

Transport Committee

Oral evidence: Rail infrastructure investment, HC 582

Monday 29 January 2018

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[Watch the meeting](#)

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

Questions 1 - 94

Witnesses

I: Mark Bullock, Managing Director, Balfour Beatty Rail; Darren Caplan, Chief Executive, Railway Industry Association; Pino De Rosa, Managing Director, Bridgeway Consulting; and Peter Roberts, Chairman and Managing Director, Signal House Group.

II: Paul Plummer, Chief Executive, Rail Delivery Group; and Maggie Simpson, Executive Director, Rail Freight Group.

Written evidence from witnesses:

- [Balfour Beatty Rail](#)
- [Railway Industry Association](#)
- [Rail Delivery Group and Rail Supply Group](#)
- [Rail Freight Group](#)

Examination of witnesses

Witnesses: Mark Bullock, Darren Caplan, Pino De Rosa and Peter Roberts.

Q1 **Chair:** Welcome to our panel. Thank you for coming along today. For the benefit of our record of proceedings, please introduce yourself and the organisations you represent.

Peter Roberts: I am Peter Roberts, managing director of the Signal House Group.

Pino De Rosa: I am Pino De Rosa, managing director of Bridgeway Consulting and Bridgeway Aerial.

Darren Caplan: I am Darren Caplan, chief executive of the Railway Industry Association and a member of the Rail Supply Group.

Mark Bullock: I am Mark Bullock, managing director of Balfour Beatty Rail and Utilities.

Q2 **Chair:** I appreciate that there might be a lot of common thoughts in response to our questions. We have a lot of questions and about an hour to get through them, so, if you are answering questions, please do not feel that you need to repeat something someone else has said. If you agree, then agree and add extra value so that we can get through as much as possible.

We would like to start by looking at what has happened in CP5. Obviously one of the biggest things has been the postponing and cancelling of some of the enhancements that were expected and planned for CP5. We would like to know what impact that has had on your business or on the businesses you represent. Darren, do you want to kick off on what the impact has been?

Darren Caplan: A lot of the discussion about rail funding started off with the issue of CP5. There is a real problem in the sector of boom and bust in the control period system. I am sure we will come to that. We worked out in the summer of last year that there was a shortfall of around £500 million. Some of that is due to cost overruns and failures of efficiency. The ORR—the Office of Rail and Road—said that £3.4 billion of renewals were deferred for the first few years.

Q3 **Chair:** I am specifically interested in enhancements at this point.

Darren Caplan: In terms of the ask, it is on renewals. There is an announcement coming up this year on enhancements going forward, which will include work that has not been done in CP5. We are waiting to hear what is going to be in that. We do not have visibility of what is going to be in there. I think we are waiting to hear about £4 billion-worth of enhancements, but I do not have visibility of that and cannot currently comment.

Q4 **Chair:** In terms of the impacts of the cancelling and postponing of enhancements, what has been the impact on your organisation, Mark?

Mark Bullock: We are quite busy at the moment so we are not being directly impacted by specific schemes being cancelled, but it gives me concern for the future. If I look forward, when the jobs that we are currently engaged on finish, there is lack of certainty over what pipeline comes next and how we are going to keep people busy. We have about 1,600 people working in rail for us in the UK, predominantly on the enhancement side of things, so I am concerned to understand what comes next. They have built up a lot of skills, knowledge and experience, particularly on electrification schemes in recent years. It would be a tragedy if we lost that capability for the industry.

Q5 **Chair:** On electrification, for example, which is something the Committee has been looking at, did that not directly impact you?

Mark Bullock: No, because the schemes we were working on continued, so we carried on doing that work.

Q6 **Chair:** We are obviously concerned about the impact on SMEs as well. Peter and Pino, has the decision to postpone and cancel a number of enhancements in CP5 impacted your firms?

Peter Roberts: Yes and no. Short term, it always impacts, but it is more the nervousness about the investments we have to make. We spend an awful lot of money on training young people, apprentices, taking on graduates and buying plant and machinery. If we cannot see forward, it makes those decisions far more difficult.

Pino De Rosa: We have a similar scenario to Peter. Confidence is an important aspect of running a medium-sized business. The cancellation of that scale of work creates a situation where you really have to start thinking carefully about making investments in the training of people and investing in technology and equipment. There was definitely an issue. We know we would have had some work, being a midlands-based business, in terms of electrification, but that work never actually came out. There is always an impact. The lack of surety in the marketplace and lack of visibility in the pipeline, and the fact that that volume of work can get cancelled at such short notice, creates a real confidence issue among SMEs.

Q7 **Chair:** Moving on to renewals, as Darren said, £3.4 billion of renewals have been postponed from CP5. Thinking about your experience of maintaining and renewing the railway, what impact will that have on the resilience of the network, and therefore on passengers?

Mark Bullock: I guess you would have to ask the asset manager what the impact could be on resilience. It is clearly an issue if there is a lack of spending in that regard. In my earlier career, I used to work in the utilities sector for one of the energy companies. There, in years gone by, decisions were made to cut the renewals spend. I remember one year that there were some particularly severe storms and a lot of damage to overhead lines. The headlines were that tens of thousands of people were without power. It all stemmed back to a previous decision many years earlier when expenditure had been cut.

I cannot comment on the specifics, but generally there is obviously a requirement to stay up to date with the renewals of these critical and huge infrastructure assets.

Darren Caplan: Renewals is a real problem going forward if you have a big backlog. It makes it all the more expensive. What happens when renewals work is not being done in the control period? Teams get disbanded and clearly you lose expertise. The skills go overseas and you lose innovation. In some of our submissions from our members, you will see that for Alstom, for example, a contraction of the market in the last 18 months for CP5 has seen signalling engineers deployed to other markets, so you lose some expertise. SMEs—you have two of them

here—simply have to try to get through to the next boom. You get a period where the work is not being done and the backlog is increasing, and by the time you get there some SMEs have gone out of business. You do not have surety of pipeline.

You also get asset degradation. The longer it takes to do the renewals, the more expensive it is to make the renewals when you get there. You do not want to leave it for too long; you want to do it on time, as and when you come to it rather than delaying it, which makes it more expensive. We have done some work on this at RIA. We think it is up to 30% more expensive. If you do not do the work when you need to do it, but delay it, it can be up to 30% more expensive to do that work. Clearly, you are getting less bang for your buck.

Q8 Chair: Will the funds announced by the Secretary of State for CP6 be sufficient to address those increased costs, as well as the backlog?

Darren Caplan: The SoFA settlement of £48 billion includes £20 billion of renewals, and part of those renewals is brought forward. Doing work now that was supposed to have been done is more expensive than doing it then. What we are saying is that there is a £500 million shortfall in some of the work. In November, Network Rail reallocated £200 million to renewals out of the £500 million, which is good, but there is still a shortfall. What we are concerned about is if there is still work that should be done on renewals between now and March 2019 that does not get done. It should be done soon after then if it is not going to be done before that control period, but there should not be an arbitrary date by which it has to be done. Part of the discussion we want to generate is how we can stop that arbitrary date getting in the way, and we can do the work that needs to be done.

Q9 Chair: Pino, your company looks at assets on the railway all the time. What is your experience of the impact of those renewals being postponed on the resilience of the network?

Pino De Rosa: The general issue is that during periods when work gets curtailed, cancelled or postponed you lose good people from the industry. Rail is an industry competing with lots of different sectors. It is a tough environment. A lot of the time, people, and my staff, work at night and over the weekends, at Christmas, Easter and new year. It is unsociable and, when all of a sudden the pipeline finishes, the very best of them potentially end up in different industries, and that is a loss to the rail sector. An investment has gone in to create that skill set and then it just walks out the door.

It is coupled with the fact that investment is something you might think twice about in terms of skilling up the next tranche of people. It is the resilience issue. You are always back to a scenario where you could have had people working on the network who were better trained and more capable of doing the job, but they have gone to work in different industries. We seem to get that knock-back. Every time there is a reduction in workload, we seem to play a game of snakes and ladders. You climb the ladder and then you slide down a snake because there is a problem.

Q10 **Chair:** Do you think there will be difficulties in responding to the anticipated uptake of work in CP6?

Pino De Rosa: There is a perception that the market will deal with it, but the reality for me is that, if you have not planned and understood the pipeline of work to be done, there is a risk that, when work does take off, all that happens is that you get rate inflation and you end up with people paid more money than they were before; they may be doing as good a job, but potentially not quite so good, because they are not as skilled. That is not adding value to SMEs, the British economy or the rail industry.

Q11 **Chair:** Peter, in your experience have SMEs particularly, or supply chain companies more generally, made changes to their workforce and investment plans as a result of this?

Peter Roberts: Absolutely; my own company is doing that. One of our businesses is currently downsizing because we cannot see anything beyond the summer. We are quite busy at the moment, but, come the summer, nobody really knows. It is those sorts of projects—the large projects—that top up the order book and give you the confidence to upskill your workforce.

The other thing that has not been mentioned is innovation. Innovation is a fairly long-term commitment for any company, particularly for SMEs. If you do not have the confidence to see your order book going forward, you will not have the confidence to spend money on innovation.

Q12 **Graham Stringer:** I have a very simple question. What you are describing is in no way untypical of capital-based civil engineering projects. I would have thought that small suppliers around the rail industry were in a better position than in most civil engineering areas because so much investment has gone into rail recently, and is planned in HS2 and in Network Rail. Are you better or worse off than other parts of the capital-based industry?

Peter Roberts: I think we are different. In my own company, we have a factory and we make things. The only way you can make things efficiently is if you have a steady and consistent workload coming in. You can look at how you improve your performance and your efficiencies, and at how you can make things better and smarter by driving out waste, but if you are peaking and troughing through a five-year period it does not help. It is exactly as Pino said. Your good people get a little bit nervous if they see the end of your order book, and they move on, and then you have to start again. As you start with a new intake of people in your factories, you have to skill them up and train them. They have to become experienced. Then you have to start again the process of driving out waste.

Q13 **Iain Stewart:** One of the reasons why so much was postponed from CP5 to CP6 was cost overrun in some of the big projects, particularly Great Western electrification. There is some comment in the industry press, particularly from Nigel Harris of *Rail Magazine*, that this was a result of gold-plating the specifications for lots of the enhancements and

upgrade work, and that without compromising safety you could actually lower the specifications to achieve the same outcome. From your perspective, as the supply chain, do you think that is a fair observation and that either the DFT or Network Rail should be looking afresh at all of these projects to get better value for money?

Darren Caplan: From RIA's perspective, we are engaged with what is called the Network Rail standards challenge. That is about looking at standards. Are the current standards being applied and are they the right standards? There is a whole workshop process that we are going through to look at whether there are things we can do to make things more efficient but still keep the same level of rigour. They are not to do with safety ; it is about how we can have a better railway. An example might be on signalling. Instead of having a gold-plated system of gantries for signalling, which might be expensive, if you can have a signal by the side of the track that does exactly the same thing, why would you go through the whole paraphernalia? There are things we do in this country that they simply would not do in France, Germany or other countries.

