

Transport Committee

Oral evidence: Rail infrastructure investment, HC 582

Monday 12 March 2018

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

Questions 204 - 283

Witnesses

I: Nigel Harris, Managing Editor, *Rail Magazine*; Mick Lynch, Assistant General Secretary, National Union of Rail, Maritime and Transport Workers; Tammy Samuel, Partner, Stephenson Harwood; and Professor Andrew Smith, Professor of Transport Performance and Economics, Institute for Transport Studies, University of Leeds.

Written evidence from witnesses:

- [National Union of Rail, Maritime and Transport Workers \(RMT\)](#)

Examination of witnesses

Witnesses: Nigel Harris, Mick Lynch, Tammy Samuel and Professor Smith.

Q204 **Chair:** Welcome, and thank you for coming along today. I am supposed to remind members of the public and witnesses to make sure that any electronic devices have been set to silent. I am a bit surprised that we do not have a bigger audience for such an important discussion.

For the record of our proceedings, please can the members of the panel introduce themselves?

Mick Lynch: I am Mick Lynch. I am the assistant general secretary of the National Union of Rail, Maritime and Transport Workers. I look after the infrastructure side of the industry, obviously mainly Network Rail.

Tammy Samuel: I am Tammy Samuel. I am a partner in the rail team at law firm Stephenson Harwood.

Professor Smith: I am Andrew Smith, professor of transport performance and economics at the University of Leeds Institute for Transport Studies. My specialism is in rail, and I lead our rail research group there.

Nigel Harris: I am Nigel Harris, the managing editor of *Rail Magazine*.

Q205 **Chair:** Thank you. When the regulatory framework for rail infrastructure was drawn up, it was drawing on the experience of regulating the privatised utilities, which are obviously pretty different from our rail sector. In retrospect, was that the right approach to take? Andrew, what is your take on that?

Professor Smith: In the historical context, thinking back to when we had state-run industries not just in rail but across the utilities, a key problem was that Governments would specify what they wanted from those industries and how much money they had on an annual basis. Those two things were not always consistent, leading to industries having historical problems of under-investment and trying to get by on limited budgets.

Whatever you think about privatisation, it was one of the successes of privatisation that we were able to get away from that. The central figure in that is the independent regulator, who ensures that what the Government request from the industry is consistent with the amount of money they are putting in. That is particularly important in the railways, where the Government are actually putting in some money.

In my view, it was right to have an independent economic regulator. Of course, that was when we had a privatised rail infrastructure manager. It is different now, but it is an interesting model—an independent regulator with a state-owned company—and to try to make that work, to get the



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best of both worlds, essentially, was, I think, the right thing, and remains important.

Q206 **Chair:** Is their focus right in being essentially on efficiency and driving down cost with a monopoly provider? Do you think that is the right approach?

Professor Smith: There are some lessons from other sectors. In energy, there was a move a little bit away from being efficiency focused along the control periods of eight years, with greater focus on innovation and a lighter touch. In railways, we have had such a continued and historical situation of very high cost that the pressure on efficiency needs to remain. I do not think that we should be taking that away at this point.

Tammy Samuel: If we look at how the railways were privatised, we had a very similar structure to other regulated utilities. There was a network that was difficult to replicate. There is only one network and only one thing that other people can then provide services over, and that provided a model for electricity, oil and gas and telecoms. In essence, we still need one network. We do not want lots of different networks; we still want one. We still need to get the network benefits. Whether we need such a huge centrally managed and operated network now is something we are rightly taking a look at. Does it mean that Network Rail has to do everything? Does it have to own, operate, manage and renew every little bit of the railway? I am not sure that that is necessarily the answer now.

There are still some things that we need to do and maintain from a system perspective. Therefore it is right that we are moving towards a centralised system operator function, but lots of the other bits of Network Rail can probably be devolved now.

Q207 **Chair:** Do other members of the panel want to come in? Mick, I appreciate that your position will be that you do not like the privatised railway, but, in terms of the regulatory framework we have in the system as it stands, do you have anything to add?

Mick Lynch: We do not even accept the idea that they are independent. There has been a lot of tension in the industry for the last couple of years around outside infrastructures involved in the DOO dispute. We think there is an obvious tension between the ORR being the safety regulator and the financial and operational regulator, whichever way you want to term them. We would like to see two distinct regulators in that sense.

Everyone keeps going on about the independent safety regulator, and there are at least three bodies I could name that claim to be that, or are labelled as that in the media. We would like a stand-alone, independent safety regulator that is not under the control of any stakeholder in the industry. That is an issue we want addressed.

It might be surprising for you to hear, given the current incumbent at the DFT, that we would like Network Rail to be directly responsible to the Minister and the Ministry. We think it should be a people's railway. We



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think that there are too many people influencing the ORR. They are not strong enough as a regulatory body. If you are going to be dealing with the Minister through the ORR, we think that you may as well deal with the Ministry and the Minister. There could be ways in which Network Rail itself is structured that would give it more independence. I do not know what happened to the regulatory board that they had themselves; nobody ever hears about it and I certainly do not know who is on it any more. We used to be involved at one stage.

