made mistakes and overbid will potentially be allowed to continue to bid again, or even be handed a direct award.

Chris Grayling: I will do what is in the interests of passengers and the taxpayer, and what is lawful.

Q122 **Martin Vickers:** Secretary of State, you have made it clear that you are certain that the failure of this franchise is due entirely to revenues received to date and not to some of the claims that have been made about infrastructure projects. That calls into question some of the statements that have been made by Network Rail and Virgin in letters to the Chair. There is clearly something of a grey area. You have acknowledged that during the later parts of the franchise, Network Rail would not have met all of its obligations in terms of upgrades and so on.



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Chris Grayling: That is the case, yes.

Q123 **Martin Vickers:** Are you satisfied with its explanation for that? Will it continue to happen?

Chris Grayling: I am putting as much pressure on Network Rail as possible. The franchise situation is rather different from the one on Great Western, but it cost the taxpayer money to deal with the delays on the Great Western electrification. We had delays to the delivery of trains and consequential delays to the performance of the railway.

I suspect that with some of the capacity constraints, but probably not with the train arrival delays, we would be in exactly the same position in 2020 on the east coast mainline. I am trying to grab this by the throat and make sure we move ahead with the work as quickly as possible. There are a number of things that were originally envisaged and expected to be part of it by the end of CP5. As we know, the CP5 programme rather unravelled about three years ago.

Q124 **Martin Vickers:** How will the future partnership you are talking about—bringing track and train together—impact on open access operators, for example? In recent weeks, you have tended to indicate that you take a more favourable view of open access. Presumably, there will be some form of access charge for competitors, and the partnership will move away from the situation at the moment where, in effect, the only competition is competition for the franchise rather than competition by operators providing the services.

Chris Grayling: It is really important in the shape of the East Coast partnership that there is proper incentivisation to maximise the use of the network. That means not embarking on anti-competitive practices. I am very clear that there have to be safeguards against anti-competitive practices. If we can create the right incentives for the public-private partnership to use all of its capacity in the wisest possible way, and to provide space for other operators, I think it can work well.

The public-private partnership will run the core intercity service. What it does not have to do is expand into doing absolutely everything. We will make sure that there are proper competitive safeguards. That is why one of the earliest discussions I had about this was with the rail regulator, who will play a really important part in making sure that it works.

Q125 **Martin Vickers:** When you talk about public-private, are we assuming that the public part is still actually the infrastructure?

Chris Grayling: It will be a joint venture between Network Rail and the private sector. It does not have to be just a train company. I would be very happy to see the partnership involving some long-term investment—for example, in digital signalling—bringing some investment to the table as well. The benefit of having one person running the railway, with one team of management, with access to one pool of money, taking decisions about the things that will make the biggest difference to passengers is



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that you actually get a much more joined-up approach to running the railway.

Q126 **Martin Vickers:** So the days of Network Rail in its present form are probably numbered.

Chris Grayling: The days of Network Rail in its present form are numbered anyway, because the vision in Nicola Shaw's report is a devolved Network Rail, where the routes are the drivers of the business. It is a more decentralised business and it looks much more like a group of operating businesses. That is happening anyway. You could not bring track and train together without the Shaw report on devolution. In combination, the work that Nicola Shaw and Roy McNulty have done provides a really good blueprint for the way forward: devolution within Network Rail and much more route-based control of what happens, sitting alongside a train operation, but integrated within the train operation so that there is one team, with the same people running things on a day-by-day basis, working together to solve problems and working together to deal with issues when they arise.

Q127 **Chair:** I want to come back to the question about the upgrade work that was planned and expected as part of the franchise agreement. When did the Department first become aware that the full range of works that were required to enable the new IEP rolling stock to be completed for Virgin Trains to meet its commitment to run the new trains on an enhanced timetable from May 2019 were not going to be met?

Chris Grayling: The original specification in the franchise was for the extended timetable to begin in 2020. Stagecoach took the view—Virgin is a minority partner in this—that it could operate that from 2019, but the specification from the Department was 2020.

Q128 **Chair:** When did you realise that those infrastructure changes were not going to be delivered in time for the new timetable to be introduced?

Chris Grayling: I have been aware for about a year.

Q129 **Chair:** Has Network Rail missed its deadlines, or is it because work has been refocused?

Chris Grayling: No. They have been accelerated by a considerable amount of time from where they were. The first issue was whether we were going to be able to run the IEP trains on time on the east coast mainline and whether there was the power to do that. I met Network Rail last year and said, "You've just got to do this." It has now come up with a plan that will enable that to happen. I am not expecting any further delays to the arrival of the Azuma trains on the east coast mainline.

The whole programme is a bit delayed because of what happened at Great Western. There is a pipeline of new trains arriving, and the Great Western trains are now arriving and entering service. The Virgin trains will follow beyond that. There is now a plan in place to deal with the



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power supply issue. We are bringing forward the other parts of the programme as rapidly as we can. We are absolutely focused on getting them back as close as possible to the original delivery date. We are much closer than we were.

Q130 Chair: Whose responsibility is it for the fact that they are not on the original delivery date? Is it because work has been reprogrammed because of the problems in relation to CP5 funding, or is it something else?