We are doing that currently. We had a workshop in November last year and we have another one coming up. Some of the things we are looking at are greater supplier involvement in setting standards, a simpler and more visible process for suppliers to challenge standards and a culture where we challenge standards and encourage knowledge. We are looking at these things and there is work being done on that.

There will be a cost implication. We will be able to get inefficiency down. Part of the problem is with efficiency savings. We think too much efficiency was asked for in CP5. Too much efficiency was asked for from the supplier sector, which was why some of the figures were hard to hit. Going forward, we have to look at other ways of getting efficiency so that it is not just Network Rail or the ORR saying to the suppliers, "You need to be more efficient." Standards are part of it, but not the whole story.

Q14 **Iain Stewart:** In the companies, do you feel that in these projects you can effectively have input to Network Rail, or whoever is managing them, and say, "Actually, you could do this for less," without compromising safety?

Mark Bullock: You make a good point about standards. Clearly, they are important for safety and performance reasons and all that kind of stuff, but I definitely think that the industry could reduce its costs, and challenges could be made to some of those standards. An example that my company is involved in is that we did the electrification works that opened several months ago in the Prime Minister's constituency. At one point, we were asked by Network Rail to take a look at our costs for foundation works as compared with the costs of foundations on the Great Western, or GWEP as it was then. We got involved in that study and compared notes to see if we could save some money for Network Rail. What I saw there was that on the Great Western project there was a standard approach to a foundation. The rulebook, if you like, said that a foundation must be of a certain type and it must be able to stand up to a

storm of 150 years' occurrence and all that kind of stuff. The standards were rigidly applied because that is what the client required.

On the project we have been building, we individually designed each foundation dependent on the ground conditions where it was being installed. Therefore, it was what was fit for purpose. I see that as an example where, if you design something with the output in mind—in this case, the steel structure that will carry the overhead wires—as opposed to defining the specification, you get a different answer from the supply chain. I very much think that if Network Rail came to the market and provided an output specification, and asked the intellect within the supply chain to design the right solution to give them the outcomes that they want, they would unlock a lot of capacity and thinking from the marketplace that currently gets stopped because of standards.

Q15 **Chair:** Peter and Pino, do you have anything to add on that point?

Peter Roberts: If you are working trackside, whether you are delivering a half million-pound piece of work or a £20,000 piece of work, you still have to meet the same specifications. Everybody forgets that in our industry safety is always paramount. We never compromise on safety, but the amount of regulation and documentation that we have to provide, regardless of the size of the job, is colossal. One always has to question how much of it is actually read and used. We would be very happy to work with Network Rail and the supply chain in order to simplify that. Savings could be made.

Pino De Rosa: From a Bridgeway perspective, we saw that Network Rail was willing to engage in working with the supply chain, but that was probably after it had already started the programme of GWEP and electrification. There may be an issue around the way an electrification project is approached in terms of the designer's input—for example, in designing the masts that hold up the OLE. There is risk around the mast failing; who takes the hit? What are the drivers to work to get best value for money, and take some risk, which is what civil engineering projects are all about?

Commercial frameworks play a big part in driving better value. The risk is that sometimes the industry is obsessed with unit rates. Actually, it is about output and value for money. The same thing goes for people as well. You can drive the unit rate down, but do you have the best trained people you can get? Is the output right? Would it improve productivity?

The issue around GWEP is that we have not electrified a new route for a long time in this country. There is a learning curve for the industry to go through.

Darren Caplan: The Network Rail submission to this inquiry goes along with that agenda, too. It said that in the past some projects were over-specified and that, to achieve value for money and make the best use of the network, clients or funders should specify strategic outcomes, not the technical scope of the project. This is about having more output specification, and we would all like to see more of it.

Chair: We would like to come back to the issue of what happens with renewals and how we get rid of the peaks and troughs between CP5 and CP6. Huw will pick that up.

Q16 **Huw Merriman:** Network Rail has allocated an extra £200 million for renewals in CP5. How far do you think that will take us towards addressing your concerns about resilience within the supply chain and the network? Mr Caplan, I am conscious that you may have called for another £300 million to be brought in, so it might be wise to start with you.

Darren Caplan: We called for £500 million, and £200 million is allocated towards renewals between now and March next year. We would like to see £300 million more allocated. I have the projects so far. There are 144 pages of this stuff, of projects just for the £200 million, so a lot of work needs doing. The question is, could we get it done if we had more between now and the end of the control period? Our concern would be that if we were allocated £300 million, and if the work could not be done in the next 12 to 18 months, would it still be able to go into the next control period? We need some clarity about that.

There is a wider debate about control periods. The Committee has seen this graph but I will hold it up just in case you have not. This is how control periods are currently funded. CP5 is over here. You can see all the ups and downs, including CP5. Clearly that cannot be the best way to invest in our rail network. To reply to the point about how we compare with other sectors, I am sure we can do better. It is better than having annualised budgets, as happened with British Rail, but this cannot be the best way of doing it.

The discussion we should be having is how we can smooth out that line on the graph. CP5 is an example, but it is not just this control period; it is the previous control periods as well. The debate going forward should be how we can make sure we have a smoother pipeline for investment. We have some ideas, and in the submissions to the inquiry there are lots of ideas. In terms of the £300 million, that work needs to be done. If it is not done in this control period but later on, it will get done, but it will be more expensive and it will add to the backlog of work.

Mark Bullock: To build on that, there is another issue. Clearly anything we can do to smooth the spend profile is desirable from a cost, efficiency and productivity point of view. The other factor is the scarce access constraint. One of the reasons it is so difficult to work on a railway is that the access to get to it to do the work safely is quite a scarce resource. The problem with pushing work back in time is that you are trying to put more work into a condensed period. It is not practical.

We are not terribly involved in renewals at the moment, so bringing forward the spend does not make any difference to my organisation, but it is desirable for the industry. What I observe when I talk to industry colleagues, and it is a great shame, is that, in key areas of scarce skills and resources, a few years ago—especially at the start of CP5—everybody was chasing because you could not get people. The skills

were scarce. We are now having conversations about laying those people off. They are losing their jobs. The problem is that, when it comes back round to the next point in the cycle and we need them, they may be gone.

As we head into CP6, the thing that is different from five years ago, particularly from a big company point of view, is that there are choices for where we can deploy our scarce resources. There are other jobs that can attract workers. HS2 would be an obvious example, or Crossrail 2 when it comes. If we do not do something to smooth the workloads, my fear is that when we come to do things on the network that we need to do for safety, performance and so on, we will be unable to do them because the resource will be doing something different.

- Q17 **Huw Merriman:** I want to drill into how that would occur. The control period will end next March and there is a huge amount of work to do, perhaps even more if there is more money brought forward, and then there will be work required in control period 6. Why would it be a question of saying, "We have reached the end of CP5 and everyone is laid off"? You will just continue the works into control period 6, particularly if there are delays.

Mark Bullock: That is a good question, but it is about the specifics. It is not about the volume spent; it is about where the money is being spent. An example is signalling, which Darren has mentioned already. It takes years to train to do that kind of work. Signallers are being laid off in this country.

- Q18 **Huw Merriman:** What I am getting to is that if the work is still required to be done, be it control period 5 or control period 6, why would you be laying people off?

Mark Bullock: Let me try to make it clearer; I may not have answered the question properly. It is not about the volume of work; it is about the mix of work. Working on the railway is not a generic skill. There are many different disciplines and skill bases. If we lose some of the work for the skilled resources in some of the niche areas, you will still need them to run the network but they will not be there. It is not about the macro spend; it is about the detail of what actually gets done.

- Q19 **Huw Merriman:** That brings me on to asking the four of you what your main concerns are about how the control period process currently operates. We have touched on it, but I wondered if the rest of the panel wanted to comment.

Pino De Rosa: It is too lumpy. It has peaks and troughs. You saw the profile that Darren showed you a second ago. We are trying to run a business and make decisions around investment in people, equipment and technology. When there are those extremes in cycles it is more reserved and, as a consequence, the industry works in a less efficient way. Whenever there is peak demand, prices go up, and whenever there is a total drop-off of workload people disappear. The ones who go may be the ones who are more talented and more dynamic. The industry

needs dynamic, talented people in a situation where we are working people on Saturday nights when most other people are sitting at home and watching TV.

- Q20 **Huw Merriman:** The ORR felt that use of the term “peaks and troughs” was not down to the control process and how that operates, but more down to cost overruns. Did you feel that was an incorrect analysis from the ORR?

Pino De Rosa: I can see that with the Great Western project. There is also potentially an issue with this particular control period from the perspective of Network Rail becoming a public authority and its funding changing. If I cast my memory back to 1995, when I set up a business with a couple of colleagues, there were occasions when all of a sudden you just hit a brick wall.

Fifteen or 20 years ago, I just had to take that as it came. I use more strategy now, but I still see it as a wasted opportunity, because I know that skill sets that are needed by the rail industry are costing me and the rail industry more than they should. If we had the opportunity for more continuity, there could be a more professionalised, investment-based approach to getting that kind of resource into the sector, which would be good for everyone. It is not just about what you pay. It is about output and skill set.

Peter Roberts: You have to think about the project life cycle. We all have a different part to play. It usually starts with detailed design, which may take up to 12 months of any project. My part of a project will be on the build and install. You have to keep the cycle moving: one project is being designed, one is being built and one is being commissioned. That is part of the problem.

We have design teams in our industry at the moment with nothing to do, which means that 12 months after that I will have nothing to do. Then the testing and commissioning engineers are going to have nothing to do. If we smoothed that out and got rid of it, so that the designers moved from one project to the next and the builders moved from one project to the next, it would increase efficiency. It would also give the security that our employees need. It would give me an incentive to invest in training, which we need to do to make things better.

- Q21 **Chair:** Darren, you said that RIA is asking for £300 million extra to be brought forward from CP6. How soon would you need a decision on that for it to make a difference?

Darren Caplan: We need it straight away because of the time it takes to do track possessions. It takes at least half a year and you have to make sure you have the resources to do it. We would not sneer at it whenever it was offered to us; with Network Rail, we would try to find a way of making it work.

- Q22 **Chair:** But sooner rather than later.

Darren Caplan: Sooner rather than later. I want to pick up one point. You were talking specifically about CP5 and CP6. I have one more slide to

show you. This diagram shows how the ORR put together its periodic reviews ahead of control periods. There are eight stages to go through over two and a half years before you get to a final determination of funding, six months before the control period actually starts. That cannot be an efficient way to do things.

One of the things we and this Committee need to look at is how we can simplify that and have decisions made earlier, so that these guys can plan their workloads, their teams and their equipment well ahead. There is a two-and-a-half-year process and then they say, "Okay, we can get cracking in six months' time." This is something we need to look at regarding the pitfalls and problems with the current system of determining the funding envelope.

Q23 Huw Merriman: Who determines the two and a half years? Is that the Department for Transport or Network Rail?

Darren Caplan: It is an ORR piece of work. The discussion that I am saying we should have should involve the ORR, Network Rail, the DFT, HMT and the sector. We all need to have this discussion about how we can simplify it; it cannot be the best way of doing things.

Q24 Daniel Zeichner: We are going to move, although still talking about the control period, to look at the decision by the Secretary of State to move enhancements out of the control periods. To what extent do you think that will improve things? What problems can you see with that process?