We could put a better structure into Network Rail, but we should have direct accountability to the Ministry. I am not sure what the ORR offers, apart from having a number of people who sit between the industry and the Ministry. We would like it to be directly responsible to the Minister, with an independent safety body sitting aside from that.

Q208 **Chair:** Nigel, is there anything you want to add on this point?

Nigel Harris: It is interesting that the regulator's role tends to have become about Network Rail. I have been around from the start, and I remember in the early years that the regulator was there to protect the interests of the private sector from political risk, which included the TOCs, yet we only ever talk about the regulator's role now with regard to Network Rail. As you said yourself, I find it bizarre that we have drifted into the position where the regulator is almost second-guessing and man-marking Network Rail on every decision, which is hardly a good use of time, or any use at all. The fact that it has become more or less all about Network Rail means that it is time for a major refocus as to what the regulator is actually for, and does, certainly after reclassification, because that changed the whole basis of the industry and what they were there for and to do.

Q209 **Martin Vickers:** I would like to look a bit further into the effectiveness of the current relationship between Network Rail and the regulator. Perhaps you could comment on whether or not you share Professor Anson Jack's analysis that the current regulatory system is too focused on establishing efficiency targets rather than promoting investment in the network. Ms Samuel, would you like to come in first?

Tammy Samuel: What you essentially get is Network Rail giving the ORR what it thinks needs to be done on the railway. The Government then come in and say, "This is how much money we have and the high level outputs we want." There is then an adversarial to-ing and fro-ing between the two of them, deciding what the outcome is and what the numbers are going to be, and building in efficiencies.

Does that mean that investment happens? Undoubtedly, investment is happening. We are all paying lots of money through our taxes and fares to invest in the railway. As a passenger, I think the railway is getting bigger and better. Are we seeing improvements? Yes, we are seeing improvements and investments. Does that have to be matched with efficiency? I think it does. There needs to be more focus on efficiency.



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The ORR needs to look at that and say, "What are we trying to achieve for the passengers? How are we spending this money and how efficient is that expenditure?"

Is there investment? Yes. Should the focus on efficiency go away? I do not think it should. It should be focused on efficiency. Investment without efficiency is just wasted.

Professor Smith: To some extent, I agree with the previous speaker. Given the scale of the money going into the railways, efficiency remains central. Arguably, the two things go hand in hand. Getting efficiency savings could well involve the ORR, or somebody, taking a broader industry perspective. We did some research looking at the question of how you incentivise investment in a fragmented railway industry. Clearly, there are significant issues around having train operating companies with relatively short time horizons focused on delivery with small margins, making sure that the operation works and that they can make a profit over the seven to 10 years, combined with Network Rail's five-year regulatory control periods. There is the additional problem of cash limits being imposed part-way through the regulatory control.

Overall, we felt that it was very difficult to plan on a whole-system, whole-life cost basis in the current railway. That view came across very strongly from the interviews. Other railways have holistic thinking, particularly in Germany, which has a holding company structure where the holding has a wider industry perspective, albeit through one dominant operator, which creates other issues. Whether it is a question of the ORR changing what it looks at or whether it is more about changes to the structure, more vertical integration may well be the solution.

Mick Lynch: Efficiency is a word that is used all the time to us and our members. It does not have a definition. Nobody knows what it is—the efficiency everybody is looking for. If it means getting more work done for the same money or less, or in a quicker time period, you can understand that. What we tend to experience is a proliferation of middle managers and accountants all looking for efficiencies. It tends to come down to the man or woman on the track in the orange outfit who has been told, "Your terms and conditions are a bit expensive." Efficiency without a definition is now Government policy, but because it is Government policy we cannot actually tell you what it means. From our point of view, every time we see people driving efficiency, it is the holy grail but nobody has ever seen it.

Lots of industries have retooled and reimagined how they work, and it has historically cost a lot of jobs over the last 40 years or so, since the 1970s. We have to have a definition of what efficiency means for the workforce, and the people who are associated and come into the workforce on the casual side, so that we can tell people that they have a secure future. The ORR does not ever seem to think that we have to modernise or bring people with us. It just says, "Get me more efficient



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railways but I am not going to tell you what efficiency I am looking for," or at least we have not seen it.

The documents we have seen lately do not contain a definition that gives us any comfort. We think that ultimately it will be a squeeze on the workforce. The efficiencies they have tended to go for over the last 20 years have meant tens of thousands of people leaving the industry, insecure employment, casual employment, zero hours, tax dodging and all the rest of it.

It has not made a particularly modern railway and there is a lot of waste. People such as Carillion come into the industry and claim to be efficient, and then they disappear. There are lots of others. There is a proliferation of white-van man. There is not enough regulation, as far as I am concerned, and there is too much slackness. From the top, it looks very efficient, but at ground level it just looks like a drive to the bottom. Some people regard that as efficient, but it is not acceptable to us.

Nigel Harris: I agree with Anson. He is in a position to know. I think we have the best railway we have ever had, but it is very expensive, so by definition it is inefficient and there is plenty of room for improvement. We have bureaucratised the drive to that through a very top-down, input-based system, which has driven some perverse reactions from Network Rail. I had some very lengthy and quite lively arguments with a former chief executive, who said, "The ORR is my customer."