Chris Grayling: It is a consequence of CP5, I think.

Q131 Chair: That is decisions of the Department around having to reprogramme its CP5 funding.

Chris Grayling: This was the corresponding consequence of the Hendy tale. It was originally set out in 2013 when the franchise was first specified. The expectation of what would be there by 2020 has not currently been fulfilled. I am now working hard to try to get it back to as close to 2020 as possible.

Q132 Chair: But are you saying that the reason it has not been fulfilled is as a result of a reprogramming of works, rather than Network Rail failing to deliver on works that had been committed to and funded?

Chris Grayling: It is a rolling consequence of the problems in CP5, and things like the Great Western project running over budget and late.

Q133 Chair: But the decision to reprogramme works was a departmental decision, wasn't it, in light of the Hendy review? I appreciate there is a reason why they ended up in that position. It is a departmental choice.

Chris Grayling: It is the fact that it became impossible to deliver the programme that was there. Peter Hendy went back and said, "Right, what can we deliver?"

Q134 Chair: I am conscious that we wanted to ask you questions about Carillion, but I am equally conscious that time has run away with us.

Chris Grayling: I can give you a very quick answer on Carillion, just so that things are on the record. Three areas are affected by Carillion. For HS2, there is not actually an impact. There was not a direct contract between HS2 Ltd and Carillion. The contract was with a joint venture made up of three partners. The other two partners—Eiffage and Kier—have already taken over the project. At this moment in time, it is a £54 million design project; the rest of the work has not started. Staff who were working on HS2 for Carillion are now migrating to the other two partners. Kier has taken on all the apprentices. We do not expect any interruption to the flow of the project at all, which is good.

Highways England is doing something very similar. It is migrating staff from Carillion projects on the ground to other suppliers. It is not expecting any hiatus in work. Again, I have arranged that the apprentices



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will be transferred. I expect staff to be transferred to other contractors as well. Highways England also holds money in ring-fenced pots for projects. I expect it to be able to carry on paying the subcontractors.

Network Rail is just working through the details at the moment, but it has already agreed with the administrators that all Carillion staff working on HS2 projects can carry on doing so and will be paid by Network Rail for at least the next three months while future arrangements are being sorted out. In some cases, they are reassigning projects to other contractors on the same framework, providing some input and bringing stuff in-house. It is not yet clear what the final picture will be, but they are well advanced with migrating work on existing projects to other suppliers. The challenge is that Carillion is very deeply dug into the rail network. It has been a very central contractor, but I have not been advised as yet of any significant hiatus to any individual project.

Q135 Chair: My understanding is that work on some Carillion contracts has halted. Is that not your understanding?

Chris Grayling: It is not my understanding. If it has, it has only been for two or three days because staff on all those projects have been told that they will now be paid by Network Rail for the next three months. If there is a hiatus, it is a very temporary one.

Q136 Chair: It is clearly the case that a large amount of contract value was awarded by your Department to Carillion after its first profits warning last July. That is right, isn't it?

Chris Grayling: It has an ongoing framework with Network Rail, so yes, it continued to get contracts. It is not unusual. There have been a number of profit warnings in the construction sector in recent years. What we have done is to make sure—in the case of HS2, for example—that, before we issued the contract, all the partners were jointly and severally liable for the work, so that there was not a risk to the taxpayer if the problems proved to be more serious.

Q137 Chair: But clearly there are other contracts where Carillion is not in a consortium arrangement.

Chris Grayling: That is true.

Q138 Chair: Do you have a complete picture or a list of the projects in which Carillion was the key contractor, and what your expectation is of what will happen to those projects now?

Chris Grayling: On the railways, yes. There is a plan that has been put together by Network Rail. It has a plan for where the contract will be placed—whether it will be taken in-house or go to a joint venture partner, or whether it is going to bring in another partner on the framework. It has done an assessment of the amount of money owed to subcontractors. It has been very clear in saying that it is working with the administrators to make sure that all subcontractors who worked on the Christmas works



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are paid. It has put in place with the administrator arrangements for staff to carry on working on projects so that the projects can continue. They will be paid directly by Network Rail. We and they have worked through it in great detail.

Q139 **Chair:** Are you confident that there will not be delays to planned outcomes or an increase in costs as a result of Carillion's collapse?

Chris Grayling: I cannot give an absolute guarantee that no projects will be affected. I cannot give an absolute guarantee that there will be no additional costs, but what I have seen so far gives me comfort that a very major investment programme is going to continue largely unchanged.

Q140 **Chair:** I am sure the Committee will have a number of detailed questions in this area. I intend to write to you, Secretary of State, or have a further session.

Chris Grayling: I am very happy to come back and do that. I just wanted to put those points on the record, because I know that people are concerned about this. Having talked to the three chief executives, I am very satisfied that they have put in place sensible plans for the transition, and indeed had a contingency in place in the run-up to Christmas when it was clear that the problems were more deep-rooted than we had hoped.

Chair: Thank you, Secretary of State, for your time today.

Chris Grayling: You are welcome.