Mark Bullock: I have mixed views on that. If I look at the big picture, I think it is a desirable thing to do because the things we are doing are long, lifetime projects. They have a timeframe of their own, which is dictated by the network. They do not neatly fit into arbitrary time slots that are convenient for regulations. The move to a project-based system of regulation is desirable and I believe it will improve the ability to predict costs and all that kind of stuff. Ultimately, I think it will be the right thing to do.

I do, however, have a concern in the short term that as we work out what the new system is, how we operate it and make decisions about which scheme will happen and which scheme will not, it will leave organisations like mine in the dark wondering whether there is a pipeline and what it might be. I am quite concerned about the short-term, practical implications. Ultimately, a shift to a longer-term view of how things are done will be better.

Q25 Daniel Zeichner: Is there an understanding of how this pipeline approach is going to work? Is there any detail yet? Do you have any concerns?

Darren Caplan: We are waiting for the announcement. We are waiting for a rail upgrade plan. As Mark said, we want visibility. We need to see what is coming up over the next five to 10 years, or beyond. Encouragingly, the ORR supports the idea of enhancements going across control periods and beyond, so that is a good thing. Before I complete my remarks, have we moved on from renewals?

Q26 **Daniel Zeichner:** We have, sort of, but if there is a point you want to make, go ahead.

Darren Caplan: I want to make a point about renewals. This is about the debate going forward. It is not just about the CP5 issue; it is about how we can solve the problem. We have put forward two or three options that you might want to look at. They are things like a rolling programme of investment or longer control periods. Our favourite at this stage is to have a baseline workload going forward, so that we know what work definitely needs to happen over a certain period of time. I see that others have some ideas; Transport for Greater Manchester has put forward overlapping control periods.

I want to get the point across so that we encourage this Committee to urge all the parties to get together and look at the different scenarios on how we can smooth it out. The big prize is how we can have a smoother pipeline of investment going forward. We need to have the discussion now. The good thing about the CP5 issue last year was that it spurred this on. There were 62 submissions to this Committee and they all had good ideas or thoughts on how we can improve things. That is quite important.

Q27 **Chair:** Do you have a preference about which it should be? Should it be extended control periods, rolling ones or overlapping ones? What is the view on what you think would work best?

Darren Caplan: We want the space to have the debate. The problem with rolling programmes is that you always have the final year. It is like an annualised budget system: how do you work out the final year? The problem with seven or 10-year control periods is that you still could have boom and bust over a longer period. We think an answer might be to have a baseline of essential, crucial works that you know you will have to do over that period of time, and you try to do as much as possible of the rest of the renewals work in that time, because, if you do not, it adds to the backlog and gets more expensive going forward.

Q28 **Chair:** Explain to us a bit more how that baseline idea might work.

Darren Caplan: I cannot go much further. These are ideas that we are working out. We have a team working on this, beavering away, so I would not want to say that we have fully fleshed it out. The point of the discussion is to say, "Here are four or five options." Others have contributed. The next stage should potentially be a round table or workshop to work it out. There is a lot of positivity towards making this debate happen, especially if your Committee could recommend in some way that we should get the DFT in a room with Treasury, the ORR, Network Rail, ourselves, the suppliers, the RDG and the Rail Freight Group, and work it out. There is a lot of good will. The good thing is that most people think that the control period system is working but that it could work so much better. It is not about going back, but about going forward. That is an important point that we need to get across to you.

Q29 **Daniel Zeichner:** I was going to go back to that point. You showed us the chart and said there must be a better way of doing this. Is that better than what came before?

Darren Caplan: Yes. These guys next to me have been involved in the game longer than I have. I understand that, when you had annualised budgets under the British Rail system, you had to go through this every year, whereas we are going through it every five years.

Pino De Rosa: I was in British Railways. There could be a situation where a culvert on a route might collapse or some piece of infrastructure would fail. The engineers would then need to make decisions about where they were going to spend the money. Usually it was to stop blast-cleaning and painting bridges because that is decorative, but it was not. It was stopping them from rusting to bits. About 15 or 20 years later, you would be reconstructing them because they were totally corroded.

From an SME perspective, whichever system comes out, because it is far too high-level and strategic for an organisation like mine or for someone like me to get their head round, I would really like to see a more consistent approach and a more consistent pipeline. There is an argument that it is the same for construction companies because they live through that boom and bust thing, but it is more about understanding the value that a more consistent pipeline would bring to the rail sector. I would urge for that to happen, and would be willing to get involved and help.

Darren Caplan: Normally, sectors would come to you guys and say, "We want more money," or, "We want tax cuts." We are not arguing that at all. We are not saying it is about the volume of money. We are saying, "How can we make it work better with the existing money?" That is a strong argument.

Q30 **Daniel Zeichner:** Going back to the enhancements, is there a danger that taking them out of the control period system will make those projects more open to political wrangling?

Peter Roberts: We do not know is the answer. It is a new announcement. We hope it is going to work; we will have to see.

Pino De Rosa: There is something that concerns me. I would hate the industry to shape itself around GWEP—the Great Western project. I believe there is a lot of work that gets done in the UK rail sector that is delivered at world-class level.

Darren Caplan: There is general support for things like the transPennine scheme, Northern Powerhouse Rail and Crossrail 2. They are all positive schemes. There has been good investment over recent years and there is cross-party support for a lot of the things going forward. The discussion should be about how we can smooth out the funding better, rather than whether these will things go ahead. I think they will go ahead because they are so important for the economy and for our connectivity.

Q31 **Chair:** Yes, so we should not just focus on the things that went badly, but focus on the things that went well.

Pino De Rosa: Learn from them, but don't let one thing shape the whole industry, because the danger is that the baby will get thrown out with the bathwater.

Q32 **Graham Stringer:** You have answered the questions I was going to ask, but there is one question that follows from the periodic review process. You said very clearly that it is long; it takes two and a half years and concludes six months before final decisions are made and you move into the control period. Wouldn't that be solved by just starting the process six months earlier? Is that a solution, or is that too simple?

Darren Caplan: It is one of the things we should put in the pot.

Q33 **Graham Stringer:** Or could it be truncated?

Pino De Rosa: Focus on the output and do whatever it takes to get it. Reverse engineer it. It is a bit wishful but, ultimately, we would like a more even and balanced workload so that we can keep our people efficient, understand what is out there to be done and make the investment.

Q34 **Graham Stringer:** The other point that has been made is about access. I understand that, if trains are running, it is dangerous. Has anybody in the industry done a cost-benefit analysis of closing down major routes for a month in August?

Pino De Rosa: That happened in Nottingham. When the signalling scheme in Nottingham station's remodelling was done, they closed it down for six to eight weeks.

Q35 **Graham Stringer:** Did similar things happen at Reading?

Pino De Rosa: I believe so. I am also aware, through other experiences, that in Poland they shut a route down for about six to nine months and afterwards the ridership was about 20%. They really struggled to encourage people to come back on to the network.

Q36 **Graham Stringer:** That is really what I am asking. In this country, there are obviously immediate benefits to having access 24 hours a day for a month or whatever. Has anybody done research on the benefits of cost reduction as against the disbenefits of lost ridership, or as to what damage it would do to the economy to close down a major route for a month in the summer?

Pino De Rosa: I believe it has been done.

Mark Bullock: I have personally not seen those statistics. In years gone by, Balfour Beatty built many railways across the world. When we talk to some of those countries overseas about the challenges we face in the UK around access, they just laugh at us. They say, "Well, we just close the railway for a month and we do the work, and then we leave. It is very efficient, very effective and very productive." Of course, whether the travelling public in this country would tolerate that disruption is another

matter, but from an economic point of view, in terms of the efficient production of work on a railway, that is the way to do it.

- Q37 **Graham Stringer:** I have two follow-up questions. There is the thorny issue of the stanchions on the Great Western route. I understand what you are saying; that it was the specification of those stanchions and they were, in effect, over-specified. In a vital industry, wouldn't you expect the suppliers to say, "Well, we can put in a bid for those stanchions at a price, but actually if you change it to outputs we can halve the price"? Is that not a major criticism of suppliers as well as Network Rail?

Mark Bullock: I am not sure that I would take the word criticism, but I understand where you are coming from. Part of the problem is that, if we as suppliers come up with an innovative solution, sometimes it can make the bid non-compliant and we get kicked out of the competition before we even join the race. The example I was quoting about the foundations on GWEP was quite interesting. We were not involved in building that; we were just asked to have a look at it. It was not the case that the people who were building it did not make those observations and those comments; it was just that standards won in the argument about whether it was the standard or efficient production.

- Q38 **Chair:** Is it the case that Network Rail should be engaging with the supply chain at an earlier stage in the process?

Mark Bullock: Absolutely. There is no doubt in my mind whatsoever. ECI would definitely improve this industry for the benefit of Network Rail and for everybody.

- Q39 **Graham Stringer:** My final question is rather philosophical. I have been involved in trying to programme capital works and it is difficult. If you put the programme of capital works and providing works in a steady flow, you end up with the tail wagging the dog rather than people deciding what is wanted. You end up producing what the producers can produce. Do you not see the problem with that if you move further down the process of smoothing out? You have to smooth it out, so you do things that are not actually required.

Mark Bullock: I might say the opposite. I have worked in the utility sector, the aviation sector and the rail sector. They are all regulated infrastructure monopoly kinds of organisations. They are all very similar and they all suffer from troughs and peaks in a regulatory cycle. Whether it is at the beginning or the end does not matter; they all see the same kind of problems, and it is not an easy thing to resolve.

What I experienced in the electricity sector, where we were regulated on a five-year period, was that people's thinking, their mindset, was all around five years. All the schemes that came forward were typically short-term schemes that had a short-term horizon. One of the things I did when I was working at London Electricity as asset manager was to introduce a 25-year plan for what actually mattered for the resilience of the network for a 25-year period. It completely transformed the thinking around what we needed to do. People suddenly looked at what was the

best bang for buck for the network and not, "How can I get my project done in this timeframe?" The thinking was suddenly different.

Chair: That takes us nicely forward. As well as the five-year control period, there is Network Rail's long-term planning process, which should give a longer vision of where we are going.

Q40 **Steve Double:** How effective is Network Rail's long-term planning process in helping the supply chain anticipate future work? What do you think needs to change to make it more effective from the supply chain perspective?

Darren Caplan: I fall back on previous answers, in a way. We have all said that we would like earlier engagement in the planning process. Earlier contractor involvement would be helpful. Devolution of route businesses is something else that we need to talk about as part of their long-term planning process. That is something that they are doing and that they need to do as part of a previous report.

From the RIA perspective, we are involved in their central planning oversight group. Then there are the Network Rail route businesses, which each have strategic business plans. On behalf of the other three panellists, we would want suppliers involved in how those are determined over time. We see lots of benefits in devolution. It would make quite a big difference to the way they plan going forward. There is a lot of good will to try to get these things right but, as you have seen from the PR18 process, there are just too many stages in getting it. It is too complicated, but there are improvements that could be made. Early contractor involvement and being involved in the different route businesses would be helpful.