While any organisation will respond to the greatest pressure being put on it, and I understand why you get there, the ORR is not Network Rail's customer. Do we go at it from another direction? We have also bureaucratised through the GRIP process exactly how you get infrastructure work done, which adds cost, time and expense.

Devolution is showing the way. Should we be looking at the other end of the process by having really engaged frontline decision making that knows what it is doing in an engineering sense and from the point of view of what the customer wants—the people who pay for it: the passengers, the taxpayer—and drive the efficiencies that way, rather than from a very top-down and very bureaucratic process that makes Network Rail think that the regulator is its customer? That cannot be right.

Tammy Samuel: I agree with Nigel. On gaining efficiencies, we have Network Rail and the ORR looking at what is efficient, when actually a lot of the time train operators want to get things done more efficiently and quicker, and may want to get things done cheaper. They may think that different benefits can be gained for their customers, but there is not always discussion between Network Rail and the TOCs as to how to do that. If there is that discussion, the jointly created benefits are often not shared between the two parties.

There were efficiency benefit sharing schemes, of which I am sure you are aware, that the ORR put in place as part of the current control period.



They have not been widely utilised or used, because it is very difficult to see how they will bring benefits, and what the advantages, disadvantages and risks are for each party and how they are shared. I definitely think there should be something around efficiency, but not just leaving it up to Network Rail and the ORR to determine. Other people should be involved as well, including the TOCs, who are close to their customers.

Q210 Chair: Do you think there is clarity, as Mick said, about what efficiency looks like? Casualising the workforce probably is not very efficient, because when you need skills you end up having to pay a lot to bring them in from somewhere else. Do you think that the ORR has a clear picture of what efficiencies look like, and what it is looking for?

Professor Smith: There is a bit of a philosophical question about the role of a regulator. The role of a regulator ideally should not be totally to duplicate and simply do the job of the regulated firm. In that sense, they have to step up a level. They need to avoid the micromanagement problem.

The ORR sets out what, at least to my mind, is a fairly clear definition of efficiency but it is at quite a high level. It is saying that it wants certain outputs at essentially a lower cost. Those outputs can be defined differently. They could be final outputs in terms of quality, volume of traffic or passenger volumes. They could be more intermediate outputs, such as the volume of a renewal taking place on the network. My view is that they are defining it in a sensible way at a sensible level.

In this particular area recently, my personal view is that the ORR has got down into what I would describe as bottom-up benchmarking, where it is challenging Network Rail's plans. That is a valid thing to do, but it has lost a little bit of what I would call the more top-down benchmarking, of setting some benchmarks based on external information. Although it is difficult to do, we should not abandon that approach.

Q211 Graham Stringer: I want to follow up with a regulatory question. It seems to me that there is one absurdity and one anomaly in the regulation. The absurdity is that Network Rail is nationalised. What does a regulator mean to a nationalised body? If you fine it, you are fining the taxpayer and recycling money. It is not really an incentive, so it is a pretty absurd thing to do.

The anomaly, which has not been mentioned, but was a scandal when the railways were first privatised and I think it still goes on, is that the ROSCOs—the leasing companies—are unregulated in a regulated system. They have basically been able to name their own prices for leasing trains to the train operating companies. Do you agree that one is an absurdity and one is an anomaly, and that both should be rectified?

Mick Lynch: I certainly do, because it goes to the point. The DFT has lots of civil servants setting the policy. Presumably, they drive the ORR's outlook. Then another set of people—maybe civil servants or semi-civil servants, whatever their status—are delivering some of that policy. You



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have to go through them when you respond as an industry, whether it is Network Rail or a TOC, and then they go back to them again. We have the same thing with pensions. Everywhere we go, you have the person you are speaking to and then a shadow person behind them, who may be pulling the strings or responding to an answer.

It seems that with everything we do there is repetition. You would have thought that efficiency would be looked at from the bottom up; where are the small gains? A lot of businesses will tell you this. You look at the small gains all the time in your business to make efficiencies. When they tried that with the South West Rail and Wessex region alliance and the alliance in ScotRail, it was a complete disaster. They fell out with each other all the time. They have been directed by the authorities to come together, and, of course, they have two sets of accountants who say, "Well, you can't give that away; you can't co-operate." Everything we do is adversarial, even between the two groups of people. Then there are the civil servants and then the ORR people. Then there will be other people, no doubt, that we do not know about, pulling some strings somewhere else.

I think the whole thing is absurd. It just seems that we need an organisation that sets policy and another organisation that delivers it, and they are accountable to the people who set the policy. The people who set the policy are accountable in here, presumably, and to the people. We just have too much bureaucracy, and too many people telling each other what to do, it seems to me. The whole thing is absurd. It could be the Indian railway or something like that. We have more bureaucracy than workers, it sometimes seems to me.

Tammy Samuel: I will touch on the ROSCOs. I have always said that if I had a pound to invest at privatisation I wish I could have invested in a ROSCO. In my personal opinion, in some senses they got a good deal from privatisation. They had long-term contracts—

Q212 **Graham Stringer:** They ripped the system off.