Pino De Rosa: From a planning perspective, the system is very thorough. Some projects may be cancelled at the end of CP5. For example, to take the work at London Bridge, which is a project we are involved with, some of that work has been planned five years out. It depends how disruptive the blockades are. Taking stations out, or shutting down Nottingham station or Derby station for a period of time, takes a lot of planning. In value terms, I would say it is important. I can see it happening. I believe that when they did Nottingham there was a lot of collaboration with the local train operating company, East Midlands. It is about having good dialogue between train operators, the infrastructure owner Network Rail and stakeholders like the travelling public and the supply chain. That makes a big difference, and there is value to be gained.

Q41 **Chair:** Does the supply chain feel as if it is engaged in the long-term planning process? I do not mean the detail of what you have just described, Pino, which is around how you deliver particular schemes that are part of the control period. I am thinking about the market studies and the route utilisation studies—things that look over the longer period and what could change on the railway to deliver a better service. Is that something the supply chain feels it is engaged in at the moment, or does it feel that it is at a higher level?

Pino De Rosa: From an SME perspective, particularly the labour supply end of the rail sector, they probably sometimes feel they are done to rather than done with. It just happens and they have to react. The consequence is that it can become confusing for people who work in the rail sector. We have zero-hour workers operating in rail. The flexibility is there and it often suits both sides, but if people cannot plan ahead it changes their enthusiasm to be at work.

Ultimately, if we are to be productive, we want a workforce that is engaged and feels proud. A lot of people have been working in the rail sector for a long time. It has a patronage of staff and management who are really committed to making the network work. If they do not see why work comes to a stop all of a sudden and they cannot plan ahead, it kills some of that good will.

Mark Bullock: Looking at it from the other end of the telescope from Pino, from a larger tier one contract point of view, no, we are not involved in that process. I question whether we need to be, actually. I would not say that we are better qualified than the asset manager to do long-term asset planning, because we do not have the knowledge to do that. But I do think it would benefit us if the supply chain could get engaged at an earlier stage to consider options. Sometimes, collectively, we make the mistake of shutting down to a single option too soon, whereas, if we could engage in dialogue with multiple parties about the different options to come up with the same outcome, it might be an improvement.

Peter Roberts: There are two ends to the scale. We use organisations such as the Rail Industry Association to have dialogue with Network Rail in order to look at and discuss long-term planning. If you are running a business that is a second or third tier supplier, you are looking at a three-month order book. What is happening in 25 years' time does not make much difference if there is nothing to do in July.

Yes, all of us need to focus on the long-term plans, and that can put ideas into our heads for our strategic planning. From my company's point of view, we talk to RIA and engage with them in what the long-term planning is, but, until it materialises in a project, it means nothing. As we often see, with the lumpiness of projects, particularly on renewals, the planning can be there, but, unless it actually happens when it is supposed to happen, then, sorry, it does not fill the factory.

Q42 **Steve Double:** I am thinking about emerging technologies. Some experts think that the long-term planning process lacks innovative thinking, particularly with regard to emerging technologies. Would you agree with that?

Mark Bullock: I would, yes. The industry is not as well equipped as it could be to deal with innovation. There are lots of reasons for that. I would not necessarily say that it is just the long-term planning process itself. There are lots of hurdles and barriers that get in the way, but there is no doubt in my mind that between us we are missing a lot of opportunities.

Q43 **Chair:** Is it specified outputs rather than inputs that would help with innovation or is there something else?

Mark Bullock: Specified outputs would definitely help. Having an open mind about things would help. Willingness to engage in dialogue and consider different thoughts and ideas would be good. We talk about the digital railway at the moment. I guess to some it may be a bit of a mystery. One man will think it is this and the next one will think it is something different, so there is a bit of confusion around that.

We are not looking at leading edge technology. We are looking at bringing into play technologies that have existed for a long time in other sectors. To me, it is not necessarily about bringing in brand-new innovative technologies that have never been tried and tested. It is more about the application of things that are proven already, and I think we have missed opportunities there.

Darren Caplan: From RIA's perspective, we have an actual innovation function. We have a scheme called the Unlocking Innovation Scheme that we work on with others. We get suppliers, the Government and academia to look at innovative ways to improve what we do. A lot of our membership are involved in that and we can send you details after this Committee, if it is helpful to you, about what we are doing on UIS.

There might be an issue about who is funding the railways, which we might come to later. Clearly there is a blend, but with public money it might be less innovative than with private money. Private funding might have a role to play in looking at more innovative solutions to various things.

On renewals—the point before—we should have long sight. We often know 20 or 30 years ahead when a piece of track needs to be renewed or a piece of signalling needs to be upgraded. It should not be beyond the wit of man to have a better baseline or workload pipeline. We can plan the basic stuff. We can encourage the innovation. It is probably worth us sending you some more details on what we are doing as a sector on innovation.

Chair: We would welcome that. We will come back to the issue of third-party investment, but, in terms of planning, one of the issues that is changing is the role of regional bodies in helping us to plan and decide about infrastructure investment.

Q44 **Martin Vickers:** What role do transport bodies such as Transport for the North and Midlands Connect have in investment planning? Is it clearly defined? Is it actually complicating an already complex process?

Peter Roberts: All of those organisations are very much focused on the passenger—quite rightly so. It is about the level where they engage with Network Rail. Certainly the enhancements are very much long term. They are not short-term functions, and they are certainly not within the five-year control period in many cases, because they are looking 20 or 25 years ahead. You can get quite muddled around the edges with those organisations, but we have already seen some benefits from them.

Q45 **Chair:** As a supply chain, do you feel that you need or want engagement with those regional planning bodies, or do you feel that Network Rail is the body that sits between you and them?

Peter Roberts: It has to be Network Rail. Certainly from an SME perspective, it is way above our pay grade.

Pino De Rosa: My perspective on that would be that they need to be able to explain what they are doing in such a way that I would understand it. If I can understand it, there is a chance that the plan will work. The more complicated things are made, the less potential they have of being successful. I am aware that they exist. I believe that they are well intended. Am I totally engaged with them or aware of the detail, or do I have the time to get into it? Probably not as yet, but the challenge would be to make the communication and flow of information at a level that I would understand as an SME because I am part of delivering that output.

Darren Caplan: Pino makes a good point. We all have to get more into this as an issue. You have the devolved bodies. You have LEPs. Network Rail is moving towards route devolution. We see it as a positive, because locally you have more input into what is going on, particularly on enhancements. For example, with northern powerhouse rail, Transport for the North will be key to the work they do.

The financial side of it is interesting, and how that adds to what Network Rail is doing is to be determined, or we need to see more about it. In our submission, we looked at Transport Scotland and the work it is doing with its various regional transport partnerships. That might be something we need to look at in more depth. We all need to get more understanding of how route devolution and local bodies have an input into developing the system.

Q46 **Martin Vickers:** What if the priorities at national level conflict with those the regional bodies are putting forward? Does that add a further layer of difficulty?

Darren Caplan: I think the Committee might be seeing Network Rail in a month or two. I am sure that is a question it will be interested in answering. Some of it remains to be seen. We think it is a good thing if it goes on the right path, and if the right kind of things happen. As a sector, we will have more client bodies. We might have nine or 10 client bodies instead of one, so that will spread our risk in terms of our suppliers. There can be benefits to it as well, but, clearly, if you have more people involved in the decision making, you could have more conflicts in the sector. You will need to iron that out. We have got to the point where we have to make sure we iron that out before we do anything about routes, but at least it is a positive move.

Q47 **Chair:** It sounds to me as if you are not so concerned about the regional transport bodies like Transport for the North or Midlands Connect, but you are more concerned about devolution and your relationship with Network Rail routes. Would that be right?

Darren Caplan: They are our clients, and London Underground and HS2 our are clients too. There will be more clients in the future.

- Q48 **Iain Stewart:** You have touched on route devolution. There are certainly lots of potential advantages, giving you as a sector more agility to input and respond to needs. Is there a risk that all these different competing projects might actually make your sector more inefficient and you will not be able to co-ordinate them properly at a strategic level?

Mark Bullock: Do you mean the regional bodies or devolution per se?

- Q49 **Iain Stewart:** I am focusing particularly on the route devolution from Network Rail.

Mark Bullock: To my mind, route devolution is a very positive thing. Recently, we have been spending a lot of time engaging with the route MDs and their teams to understand what they need. Anything that puts decision making closer to the passengers has to be a good thing, because we are more likely to make the decisions that matter to the people who, ultimately, pay our wages.

It is quite interesting; the conversations are quite different. The kind of conversations we have been having with the route MDs have been, "Explain to me your problems. What matters to you? What is keeping you awake at night? What are the issues? What is getting in the way of performance?" We can then understand that and say, "Okay, if those are your issues, we can deploy these things to provide a solution to that problem." Without the routes being there, we would never find anybody to have that conversation with. I am looking forward in the coming months and years to those relationships developing, so that we can actually start making a difference.

- Q50 **Iain Stewart:** There is a proposed system operator. Do you think that will provide an effective, whole network overview?

Mark Bullock: I would like to think so. It is a critical thing. Ultimately, it is a network and you cannot make suboptimal decisions at a local level that might have an impact somewhere else that you didn't realise because you didn't think about it. I kind of get the need for it. I guess we will see how it works.

Darren Caplan: The planning oversight group is pretty similar to that. As things stand, there is a helicopter-level view of the sector. From a trade association perspective, we don't decide between projects. They are all important and they all need to be done. It is for others to determine those.

- Q51 **Iain Stewart:** Another topic that was touched on earlier is third-party investment in our rail infrastructure. Do you think the current system of planning and delivery is conducive to getting third-party investment?

Pino De Rosa: I have had experience with a developer, and it was very much around just asking for advice. It was somebody that I had worked with in a different sector. They found it quite frustrating, in that they needed to do some work on the network, and Network Rail's people

were very committed about what they needed to do on a day-to-day basis and probably did not have the time or attention to spend with potential developers. One of their issues was that something could take 18 months, and, by the time they came back, the people they were talking to had moved to a different role in the organisation.

To go back to basic principles, if you want to build an extension on your home, you would get an architect to put some plans in and there is an agreed timescale for the answer to come back. With service level agreements, the timeframes are really important. On the flip side, I have experience of the way things work in Italy. If things do not work well in certain aspects of the planning system in Italy, it means that people do not spend money. It does not feed into the economy.

There is an exciting opportunity with external investment and looking at development around stations and hubs, but it needs to be made so that investors want to do that business and put investment into rail-related projects. The industry could make it easier.

Mark Bullock: Is it desirable to bring third-party financing into the railway? I would say that, yes, it is, because either it reduces the burden on the taxpayer or it enables us to spend funds somewhere that is equally needy, or needier. The principle is a good one. I speak for an organisation that has a £1.2 billion investment portfolio in infrastructure. The concern I have about the railways is how you define and allocate risk sufficiently clearly that it would make it a commercially viable undertaking for a third-party investor.

There are many reasons why it is quite difficult with railways, but the obvious one is because it is a system. There is an integrated network. Trying to find a piece of it where you can ring-fence risk and the accountability for managing and controlling risk strikes me as quite difficult. I do not think my brain is big enough to figure out how to do that, but, if we could do it, it would be possible. If we do not, it just would not be commercially viable. It is worthy of exploration.

Darren Caplan: Most of our members would support more work on the recommendations in the Hansford report that came out last September. There were 12 recommendations for DfT and Network Rail, and we would urge them to get on and deliver those. We take the view that if you have more investment, as Mark says, even within rail, you could spend money on other projects and parts of the network that are not getting funds at the moment. It is a good thing.

The ORR said that there was £925 million of private investment in 2016. That was a record year and it is going that way. We have to put it in perspective though. The vast majority of funding comes from the taxpayer and from the fare box. We want more private investment, but it is starting from a pretty small base. We want to increase it as much as possible.

Q52 **Iain Stewart:** You have anticipated my next question, which was about the Hansford review. Do you think the implementation of those

recommendations is progressing quickly enough? If not, what would you like to see change, and by whom?

Darren Caplan: That is part of our internal team discussions. We held an event last September with all the parties involved in Hansford, including Professor Hansford. We looked at the recommendations and how they were being delivered. We are looking to hold another event at some time in the summer to see how far we are getting with the various recommendations and whether progress is being made. If progress is being made, it would be good to have visibility of what is happening. We support it—many do—but we want to see progress on it.

Q53 **Iain Stewart:** Do you think it is sufficient just to let yourselves get on with it, or do you require more strategic nudging from the DFT or ORR?

Darren Caplan: We are nudging. We want to do an analysis of how far it has gone. We want to do an event and get the parties together to have an update on it. There is no reason why this Committee should not be saying, "Can we have an update on progress as well?" It would be good to see how we are getting on with the Hansford review recommendations.

Iain Stewart: That is a helpful recommendation for our recommendations.

Q54 **Chair:** It sounds as if the supply chain is generally positive about encouraging third-party investment in the railway. Do you see any risks? If so, what would they be?

Pino De Rosa: I suppose a risk would be organisations that are investing in rail understanding the risks as Mark spelled them out. The railway is a system, and if you create a delay on a particular route the consequences can be pretty severe. From a travelling public perspective, a timeliness perspective but also from a physical risk perspective, because trains do not swerve very well and they take a long time to stop, it is about making sure that people investing in rail understand what they are getting into. There is also the fact that there are the right controls and checks and balances to make it work. There are a lot of interesting projects all around the UK, such as London Bridge with its mix of outlets, retail, office and residential. It is pretty impressive and it is all around a busy network.

Q55 **Chair:** Is there anything else around the risks of third-party investment? As Pino says, it is understanding the fact that they are part of a network and they need to be mindful of that.

Darren Caplan: This is not so much about risk. There is another route to innovation with private financing and funding. You have some innovative ideas coming forward. It is not about working on their own; it is working collaboratively with public bodies like Network Rail. We would not think the risk was high.

Chair: Thank you very much for your attendance today. You are free to go and I will ask our next panel members to come forward.

Examination of witnesses

Witnesses: Paul Plummer and Maggie Simpson.

Q56 **Chair:** Welcome and thank you for coming along today. Would you introduce yourself and the organisation you represent for the record of our proceedings?

Paul Plummer: My name is Paul Plummer. I am chief executive of the Rail Delivery Group.

Maggie Simpson: I am Maggie Simpson, the executive director of the Rail Freight Group.

Q57 **Chair:** You have had a flavour of what is coming. From your perspective, what has been the impact of the postponement of renewals and enhancements in CP5? What has that meant for network performance, and how has it impacted on train and freight operators?

Paul Plummer: The first thing to emphasise is that obviously infrastructure is a long-term asset and needs to be planned in a long-term sense. There is an impact today, but there is also the longer-term impact of which we are very conscious. In the overall level of investment improvement that was planned for CP4 and CP5 compared with previous years, there really was a massive step change and we should be very positive about that. Of course, it raised a number of very significant challenges that you have debated here before.

In dealing with those challenges, all parts of the industry are looking to make sure that the impact on customers today is minimised and focuses on outcomes, but doing it in a way that also deals with the longer-term issues. Going back to the Hendy review, and other changes since then, all of my members—the train operators, Network Rail and freight operators—are focusing on trying to make sure that the impact is minimised and that we plan for the long term.

The impact still depends, to some extent, on what happens going forward. We need a very continuous planning process. I am sure we will come back to that a number of times. We need continued investment. We absolutely need to make sure that, as we continue to develop plans, they focus on those outcomes in a way that is joined up for the whole system. The focus has been on making sure that we minimise the impact, short term and long term, but what happens now is really important. We must continue to build on that, and plan things in that joined-up way.

Q58 **Chair:** Do you have any worries? There are large volumes of renewals in CP6, which are very necessary. Are you worried about the impacts of disruption to passengers as a result?

Paul Plummer: In terms of planning renewals—I am sure we will come on to enhancements in a minute—the important thing is to look at the whole system with maintenance and renewals together, and management of the asset in a long-term, sustainable way, focused on the ultimate outputs for passengers, freight companies and the economy. That continuous process is key. There is a lot of discussion already about control periods, which I am sure we will come on to. They should not be the tail that wags the dog. We should be thinking about continuous

planning of the infrastructure, with the trains, to deliver a service for customers and ultimately for the economy.

Yes, I have worries that, if we try to do too much in any one short period, it could cause too much disruption. If we do too little, it stores up problems for the future. What we absolutely have to have is that continuous process and mindset, and transparency about the pipeline for the supply chain and for the customers, so that we can deliver it efficiently with minimum disruption.

Q59 **Chair:** Maggie, from a freight perspective, how has the postponement of renewals and enhancements impacted on the members you represent?

Maggie Simpson: Thinking about enhancements, we have been very lucky that Government provided a strategic freight network fund in England and Wales. Similarly, in Scotland there is a Scottish freight network fund. The current control period fund is just short of £240 million. It can be managed flexibly, so, if some schemes sometimes underspend, that money can be redeployed, for the benefit of freight customers, on other projects.

When the fall-out of CP5 enhancements at the start of the Hendy process began, there were schemes within that portfolio that those of us on the steering group had to decide were no longer affordable, and they were deferred. Probably we fared rather better than some other places because we were ahead in the management of that fund and that portfolio, and we had flexibility. None the less, it would be wrong to say that there were no impacts from that.

A lot of the work on a particular scheme, Felixstowe to Nuneaton, has been deferred. We are fortunate that the branch line is still being upgraded. That work is under way now, but the benefit of the upgrade is diminished. We can get a lot of trains to Ipswich, but nobody really wants them at Ipswich. The challenge now is how to get them across the network to where they are going. The focus for CP6 will be to look to do those enhancements now, to start getting them further across the network.

There are other examples. The flyover at Werrington was deferred, as was the track work to support Kenilworth station. These have all had impacts on freight outputs, the effect of which has been that the Government have spent money on some schemes for which they are not getting an output, and obviously freight growth is hampered by that.

In the last year, for schemes that are still being progressed in the portfolio, we have seen renewed energy at Network Rail. Some of the schemes are being better progressed. There is better management, and programme boards have gone in on some of the key schemes. There is some real pragmatism at work in one or two places. I see things being better managed in that portfolio now.

Q60 **Chair:** This is the same question I asked Paul. If there is a high level of renewals in the new control period, do you anticipate that it will cause problems for freight companies?

Maggie Simpson: One of your colleagues asked about closing the railways in August. August is a great time for passengers because they are all in Marbella or somewhere, but it is a lousy time for freight because intermodal trains are trying to fill their warehouses for Christmas. One of the difficulties we have in freight is that we often want to be on the network when the passenger trains are not on the network. We want to be there at night. Two thirds of freight runs at night. Apart from the Christmas period, we often have conflict over when we want those possessions.

Equally, you can generally divert a freight train much more easily than you can divert a passenger train, assuming there is gauge capability. We are much more able to get out of the way and run on a different route. What I would like to see, reflecting on the comments about the system operator, is a really strong focus from the system operator on the co-ordination of engineering work, so that we can go a different way or have the capability upgraded, and use alternative routes and keep running, allowing the passenger businesses to take the blockade or weekends, or whatever they want to do. There is some work to be done on that by the system operator.

Q61 **Chair:** It requires a really strong system operator to avoid the potential problems that could arise if there was fragmentation from route devolution. Would that be right?

Maggie Simpson: Yes. On a route from Felixstowe to Manchester, you already have two choices. You can come down the great eastern around London to the west coast, which takes you over two or three Network Rail routes; or you can go across from Felixstowe to Nuneaton, which takes you across four. Trying to get all of those routes to co-ordinate their engineering access when they are devolved and have much more authority over how they do their planning, for good reasons, has just got a bit harder for us. That is why a strong system operator is so important.

Q62 **Graham Stringer:** The Secretary of State has made statements that, on the east coast mainline, he wants Network Rail to have an integrated system with train operating companies. Is that likely to make it more difficult for freight? The train operating companies may well have different objectives from Network Rail, and involving them in that process could cause complications.

Maggie Simpson: I still do not yet quite know what the partnership is.

Q63 **Graham Stringer:** I don't think anybody else does.

Maggie Simpson: Is it like the ScotRail alliance or the South West alliance? Is it more integrated than that? Is it a joint venture? We simply do not know. Generally speaking, the premise of rail privatisation is that there is an impartial infrastructure manager who is able to treat people equally. When you put some or all parts of that infrastructure management into a very close working arrangement with one operator only, they are no longer impartial. People who are good employees will work to the structure they are incentivised to, and that will be to the benefit of the franchise they are closely aligned to.

It is a worry. The system operator is really important. The freight and national passenger operator route at Network Rail is hugely important for our members as the voice of freight within Network Rail. Of course, there are regulatory and legal safeguards, licence conditions and so on. What I want is a success. I do not want a framework that exists purely because I have some safeguards so that when it goes wrong we have somebody to moan to. What we want is a framework that causes that partnership to deliver success in the first place.

The best example of that, without wishing to talk about Transport Scotland too much—I appreciate it is not within the remit of this Committee—is its high-level specification for the next control period for the ScotRail alliance. Its HLOS sets the alliance a target to grow freight, so all the people in the organisation are specifically targeted in a positive way to contribute to the growth of freight. That sort of mechanism is really important because it is positive, and it is not just about having somewhere to go when it goes wrong.

Chair: That is really helpful. We want to look at further detail of the control period process.

Q64 **Iain Stewart:** Paul, can I ask you to comment on an item in your written evidence? You said there should be a degree of funding in each control period that is almost ring-fenced as an insurance policy, and, if there is a cost overrun, that could be brought down without having to re-programme the whole schedule of enhancements. Could you give me a little more detail about how you would see that working and what degree of funding you think would be necessary?

Paul Plummer: One of the important points to start with in responding to that was made several times in your previous session around the focus on outcomes and outputs. If we as an industry are to be asked to deliver outcomes or outputs, there has to be a degree of flexibility in the funds provided to be able to do that.

I would argue that part of that is that there needs to be a degree of risk buffer. Obviously, everyone involved needs to make sure that they are planning to the absolute best of their ability and that they understand possible contingencies as to what might happen. There is uncertainty in the real world as to precisely what the cost of things will be when you are looking a number of years out. You need a period of stability, but you cannot predict absolutely everything.