Tammy Samuel: There were three set up with the flexibility to say, "I can go to three and get an offer of rolling stock," when in fact the rolling stock does not fit on every single line. I have to say that since then we have had lots of new rolling stock built. I act for manufacturers and financiers of rolling stock. That market is incredibly hot at the moment, and the prices are going down. There are some very good prices for brand-new rolling stock, and the ROSCOs are being priced out of the market now. Newer parties are coming in and giving good deals, to the extent that almost brand-new trains are being pushed off lease early in their tenure because the pricing is so good at the moment for new rolling stock.

The ROSCOs are still very powerful, and they offer a good service to TOCs. They like having the ROSCOs on board, but the current round of



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private financing that is coming in is driving down rolling stock costs. That is having a profound effect on the rolling stock market.

Q213 **Chair:** What do you think of the implications of the possibility that almost new rolling stock will be displaced and have no role on the network? You talk about efficiency, but it seems ridiculous to have things with an asset life of 30 or 40 years sitting unused.

Tammy Samuel: What will happen is that the older rolling stock will go off lease and the new trains will come in to replace it, which of course is good for the end passenger. Eventually, there will probably be a tipping point when new financiers coming in, backed by pension funds on perhaps very low margins, may start realising that there is a chance that their rolling stock will not be on lease.

I do not know if you are aware that at the beginning of the rolling stock leasing market there was something called a section 54 undertaking, where the Government basically said, "We will use your trains for 20 or 25 years." That gave the financiers or the ROSCOs the certainty that they were going to be used for 20 or 25 years. That is not a feature of the current market, so a rolling stock financier is taking a view on these trains, and saying, "Yes, I think these trains are needed."

I do not want to make this all about rolling stock financing. I could talk all day on it and I can send you an article that one of my partners has done on it if you are interested. Financiers look very much to what they call sticky rolling stock, which is rolling stock with particular characteristics that can only be used on a particular franchise, because they want to be able to finance it.

The big advantage of private sector financiers is that they will finance over 25 or 30 years, and then their financing is paid off. Then the trains are owned by whoever, or whoever can buy them. It is not the ROSCO model of continually leasing older trains. It is an interesting area, but probably not for today.

Q214 **Chair:** I am in danger of letting us go down a side road that we should not be thinking about.

Tammy Samuel: I can send you an article that one of my partners wrote on this particular point, if you are interested.

Professor Smith: Coming back to the Network Rail regulation point, what I would worry about if we took away the regulatory body for Network Rail is that we were going back to the days of British Rail, and there would just be some annual negotiation between DFT and Network Rail about how much money they would get. I guess private investors in the railway would be quite concerned about that, because there needs to be some independence to make sure that Network Rail has enough money to operate the network and provide that it is operating efficiently.



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There is a place for the regulator. Reputational incentives for Network Rail management, as well as performance incentives, can be a way of making that model work. Obviously, one other way of making it work is to privatise the routes eventually, if one wanted to go down that route.

Q215 **Chair:** We will leave that hanging for the moment, Andrew. Nigel wants to come in.

Nigel Harris: I recognise the point that Mr Stringer made. One individual at the time of privatisation turned a £100,000 investment into a £30 million return a few years later. Those years are long gone. Tammy is absolutely right. Since then, the ROSCOs have invested very heavily.

To add to Tammy's point, it would not surprise me if, in a year virtually, brand-new rolling stock going off lease, maybe a year or two years old, will turn up being leased at a loss to the ROSCOs of 20%, 25% or 30%. You do not have to store a train for long before it starts growing mushrooms on the seats. They will not want that, so there is potentially a brilliant deal for the taxpayer just down the line of some virtually brand new trains turning up on some of the franchises at real knock-down prices. The ebb and flow of the market will show itself.

Q216 **Chair:** We will get off this branch line and get back on to our main point.

Mick Lynch: Some companies make their money out of spares, by the way. That is why they want new trains, with new sets of spares that last 30 years, so you have to keep buying from them. That is why they are so keen. They could make ones that work without spares in the first place.

Chair: Let us get on to some of the practical problems around rail control periods. Are they too short or too sharply defined? Do they lead to lumpy investment? Daniel is going to take us along that track.

Q217 **Daniel Zeichner:** This goes back to the point that Andrew raised just now about yearly financing. In some ways it is a point about all public sector investment. I suspect there are plenty of parts of local government that would love to have a five-year timespan at the moment.

We have the five-year control periods at the moment. We have heard from some witnesses that that leads to a lumpy process where it all gets spent at the end. I guess that can always happen, whatever length of time you have. The Office for Road and Rail Regulation tells us that there is no reason why Network Rail could not even it out. We wanted to get your views on that. Do you think the problem is in the control period process, or is it with the way Network Rail is running it? I am looking at Andrew and Tammy first.