Without some sort of risk buffer, or ability to manage flexibly the funds you have to deliver outputs, if something happens, the only thing you can do is stop work. That leads to the sort of stop-start that people referred to in the previous conversation. There has been a lot of debate about the precise numbers, and that is important, but the principle is that there has to be some risk buffer, so that the industry, particularly the infrastructure manager, can deliver outputs, and its customers, the train and freight operators, can rely on those outputs so that we can deliver the outcomes for the end customer. That is a really important principle. To some extent CP5, with there being some significant challenges and the change in the reclassification of Network Rail, made it quite difficult to deal with

those things. It is really important going forward that that flexibility is there.

Q65 **Chair:** I know you do not want to put numbers on it, but can you give us any sense of the order of magnitude that you think might be helpful?

Paul Plummer: I would rather not put numbers on it here. I am happy to send you something. If you look at the ORR consultation, that risk buffer is incredibly important. As the regulator, they take a view, for all of Network Rail's customers and funders, about what level of risk buffer is required. I would see it as a fundamental role of the regulator to make that judgment, because Network Rail is being asked to deliver outputs to their customers. The role of the regulator is to take a view on that.

Q66 **Iain Stewart:** As a point of principle, I certainly see the advantages of having that kind of flexibility, but do you envisage that within each control period you would actually have a smaller number of projects, or smaller-value projects, and then a 10% buffer or whatever on top; or would you still want to see the same number of projects and the same value, but be able to access finance from elsewhere, whether from the next control period or from some other source?

Paul Plummer: I took your original question as being mainly about operation, maintenance and renewal of the existing infrastructure, where it is important that there is an overall level of funding, ideally on a route basis so that people can manage risk at that level. That flexibility is there over a period of years.

There are slightly different questions about enhancements, where we refer to projects. In terms of operation, maintenance and renewal, I do not see that they should be around specifying projects. There is flexibility for the infrastructure managers to decide how best to maintain the assets and how to renew them. They are the experts.

On projects for enhancements where we want specific additional output, in the new system going forward, the funding will, helpfully, be around those enhancement projects. There needs to be a degree of risk buffer for those projects. Obviously if you add them all together, there may be some ability to manage the portfolio of risks, so the overall risk buffer is less. Again, I think that is a point of detail that needs to be worked through.

Q67 **Iain Stewart:** Maggie, I would like your opinion on this. We have heard that the control period cycle should be amended in some way. That could be done through a longer control period or a rolling programme. From both your perspectives, representing the operators, what would be your optimal solution to that question?

Maggie Simpson: I have absolute regard for the issues that the colleagues in the supply chain raised about the lumpiness of renewals and enhancements across control period boundaries. We see that as well. My members haul engineering trains and they sell ballast. That lumpiness bites on them as well.

Darren showed you the two-and-a-half-year charts. What is really important to remember is that a lot of those two and a half years is not spent arguing about renewals or enhancements; it is doing a lot of other things that control periods do. For those of us in freight, the setting of access charges is absolutely the critical piece of that activity, probably followed by the setting of targets and, in this control period, scorecards for that.

If we are thinking about changing control periods to address one particular piece of the technology, we have to think about what that means for everything else. I am on my third charges review and I can assure you that a rolling programme of assessing freight charges is not something that is in my or my members' interests. That is fundamental to the stability of those businesses going forward.

It is quite a complicated question. There is a link; for example, in calculating what the charges are, you need to know what the costs are because they are cost reflective. Therefore you need to know what the OMR profile is to be able to establish the cost of the charges. If you take the renewals bit under some sort of rolling programme, you start to decouple it from other bits of the control period. That is why it is complicated, and partially why I cannot give you a clear answer, or say what the answer is. There are some bits of O, M and R that happen routinely pretty much every year, and where there probably is some space for looking at whether some sort of minimum level agreement could be put in place so that people would have confidence that across a boundary they could be—

Q68 Chair: Is that the sort of constant baseline that you would look for?

Maggie Simpson: Yes. Mechanisms that could sit reasonably well alongside the other bits of control period technology are probably more appealing than rolling control periods or overlapping, or some of the other things.

Paul Plummer: I will try to give you a clear answer. There are a number of different aspects that get lumped together in regulatory reviews. There is the pricing aspect for freight operators and open access operators where there is a need for certainty of pricing. There is another issue around funding from Government and other funders who are providing funding for that infrastructure. The third issue is around planning of the asset management. I will come to enhancements in a minute.

The conversation gets a bit mixed up about those things. It is absolutely imperative—I do not think you will find anybody disagreeing, either Network Rail or my other members—that you have a continuous planning process for route asset management. Clarity and transparency around that, and the opportunity to give greater predictability to the supply chain, is key. The funding process in the conversation we are having here about control periods, to some extent, undermines that. I would maintain that it does not need to.

You can have continuous transparent planning and asset management with discrete funding periods. Globally, and in other

industries, many countries and companies would be very jealous of the predictability we have around funding. We should preserve that, but not allow it to dominate our planning cycles. As I said earlier, the process around enhancements is slightly different, so I shall not add anything further on that.

Chair: Handily, we are coming to enhancements.

Paul Plummer: I thought you might.

Q69 **Daniel Zeichner:** You probably heard in the first session some discussion around the new proposals for a scheme-by-scheme pipeline approach for enhancements. Do you have any views on what that should look like or how it could be designed to retain visibility and certainty for the sector?

Paul Plummer: Yes. Again, the point about its being a continuous process is important. We should not have a stop-start process, or a stop-start outcome from that process. It has to be owned by the industry as a whole. We have already talked about the role of the system operator. That is critically important in bringing together all parts of the industry.

It also needs to be locally owned. Devolution of Network Rail routes locally to its customers and political devolution to funding bodies helps that enormously, as long as we glue it together through the system operator. It has to be transparent. What you ultimately want on a project and programme basis is for decisions to be made about funding and output at the right time for that project.

In a sense, that is what we did not have with some of the issues around CP5, because a lot was put into the process. We should not lose the continuous process, and we must make sure that we build on that in the long-term planning process. Again, some of the earlier questions were key to that. It is making sure that there is an inclusive and open process. The output must be transparent and focused on outcomes. That is what the system operator needs to manage, and set up to manage and co-ordinate, so that we end up with a transparent view about funding over a period of years and a pipeline of further projects; and, when the project is sufficiently developed, we have an overall system view of the funding and outputs required that everybody recognises at that stage.

Q70 **Daniel Zeichner:** It sounds like a happy world.

Paul Plummer: It does indeed.

Q71 **Daniel Zeichner:** Is there a case for retaining a designated fund for freight enhancement?

Maggie Simpson: Yes, we absolutely think that there is. We are still awaiting a lot of details on the new process. I understand the desire to stage-gate through it in a different way and to pull it away from the necessity to be done in five-year periods. DFT assures me that this is not a process that is going to make enhancements more political, but inevitably it is because the decision gates are continuous and when a

Budget comes round we will all know. It is inevitable, because politicians are politicians. Inevitably, that will be the case.

For us, knowing that even if the schemes go through the pipeline, which they almost inevitably will, understanding that there is an earmarked amount of fund for freight over a period of time would mean that, although we would still go through that process, we could know that those funds would be safeguarded for freight. They would not be moved off on to station development or other schemes.

What does it matter? You might say, "What if there is another scheme with better value for money?" What we have seen over the last decade is that where Government have invested in the network—they have put in £600 million or £800 million—it unlocks the private sector, which is buying wagons and investing in terminals and locomotives. Having that investment from Government is both providing capability capacity and sending a really strong message about the Government's confidence in the sector.

When you can go to your members and say that there is a fund, and the Government are committing an amount of money to freight—almost irrespective of the number, although obviously it matters—so they are confident in freight, it helps people to go to their boards and make the case for investment in rail freight in the UK. Many of the businesses we deal with are multinationals. Why would they invest in the UK? Because the Government are standing right behind them. As soon as we lose that to a pipeline where a scheme gets through bucket one but then does not get any further, we start to lose that confidence and we lose that private sector investment. That is our risk and that is why we are delighted that the Government said there will be funding for freight. We would really like to see that in a fund.

Q72 **Daniel Zeichner:** What of those who suggest that separating enhancements and renewals will make it harder to put the two together? In its evidence, Merseytravel suggested that there might be cases like that.

Maggie Simpson: For me, it is an area that needs quite a lot of thought. Railways have long asset lives, so, when things are being renewed, the thing that is being renewed may be 20 or 30 years old. Why would like for like be the right thing to do? You would not do it in your home. You would not go out and say, "Can I buy a 1970s television, please?" You would buy a smart TV. Some way of moving from like for like to the modern equivalent has to be baked into the renewals process. I do not know quite where the boundary sits between a renewal and an enhancement, but there has to be some care taken.

Paul Plummer: It is an incredibly important point. Again, we need to make sure that the benefit of having funding decisions around "I want to buy an incremental output from the railway system" and transparency around that from a whole-system perspective is really important. It only works on top of a well-managed core asset, and sustainable management. Separating the funding decisions can be powerful as long as we do not separate the thinking about the best way to manage the

asset and deliver overall outputs; otherwise there will be an efficiency loss or additional disruption to customers. We have to make sure that we keep the focus on the overall system even if there is incremental funding transparently provided through that process.

Q73 **Chair:** How confident are you that that is appreciated in the planning ahead?

Paul Plummer: I am confident that it is understood in Network Rail and in train operators. It is critical. If you look over the history of the last decade or so, there was a big conversation some years ago about how we join up enhancement and renewal to make sure that we make the best use of public or customer funding to deliver enhancement. It is a fair question. We need to make sure that the broader stakeholders are reminded of the need to join that up, otherwise we will not be as efficient as we can be and we will cause more disruption than we need to.

Chair: We want to look at the long-term planning process now.

Q74 **Steve Double:** Some of the evidence we have received suggested that the long-term planning process was too reactive and not strategic enough. Would you consider that a fair point?

Paul Plummer: Again, it is important to look over a number of years. We have in the last two control periods, CP4 and CP5, made very substantial investment. In a sense, a lot of that was catching up with growth that happened over a number of years, and there was crowding and congestion as a result. There were really important investment projects where that growth had been largest, and, inevitably, a lot of it was in the south-east. It was responding to growth that we had seen over a number of years, with crowding, congestion and increased fragility of the network as a result.

We have to keep doing that. As well as that, the opportunity going forward is to look at infrastructure investment in rail, or transport more generally, that can generate further economic growth. Devolution politically can be an important part of that, as well as other changes. There is the opportunity to say, "Well, if the infrastructure could deliver this connection between those cities or these regions, it could generate this economic growth." The railway or other modes can respond to that challenge. It is a very much more proactive challenge, but I do not think we should be too negative, given where we came from. We had to play that period of catching up on previous underinvestment. Now we need to, and can, look forward much more proactively at what extra generation of economic value we can create.

Q75 **Steve Double:** Picking up on that point, other bodies have produced multimodal strategic plans. Do you think it makes more sense for a strategic plan to be conducted across different modes rather than confined just to rail?

Paul Plummer: Absolutely. The thinking has to be around that. The railway, Network Rail, train operators and freight operators need to work with regional bodies and Government on infrastructure that can deliver outcomes, outputs and economic growth. Increasingly, though, rail is an

important part of the transport system and the end-to-end journey. In many markets, it will remain a really important part, but the mindset is that it is part of it. It is not the whole end-to-end journey. Customers who experience the end-to-end journey are passengers for the part of the time when they are on the train. The whole mindset needs to be, and is being, broadened to reflect that.

Maggie Simpson: A lot of the planning process in freight was really instrumental, particularly back in CP4, in starting to bring to the table the schemes that are either done or being done. In particular, there are schemes that are not necessarily about adding conventional capacity but about gauge clearance and train lengthening, which allow you to use capacity more efficiently. At the port of Southampton, we have seen a 6% to 8% market share shift from doing gauge clearance on that corridor without any extra trains running, simply because you can load those trains much more efficiently. Construction companies are now running massively longer trains than they were capable of doing before, using every path on the network much more efficiently. That has been unlocked through enhancements that came from the long-term planning process.

There is some fair criticism that it has been too infrastructure focused and it has not looked at other operational solutions, and perhaps has not looked enough at some of the small technology, as well as digital railway, in terms of traffic management. It is not a full LTMS. It is the timetabling software and those things. There is some legitimacy in the fact that we are playing a little bit of catch-up on that, but I do not believe it to be a failed process.

The point that Paul made in response to your question about multimodal is really important for us. The National Infrastructure Commission study on freight that has just been announced is probably the first time for a long while that there has been a systematic look by Government at what the economic value of freight movement is to the economy. That is a really important question for us, because one of the issues that rail and road freight faces is that people do not see the value of it. People tend to see it if their delivery is missed or something like that. Understanding what it does for the economy helps you to make multimodal decisions. Studies like that, which add to the mix, are really important.

Q76 **Steve Double:** Paul, your written evidence suggested that the long-term planning process could be supplemented by a clearer rail strategy. The Department issued its strategic vision for rail in November last year. What else would you have in your document that is not already covered in its vision?

Paul Plummer: Governments have an absolutely critical role to play in setting what the nation wants to buy from the railway, ideally in output/outcome terms. The industry has a really critical role to play in informing those decisions and then finding the best way of delivering them. The implication of that is that Government strategy should remain at a relatively high level. It should be informed by the industry long-term planning process. These are people running today's railway. We should be

involving the supply chain as well. That expertise needs to feed into it. It should not get into too much of the detail, but it must provide a steer and a longer-term view, so that industry can plan and deliver efficiently, and can engage with the supply chain and customers efficiently on the detail.

Q77 **Chair:** Do you think the process as it operates at the moment does enough to encourage and enable innovation?

Paul Plummer: We need to look at a number of different aspects. There is a long-term planning process for the development of the railway to deliver more outputs, more seats, more trains and more reliable services. There is a whole load of related work, which sits alongside that planning process, around the technical strategy. It needs to iterate what the railway could deliver in terms of economic growth and what technology is changing. Those things have to iterate with one another.

The technology leadership group, chaired by Network Rail's director of safety and technical engineering, bringing in train operators and freight operators and the supply chain, is really important. That is an area that needs to sit alongside railway planning. It needs to involve a broader audience because it looks much further ahead.

The other area a bit like that is skills. As a nation, and as a railway, we need to make sure that we are investing in skills, and that we are bringing young people into the railway and addressing some of the skills gaps. It is a long-term initiative, and again it requires engagement right across the whole industry, beyond rail planning.

Q78 **Chair:** Maggie, you seem to be suggesting that maybe there is a focus on enhancements at the expense of looking at other things that could make the system work more effectively. Is there anything you want to add on the innovation question?

Maggie Simpson: Yes. Don't get me wrong; I am not suggesting that we should not go ahead with an enhancement programme. It is hugely valuable. I certainly feel that, across the rail freight sector, we probably have been behind the curve on technology. The difficulty my members face is that they compete with road freight on price and, unless they can make a commercial return out of a piece of innovation, it is very difficult to make the business case for it. There is a role for the customer base to try to set an expectation of what they want to buy from their rail freight operations, as from their road freight operations. But in a lot of the technologies that cut across the interface of track and train, there is absolutely a place for DFT and Network Rail, RDG, RSSB and other bodies in that space to make sure that those technologies can benefit freight operators as well as passengers.

We were all delighted with the announcement a few weeks ago that there was real progress on the RTMS fitment for freight locomotives, because it is absolutely transformative for our sector. It will mean that we can continue to operate as it gets deployed across the network. It will give flexibility for people to manage their fleets in a coherent way. That is an example where it has worked really well. A lot of the technologies we

need to deploy are in that space, where it is a whole-network technology, in effect.

Paul Plummer: Chair, would you mind if I supplemented my previous answer? It was very much at the level of industry strategy. The other aspect of innovation that is arguably much more important is local. The opportunity that exists now, with the creation of devolved businesses within Network Rail working in partnership with train operators and with their supply chains locally, is to create more of that innovation locally.

Your questioning earlier was around standards and so on. The opportunity to challenge standards is important; not to ignore them, but to challenge them in the proper way. There are smaller opportunities locally for management teams that really own their business and own the line of sight to the end customer. That is where there is even more opportunity for innovation on a smaller and more continuous scale.

Chair: Thank you; that is helpful. We would like to look at the question of regional infrastructure and regional investment.

Q79 **Martin Vickers:** Would you say that there is an unjustified regional imbalance in rail infrastructure funding? How does that affect your different views of the industry and the problems it may give you?

Maggie Simpson: I would dispute that on freight funding there is any systematic regional disparity. When reflecting on that question, it depends on how you name your scheme. If you call it Felixstowe to Nuneaton, it makes it sound like a southern scheme, whereas actually trains on that upgraded infrastructure will carry on to Scotland, Manchester and Leeds. They will deliver a benefit across the whole route, because if the trains are better loaded and more efficient there will be more of them and fewer lorries on the road.

We are spending strategic freight network money on gauge clearance at Immingham—as you will know, Martin—enhancing access to the port of Liverpool and looking at train lengthening in the Buxton area to enable 2,600-tonne trains to come out of the Peak district quarries, matching what was done on the midland mainline a few years ago. Schemes from Southampton and Felixstowe run all the way up the country. They start at the port, but the work carries on all the way up the country. We are clearing gauge into some of the terminals. In Yorkshire, the east coast mainline will be gauge-cleared all the way to Scotland and beyond. I absolutely think that we have seen regional disparity. In fact, the part of the country that is least well served for rail freight is London and the south-east. We see very much more modal share and more volume on rail freight going to the midlands and the north of England.

Q80 **Chair:** Because your key customers are in different parts of the country.

Maggie Simpson: It is partly that and partly because land values are so expensive in London. Trying to innovate and build new terminals in London has been hugely frustrating. A number of schemes are still stuck in planning, or have given up and gone away, frankly, in one or two cases, whereas we have a scheme at Daventry, and iPort at Doncaster is

opening any day. If you drive past the big scheme at Kegworth, you can see it is in development. They have just got their first pre-lets on the warehousing there. Those schemes are being built today. The scheme at Kegworth is a £100 million scheme. It is a big investment, with something like 7,000 jobs. We cannot get planning for those in or around London. The land value is a real headache.

Paul Plummer: Part of the answer to your question comes back to what I said earlier about the history, and the focus over the last decade and the last two control periods on catching up on previous underinvestment, dealing with the growth there has been and the crowding and fragility of the network as a result. Inevitably, a large proportion of that growth in absolute numbers has been huge in London and the south-east. That is part of the story around the history.

In percentage terms, the growth of commuting into other cities and regions around the country has been even greater in many cases, with what has happened around the structural shift of employment, urbanisation and the importance of connecting those cities. In absolute terms, it may be lower but in percentage terms it is higher. It is from a lower base of capacity utilisation as well.

Going forward, combined with the opportunity to generate economic growth rather than just respond to growth, there is a greater imperative to look at that and deal with it more broadly. Combined with the devolution of Network Rail routes and devolution politically, the conversation around what we can do more broadly to connect communities and enable commuting to other cities, or connection between cities, is even greater now. In a sense, the history was inevitable, given the way growth happened on the railway, but going forward I believe we need to make sure that we do it in a different way.

Q81 **Martin Vickers:** Do you think that regional bodies such as Transport for the North and Midlands Connect will enhance the system? Are they just talking shops or do they have real power and resources? What difference will it make to the whole investment in the network?

Paul Plummer: I will comment on your point about investment in the network to start with, because we tend to talk mainly about infrastructure. The rolling stock and the new carriages and trains being brought on are far more dispersed, and there are fewer infrastructure investments. Those new carriages, or refurbished carriages, are much more geographically dispersed across the whole country, and that is what is enabling more and better services over the next 18 months or so. It is potentially quite a radical step change that people will notice.

In a sense, we need to judge the devolved bodies in the future. Certainly, for them to make a real difference, they need to be bodies with real decision-making ability and funding behind them rather than just people who are able to express how important it is that investment happens in their part of the country.

Maggie Simpson: From our point of view, the thing that the regional bodies are really able to do is articulate the economic importance to that

region of, in my case, rail freight. Transport for the North has been able to answer the question why effective multimodal freight matters to the north of England. It is not just that there are X thousand lorry drivers, but our businesses benefit because freight is efficient. The real strength of the regional bodies is making that link to their local economies and the transport provision they have.

The bit where I would have a slight caution is that inevitably they look to the boundary they have. Transport for the North is fabulously supportive around north transPennine links and getting freight established on that corridor; and opening up the market for Teesport, the Port of Liverpool, Immingham and key ports along that axis. Of course, a lot of the goods that go to and from the north of England will still come through a deep sea port in the south-east. It is about making sure that we can do both of those things, and that there is room in the market for both those flows to be on rail, and getting people to see that it is not always either/or but that it is additive.

Q82 **Chair:** I want to come back to something you were saying, Paul. You said that the drive to invest in London and the south-east came in part from the huge growth in demand, and being able to accommodate that because capacity had become so constrained. Do you think that the way the Government assess projects and the way the Department measures their relative benefits needs to change? Does it privilege areas where there is a very high density of population and higher wages, or will it just naturally change as the demands are different?

Paul Plummer: To some extent it should, and I hope will, evolve to reflect the narrative I gave earlier. On Mr Vickers's point, the role of the system operator is really important in making sure that the valuation is transparent, and we can have a conversation about that. You can go back to the debate over many years—back to Eddington, if you like—and the importance of the economy in making sure that our appraisal is driven by what the infrastructure can do to generate real economic growth. We have debated that for a long time. Have we embedded it in formal appraisal processes? There will be a view that, no, we have not done so. In a sense, it is part of the narrative around improvements. Regional bodies and the Government have a very strong narrative around the economy. Have we got that quantification yet? I think there is more to be done.

Chair: We want to look at some of the alliances and the new models.