Professor Smith: It is worth thinking about what has happened in other regulated sectors. In energy, they have certainly moved to eight-year controls. That was partly about trying to give a longer-term perspective in an environment where there was need for innovation, and concern about making the networks resilient and so on. It was moving away from a sweating-the-assets efficiency perspective to a slightly longer-term



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perspective. I am not totally sure that Network Rail is quite there at the moment, given that there is a need for cost pressure.

The other worry in other sectors, which might be less concerning for rail, is that, if you make the control period very long, it means you have to wait eight years for any benefits to be passed on to consumers. That is probably less of a concern for rail, so I am a bit sceptical of the need to lengthen the control period. It is not clear to me that there is a very strong case.

Q218 Daniel Zeichner: Can you explain for me why lengthening the control period means that it takes longer to pass on the benefits to consumers?

Professor Smith: The way that economic regulation works is that basically the prices would be fixed. In the water case, the water bills would be fixed for eight years. If the company can do very well in that eight-year period, it can make some profit, and at the end, if it has done very well, the benefit will be passed to the consumer in the form of lower bills, but you would have to wait eight years, rather than five years, for that to be done. There is a kind of a trade-off. Eight years gives a longer period for the firm to make a profit and drive stronger incentives to get their costs down, but it means that the consumer has to wait a little bit to get those benefits.

Q219 Daniel Zeichner: Isn't the relationship between regulation and consumer benefit in the rail industry rather different?

Professor Smith: Yes, I think so. I was just trying to set the context for some of the arguments about the length of the control period. I think they are less relevant in the rail sector. Overall, I do not see a particularly strong case. Clearly, having a longer control period arguably gives Network Rail a longer period to plan, but it does not strike me as a particularly strong case compared with the others.

Q220 Daniel Zeichner: What do the others think? Longer? Shorter?

Tammy Samuel: I would like to see it tied in with the length of the franchises, with more similarity with when the franchise is let and the control period, and having franchisees involved in how and when those moneys are spent, and when is going to give the most passenger benefit. In some cases, that might mean longer, and sometimes it might mean that five years is the right length of time. It will vary from business to business. They are very different businesses, depending on where you are with Network Rail and how it ties in with the TOC and the customer benefits.

Q221 Daniel Zeichner: That would be quite complicated, wouldn't it? You would end up with multiple control periods depending on where the franchises were.

Tammy Samuel: With increased devolution, how you manage with one regulation is going to be very interesting anyway. We have a separate



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regulation at the minute for High Speed 1. Transport for London is having a new infrastructure manager for Crossrail, so that will be slightly different as well. We are moving to a stage of multiple infrastructure managers, and that might mean different control periods for each infrastructure manager.

Mick Lynch: There is a definite problem with its lumpy, stop-start nature. That is a profound problem. Network Rail are forever cancelling prospective jobs. They are cancelling actual jobs all the time, every week and every night, because they cannot plan or they have run out of money. Our understanding of the previous control period is that they spent an awful lot of money at the beginning and did not leave any money, or not enough money, to be smoothed across the five years. That has meant that vast pieces of kit are left idle—for instance, high output operations machines that cost a lot of money and have a lot of capital investment. There are machines and people with extremely specialist skills left idle, either because they do not have enough money or because the routes, as customers of the centre, will not spend the money at this part of the control period; they have to manage it, and they limp over the line. People accuse councils of doing this every Christmas—spending the money before April or not, whichever way it is. We are getting that on a grand scale.

They definitely have to be taken to task on that. It is a feature of the control period. I do not know whether they fear that, if they do not spend it quickly, somebody might take it away from them. I do not know how that would work, but there is definitely project fever in Network Rail. When they get the money, historically they have committed it very quickly.

For the workforce, it means that they cannot rely on the industry to give them work over that period. We are dealing directly with people who are being laid off and who have very specialist skills. They have 35 years' service and we are reliant on them. I go to see very senior people and say, "You know you are getting rid of two dozen people up there in the north-east whom you will need in CP6." They say, "There is nothing we can do." I say, "Can't you bring any money forward? Can't you find it somewhere else?" They say, "No, it is all locked down."

These are all definite problems. They need better financial management. Maybe in the relationship with the ORR and the way it is directed, rather than just giving them so much discretion, there ought to be more direction, which is why we think the DfT should be more involved: "These are the things we want to achieve on the bigger project and the enhancements, and this is when you will achieve it and report back to me."

In the industry, we are dealing with plcs delivering subcontracted work. Those construction companies are fairly substantial. They want the money up front because they are committing hardware, people and



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design capability to the project. They want it all up front, and they only look to the next financial year, rather than the whole control period. We believe in a longer control period, by the way. I will be quiet now. We think it should definitely be over a much longer timeframe, out to 15 years if possible, so that you have a national project for a national railway and not this stop-start financing.

Q222 **Daniel Zeichner:** Do you have a view, Nigel?

Nigel Harris: Mick has a point about the lumpy spending. We have short memories. If you look back to CP4 and read the Bowe review, the opinion was that Network Rail had not done a bad job in CP4, but of course our opinions and our judgments are, not surprisingly, driven by the catastrophe of CP5 for one reason or another. That has been absolutely awful. The big thing in it, of course, was the reclassification of Network Rail. It had a hard debt ceiling put on it of £30 billion. It could no longer move stuff to the right or just borrow more money, which the regulator and the DFT had connived in over previous periods. Going cold turkey off that was never, ever going to be easy.