Q83 **Huw Merriman:** Perhaps I could focus on the oft-stated aim to get the train operator and the operators of the track and infrastructure working closely together. I will give an example. A few weeks ago, leaving this place late on a Monday evening, I found that I needed to get a bus due to engineering works. That is fine. I cursed myself for not listening to all the announcements in the morning. Then it happened to me the following Monday: Groundhog Day. Again, the signs at London Bridge said, "Speak to a member of staff." What was interesting was that the members of staff did not seem to know what was going on. I would not usually do this, but, when I tweeted the train operator, they told me, "Oh yes, the engineering works are scheduled and listed here." In fact, it was

the following day on a different route. Even the next day, none of the Southeastern staff seemed to know anything about whether they were scheduled engineering works or not.

I mention this because about two years ago I went to London Bridge when the then Rail Minister Claire Perry brought everyone from Network Rail and Southeastern together and talked about how management were all going to be in the same place. That was two years ago, and still passengers are experiencing what I have just described. Obviously, I am not asking you to address that specific issue. I emailed both the director of Network Rail for the south-east and the chief exec of Southeastern because I wanted to join them together, but neither has yet come back with a response. Is this a pipedream or is it ever going to occur?

Paul Plummer: You will forgive me if I do not deal with your specific example.

Q84 **Huw Merriman:** No, please don't. I just wanted to set the scene for what politicians, the railway and the industry talk about and what the passenger experiences on an annual basis.

Paul Plummer: All parts of my membership—Network Rail, the train operators and freight operators—are strongly of the view that they are very supportive of devolution and of accountability within Network Rail to the route businesses, within a framework set by the system operator, so that we do not have unintended consequences. Creating really empowered local businesses is exactly the right thing to do, in order to create the right opportunity for a real, genuine partnership between route businesses and their customers, the train operators locally.

That direction of travel is very strongly supported, and the steps made along that way are strongly supported. Everyone would say that there is still more to be done to create real partnerships and collaboration locally, including in relating to the clienting, if you like, of enhancement projects, so that the route team really owns them, be they delivered by Network Rail or whatever, and can work with the train operators to communicate effectively to customers.

As I say, the direction of travel is strongly supported. There is more to be done on that. The examples you give about communication to end customers not being as good as people in the railway would like show that it is not quite there yet. The changes that are being made in Network Rail and creating those partnership opportunities are exactly the right thing to achieve it.

Q85 **Huw Merriman:** Looking at the amount of money that is now being spent on the railways, and therefore the amount of work being done on the railways and the pressure on Network Rail and the supply chain to deliver it, by definition the train operators are going to be even more duty-bound just to accept whenever Network Rail can fit them in. I would have thought it would be even more of a challenge now than it was 10 years ago, when there was not as much spend going to the railways. That is why I am a bit cynical about whether this is ever going to occur, when

Network Rail ultimately holds all the cards and everyone else is just desperate for it to get the work done on their terms.

Paul Plummer: As I say, there is the clienting of investment projects being done locally by Network Rail teams. One of the things that does, in terms of your previous evidence session, is to create the opportunity for the supply chain to engage much more with train operators directly and through Network Rail. The supply chain can see opportunities, as can the train operators, and joining that up with Network Rail locally by having plans owned at a local level presents significant opportunity. In essence, that was at the heart of what Professor McNulty said in his report. Other studies have been done around the opportunity for different ways of access and communicating better with customers so that they can plan their journeys with less disruption.

Q86 **Huw Merriman:** If the train operator is the one selling the ticket, and therefore ultimately gets grief when things do not work out, in the way I have just described, don't you think it makes sense for the train operator to take control of the track?

Paul Plummer: I think they absolutely have to be part of the local partnership and owning it locally. Their taking control and taking risk for the infrastructure is a huge ask. There is a very different set of skills in running the train service, managing long-term infrastructure risk and delivering projects. What we have to do, and I really believe the changes being made will enable this, is to bring those decisions together locally in a way that we have not yet done.

Q87 **Huw Merriman:** To flip it the other way, Ms Simpson, does the devolved way of looking at things from a train operator perspective—I know there is a system co-ordinator for Network Rail—cause challenges for the way that freight is looked at from a national perspective? Freight may suffer if indeed this is the success that I doubt it will be.

Maggie Simpson: There are a lot of negatives in that question, but let me try to unscramble it. For us, a key part of Network Rail's devolution is the establishment of the freight and national passenger operators route, who are the clienting body for freight. They have a direct relationship with the freight train operators and an evolving and good relationship with the ports, the terminals and the end customers. If one of my members wishes to get some information from Network Rail, they go to the freight and national passenger operators route. We are pleased with that route. It is coming together well. We like it. Separately, the emerging plans for a strong and independent system operator are also really good.

There are things in the mix that are helpful. The distinction with the freight and national passenger operators route is that, to a very large extent, it does not own any asset. If one of my members wishes to have a new connection to the network, freight and national passenger operators might do some of that facilitation, but ultimately it is down to the geographic route to schedule that work and do it.

The concerns that the freight community have around routes and the devolution of Network Rail are about how we leverage freight outcomes for geographic routes whose incentives and interests are very much about their passenger businesses. The more contractual you make that in an alliance or a partnership, whatever it might be, the more those concerns arise.

We see some fabulously good examples of Network Rail, across the routes, being really great, and we see some absolute shockers. Some of my members were called into a meeting with a very senior Network Rail route person last week on an operational issue, not a safety issue. The issue needed fixing; nobody was disputing that. They were threatened with a ban: "You will be banned from the network if you don't sort this out." That is not the behaviour of partnership; it absolutely is not. Yet in other places we see some fabulously good behaviour.

One of the things about devolution is that it gives you the opportunity to benchmark. I will spare their blushes by not telling you which route that was, but I do not want to be in a position where we have to go to the freight and national passenger operators route and ask them to police other bits of Network Rail. That is not how it should work. We have to have a framework that causes those routes, alliances and partnerships to behave in a very positive way, not just to freight but to any other operator who is not the one in the alliance.

Q88 Huw Merriman: Do you think the system operator will have the powers to benchmark and pull up poor practice, so that best practice reigns, or will it just become even more siloed?

Maggie Simpson: There is still a question about how much power and authority the system operator will have, because you can read different perspectives on it, even just in the responses you have had to this inquiry. There are people who see it as providing a service; there are people who see it as being an authority, and pretty much everything in between. That is not quite tested yet. I would certainly like to see it have quite a lot of authority over the bits of network management that sit within its gift, particularly around timetabling and engineering planning. I am not sure to what extent it will have any say-so over the behaviours of the routes.

Q89 Chair: On integration of track and train, we have been through a number of different versions of alliancing. What do you think needs to happen to make it really effective? Obviously the east coast is one of the places where it will be tried out next.

Paul Plummer: Ultimately, what we want to achieve is not a particular contractual structure or a particular alliancing framework; it is the behaviour locally between the person who owns and manages the long-term infrastructure and—

Q90 Chair: Does it come down to personalities or is there a structure or process that makes it happen?

Paul Plummer: When it works, collaboration and behavioural working between the teams is very positive. Mutually supportive and mutually

challenging teams work together, caring about the end customer. I believe that you can help to facilitate that in the way the contractual arrangements are set up, aligning the incentives and making sure that the infrastructure incentivises in the same way as the operations. Ultimately, that does not guarantee it, and we need to make sure that we put in place arrangements that make it more likely. You can see it happening in different places and not in other places. We need to make sure that all the arrangements are pushing people in the same direction.

It is also about the capability of the teams and making sure that we support teams locally—providing best practice and benchmarking in terms of driving performance so that everyone is learning from each other. Within Network Rail, they do an awful lot of that in RDG around the national taskforce. We make sure that the route and top teams learn from best practice, but ultimately it is the behaviour you want locally, working collaboratively as part of an overall network.

Q91 **Chair:** I would not anticipate that freight operators would be in alliances, Maggie, but I do not know whether there is anything you want to add to that.

Maggie Simpson: If we were, the passenger operators would begin to realise what I have been talking about for all these years. For us, vertical separation is quite an important part of having a competitive rail freight offer. It is a fairly fundamental part of the structure. Paul's points are well made. This is about getting people to collaborate and work effectively against a shared set of outcomes. For me, it is not about vertical integration; it is about collaboration and co-working.

Q92 **Chair:** Our last set of questions is around the role of third-party investment. What appetite is there for greater involvement in investing and delivering rail infrastructure among train operators and the freight industry?

Paul Plummer: There is huge appetite, and the changes that we have talked about already in terms of devolution are a massively important enabler for that. It creates that clienting within Network Rail, and ownership of the asset management plan locally is a key enabler. If other people are going to deliver investment on the infrastructure, the train operators have an important role to play, as do the supply chain, to bring those local conversations within the conversation of the system operators that we talked about. It enables that; it does not guarantee it.

To achieve it, we need clarity about the pipeline of further investment and revenue streams, because financing things requires a revenue stream, be it from the end customer, local developers or regional bodies. There needs to be clarity about risk-sharing arrangements. What is happening is an important enabler, but there are other enablers that Network Rail in particular is working on post Hansford that the supply chain, train operators and freight operators need to work through together.

Q93 **Chair:** Maggie, you argued that operators should not have to pay a premium to access privately funded or financed infrastructure. What

other revenue streams do you think are available to enable third parties to invest in the railway?

Maggie Simpson: The question of third-party investment is really broad. I have members who are investing in the railways. They are investing in terminals, wagons and rolling stock. What they are not necessarily investing in is sleepers and overhead wires. I think you have to define the question, and you have to think about what you mean. We have port members who are making cash contributions to the upgrade of schemes. In Martin's constituency, the regional development agency has some money that is going into gauge clearance of the network down there. There are tangible examples of third-party investment in rail freight schemes.

Where it is different is when you start talking about third-party financing. This is not about cash contributions, wherever they come from, whether a roof tax or other things. It is about using money from somebody other than Government to finance the construction. An obvious example of that is High Speed 1, where freight charges are more than twice what they are on the rest of the network. The access is very limited. There is a completely different control period process, so as well as going through control periods for CP6 at the moment, there is also a PR19 on High Speed 1 charges. It is regulated differently. That is fine; it is what it is. It is a piece of specialist infrastructure, but if we start having a privately financed East West Rail with its own control period, and a privately financed Skipton-Colne with a different set of charges and a different regulatory structure, how do we hang that together in a cohesive national rail network?

Some of those questions need to be addressed. Where there are routes where freight can operate, how do you enable it to pay a premium? Road freight is not paying a premium when there is a smart motorway. That just makes us more anti-competitive and we go back on the road.

Q94 **Chair:** Are passenger operators saying the same thing, Paul?

Paul Plummer: Yes, I think so. Everybody wants the opportunity to get more funding locally from various sources, because otherwise we will not be able to afford to deliver the improvements people want to see. There is a huge amount of investment in trains and carriages. That is slightly different, but on the infrastructure we need to make more use of other sources, otherwise as a nation we are not going to be able to afford what we want to do to improve. That is what everyone in the railway should be focused on.

Maggie Simpson: It is important to remember that, if an additional charge is applied on a passenger train, through the franchising process it gets adjusted ultimately either at bid time or, through no loss, no gain, into its subsidy or premium profile. It does not follow that paying that additional charge will cause a wobble in what the customer pays, whereas for us it would, so it is distinct.

Chair: Thank you both very much for giving evidence today. That concludes our session.