We are starting to get through that period now. Certainly in the language about CP6, Peter Hendy and Mark Carne are talking absolutely clearly: the first year of CP6 has to be achieved properly and wisely to get off to a good start—everything that CP5 was not. We are not looking at Network Rail having consistently performed badly as an organisation over a period. There was a huge change with reclassification that drove all sorts of things completely out of the window. We need more spending.

Over the 20 years I have done this job, I have heard the contracting industry say, “Look, all we want is consistency.” Mick is right about that. If you are investing in big yellow equipment and you want to train apprentices, and you then have to lay them off, not buy equipment and when the jobs come you have to hire equipment and hire agency staff at higher rates with lower skills, it causes all sorts of problems.

To answer the question, five years would be fine if we got that right. I do not disagree with Mick that 15 would be great. We always look at the bureaucracy and the fine details of a top-down driven system to try to put right the problems at the coalface. We need to look at the far end where the decisions are being made. Wherever you have decisions about railways made closer to the passenger, you get better railways—Germany, Scotland; you name it.

Q223 **Chair:** I want to come back to the issue about lumpiness. I agree that CP5 colours our thinking, because there have been so many problems. When we had RIA in front of us, they said that stop-start investment was not just a CP5 issue but that it went back to previous control periods. I want to be clear. Is it inherent to control periods, or is it something about Network Rail’s culture? Is it a bit of both?



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Nigel Harris: Part of it is growing up. As I said, I have heard this argument for 20 years. I can remember Bob Horton being hauled before Committees like this when project management costs were running at 20%.

It is 20 years and that seems like a long time, but the rail industry is 180 odd, going on 20. A lot of things that we have been trying to sort out for many years are now maturing quite quickly, and there are signs of improvement. One of the things I am really wary about is throwing the baby out with the bathwater. The Treasury are not mugs. The settlement for CP6 indicates that even the Treasury have noticed that Network Rail have started to do things differently over the last year. There are real signs of encouragement in some bits of Network Rail that there are billions to be saved.

Q224 **Grahame Morris:** Following on from some of the earlier questions, I want to ask Mick Lynch about the impact on jobs and skills of the current stop-start approach to work on the railway. You mentioned a little bit about it in response to an earlier question. Would you elaborate on that?

Mick Lynch: It is an everyday problem. We have infrastructure projects. We have enhancements and lots of departments in Network Rail. We have ongoing maintenance of the railway. All of them depend on how the funding flow comes through. In infrastructure projects and enhancements, it is even more the case. What Network Rail has to do, because of the structure of the industry, is make sure that it feeds little fish to all the contractors. The contractors are forever jumping out of the water saying, "Look, I need more work, otherwise I'll have to get rid of these people, and if I lose these people I won't be able to take the next work."

It is responding in some ways to the demands of the contractors, and in some cases the contractors are as big as Network Rail. It is only an arm of their sector, but because it comes out lumpy and things get given to them and then they have to roll back because they have spent too much early on, you get lay-off and you end up with dependency on a casualised workforce. It also means that their planning is very variable to some extent. The tension between the TOCs and Network Rail at the moment is about access. The TOCs want the railway open all the time, so that they can run trains whenever they want, and Network Rail is saying, "We need to close it some of the time so that we can fix the railway and have a more reliable railway."

There are all these tensions, and that means that lots of stuff gets cancelled. They almost have to incentivise the contractors to take work in a lumpy sense, whereas if the work was more in-house, and if Network Rail had to plan to deploy its own workforce, they would then smooth that work across a much longer period. It is because of the nature of outsourcing and subcontracting. Let us not forget that there is a tier 1 set of contractors, the major people that used to include Carillion, Balfour Beatty and Amec. Then there is a tier 2 set of contractors that are labour



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only subcontractors, which is where the zero hours, the umbrella contracts and all the rest of it come in. Then there are lots of other people who appear on the railway as projects come through.

There could be tremendous efficiencies, we believe, if the work was more in-sourced, and was planned properly across the period, and there was understanding by all players in the industry—including the TOCs—that you have to have control over access and you have to stick to the plan. Getting the finances planned for five years is one thing. You then have to get the operation, the access and the flow of work planned for that period as well, as far as you can. Obviously there are exigencies and all the rest of it. There is not enough planning. There is not enough central control, in my opinion. Sometimes, it seems like there is not a Fat Controller. There are a lot of what are called stakeholders, and they end up squabbling with each other because they all want access to the money that they know is there, because they have seen it in the papers: “The money is there and I just have to get hold of it.” Your view is not about the future of the railway, if you are Carillion. It is about the future of the company and is it going to get to pay the tax bills, which they never paid.

At Christmas, Network Rail had to say to Carillion, “We will pay your invoices this week.” It was that short term, to keep that company going. That could happen again, when there are all these demands from companies about their flow. It just seems to us that the obvious answer is to bring more of that work in-house and bring those skills back into Network Rail’s control and ambit, and only use them when you need extremely specialist skills that you cannot keep going in-house. They have taken regular work, outsourced it and then made people irregular employees. That is nonsense to me. There is plenty of work to do on the railway, and we should be deploying them more efficiently.

Tammy Samuel: I want to pick up on long-term planning and the impact that can have on skills. I have seen this because I have been working with some of my clients on the move to digital signalling. We have had so many different plans for digital signalling that it is difficult for anybody to actually know what skills they will need. That applies to me as well, providing services to the rail industry. I upskill myself on digital signalling, trains and the infrastructure, and then the work just does not flow through to us. On that one, it has been changed. It was, “We are going to replace all the signalling as it gets old.” Then it was, “We’re going to do everything.” Then there were just going to be specific projects. For anything like that, there has to be a long-term plan. Whether it has to fit precisely with the money I do not know, but long-term planning certainly allows people to know that particular projects are coming up and particular skills are needed, be they building skills or legal skills. Then we can all plan.

Q225 **Chair:** Is that almost saying that irrespective of whether your control periods are five or eight years, you have to have a longer-term vision for the railway that is transparent, and everybody knows what it is?



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Tammy Samuel: I think so.

Mick Lynch: Yes, absolutely.

Q226 **Grahame Morris:** Nigel, did you have a particular view?

Nigel Harris: Yes, you need that longer-term view. Again, Mick is right about the lumpiness. Contractors who are buying big and very expensive pieces of kit, and who want to train apprentices and develop staff on an ongoing business, must have that kit and equipment ready when the time comes to use them. Of course, the maintenance of the railway is done by in-house staff, and has been since February 2007 when there was the Grayrigg accident. Network Rail brought all maintenance in-house at that point. We have all the advantages for maintenance that we talked about. It is the renewals that are done by contractors, and, yes, that lumpiness does need ironing out for everybody's benefit.

Professor Smith: It is worth pointing out that, although we talk about stop-start, we have five-year certainty. More recently, part of the issue may well have been that we imposed cash limits part-way through a control period, but that is not going to happen in future. It can be managed better in future. To give a wider context, EU legislation—if we care about that any more—has been driving towards longer-term thinking. For example, Germany has five-year multi-annual agreements. We do not have stop-start in Britain currently, in my view.

Q227 **Grahame Morris:** Professor Smith, you gave an example about the water industry. I know it is difficult to make comparisons with other industries, and maybe with other countries. It seems bizarre to me that, at the end of their franchise, the train operating companies, be they freight or passenger, have to give over all their equipment to the successor body. That seems designed not to favour the passenger or the efficient running of the railway. In relation to what we are looking at with the network, are there any comparators we can look at as to how other sectors have solved the problem? You seem to be alone in thinking that there is not a start-stop problem. Everyone else seems to think that there is.

Professor Smith: What I was trying to point out is that stop-start is relative. We have a five-year period of funding stability, which is quite a significant period of time. Recently, what happened specifically is that part-way through that period Network Rail was reclassified, and that has caused an issue. My understanding is that it should not cause the same issue going forward, because it is known.

In terms of other comparators, as I mentioned, Germany has a similar five-year period. In water, there has been some discussion about whether they will go to longer periods. Apart from the issues around passing on the benefits to consumers, they have specifically argued that a longer period could help with some of the issues relating to ironing out ups and



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downs in workload and managing the supply chain. There are some suggestions from other sectors as well.

Q228 Grahame Morris: What is a reasonable comparator in terms of the investment programme for sewage treatment and so on? They have subsidiary companies. Certainly in my region that is how they tend to operate.

Professor Smith: Yes. I guess my observation is that, at a high level, they have operated fairly successfully for many years with five-year control periods.

Q229 Steve Double: I would be interested in your views on the periodic review process, which as I understand it is an eight-step process that can take over two years to complete. What are your views on that? Is it too long? Should we truncate it?

Tammy Samuel: It is ever such a long time. You only just finish one periodic review and then you have to start doing the next one and look at it again. What you are doing is literally continually reviewing what might need to be done in future.

It will all come down to what you are trying to do, and the enormity of the task. You are looking at absolutely everything from the bottom up and every single project that may happen. That takes time. The complexity is that you need a length of time to produce the documents that are currently required. You need a length of time to ensure that the industry is consulted. You need a length of time, if you are Network Rail, to review it and decide whether you agree with it or not. You then need a length of time to have something else. The answer is that it takes as long as it does because it is a very complicated process. Can we simplify it? The answer has to be that we have to try to simplify it and make it less complex than it currently is, possibly by having fewer things that we are trying to do under the periodic review rather than doing absolutely everything.

Mick Lynch: We do not want it done on the back of a fag packet. I am sure you could do a review that is very quick; somebody decides what the figure is, and then you go and squabble about it. We do not have a fixed position on how long it should take. What we would like is that the outcome should be more prescriptive. We believe that there is too much discretion. If the country is stumping up money for the industry, it should have some idea of what it is going to get and some commitment from the people who are delivering it as to how they will do it and what will be the result at the end. It is that rather than the length of period that goes into it that is important for us.

We only get involved if somebody else is doing work that we do not know about, presumably, by the time we get to be consulted. The problem on the last one was that we bought this thing, at whatever cost it was in the last CP, and only when it is finished will we find out what was and was



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not done. There is no accountability as you go through, apart from when scandals come out, and things are announced as not being completed. Lots of things have been shelved during the period. It should be more prescriptive to Network Rail and the industry about what they are going to give the country for its money.

Professor Smith: I agree that it should not be done on the back of a fag packet. One issue we face in the railways that is different from other regulated industries is that the regulators in other industries have the luxury of 20 water companies or several water and sewerage companies and so on. They can compare companies against each other, which potentially enables them to take a lighter-touch approach. It is more challenging in rail, and a good job needs to be done. There is only one rail infrastructure manager. In the future, we have the prospect of eight routes, and that opens up new possibilities.

Nigel Harris: Very simply, I am more with Tammy than Mick. The idea of a very prescriptive process becoming even more prescriptive almost beggars belief.

Q230 **Steve Double:** Could the views of all the stakeholders be collated in a more efficient way? Is there a way of achieving that, so that we could complete the review in a more timely fashion?

Tammy Samuel: Devolution offers an opportunity. The different infrastructure managers will be closer to the train operator with whom they are working, or the train operators in some cases. They will be closer to the local authorities, and they should be able to work out between them what they want to achieve in that period. It is less about consultation, as in, "We've got this good idea; tell us what you think about it," and more about collaboration and pulling together something they all want to deliver. That in itself will reduce the amount of time.

Professor Smith: I echo that point. In other sectors, and indeed in other countries, the idea of constructive engagement has been considered. As you say, it moves beyond consultation. It actually says that the regulator may struggle to do the job of regulating the infrastructure manager, so the more you can involve the customers, the better. For example, the airlines regulating the airports, and being involved in that process, would be a bit like the TOCs regulating Network Rail. They have additional information that the regulator does not have.

Going back to the definition of efficiency, if you are trying to make an efficiency saving, it is quite hard to do exactly the same thing cheaper. It requires some innovation. If you want to try to do cheaper something that is pretty much the same, it is possible. If you are working at route level with a TOC, with a good relationship, you can find ways of specifying what you want to do cheaper working together, and that is where there are significant opportunities. It is more than consultation.

Q231 **Steve Double:** Would you agree that the periodic review could or should



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be completed earlier in the cycle, to allow the industry longer to develop its plans for delivery? Could it work by doing it earlier?

Tammy Samuel: What do you mean by doing it earlier? We have a five-year control period. Are you suggesting that we do the periodic review for the following one earlier?

Q232 **Steve Double:** Trying to complete it earlier; trying to get it done earlier.

Tammy Samuel: It would certainly fix the lumpiness of either spending it all up front or spending it all at the end, because you would know sooner what was coming in the next control period. The disadvantage of that, of course, is that you are trying to define something in year one, two or three of a control period that might not happen until six or seven years later, in which case your priorities might change.

I would probably suggest that it is more about collaboration during the control period, firming up more towards the end. I reiterate: longer-term planning over control periods.

Q233 **Steve Double:** You are saying they should be shortening the process but not doing it earlier—

Tammy Samuel: Not necessarily bringing it in earlier.

Q234 **Steve Double:** Not doing it more quickly but at the end.

Tammy Samuel: Yes.

Q235 **Steve Double:** Are there any other views on that?

Professor Smith: There are in any case some signals about the kind of overall level of funding that occur earlier. Although the final funding determination might not be made until, let us say, October for the period to start the following April, communication can and does happen earlier about general levels of funding, which can be useful for planning the pipeline.

Q236 **Chair:** We have already touched on the fact that CP5 did not go as planned. I think we all know that. We have Colette Bowe's report. She concluded that the planning processes proved inadequate given the "scale and complexity of enhancements in CP5."

Did the Secretary of State's 2012 HLOS give Network Rail an impossible task to achieve? Looking backwards at CP5 first, what do you think? I will come on to where we are going. If they were given an impossible task, why didn't Network Rail and/or the Office of Rail Regulation act to avert the problems that were coming down the track?

Nigel Harris: I suppose you are looking for an answer more sophisticated than it seemed like a good idea at the time, which in 2012 it did, but it was a vast project. The simple answer to your question, for brevity, is, yes, it was a vast amount to do, which is why the system broke.



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Q237 **Chair:** Are there any other views on the panel?

Tammy Samuel: At the beginning, there was the high level output specification, and things were priced at too early a stage, from my understanding. The HLOS and the statement of funds were available, so the question was, "What can you do for this money?" A lot of the projects that were put into that control period were just not at an advanced enough stage to cost accurately what they were going to do.

Q238 **Chair:** Everybody has said that, and it is recognised. Why did Network Rail not say, "You can't make these commitments," or why did the ORR not say that, given that it is the regulator? Why didn't the system work?

Professor Smith: The ORR has a process whereby it does not have to fix the final efficient cost at the time that it is working through the periodic review. They call it the ECAM—the enhancement cost adjustment mechanism. It seems to me that it is not necessarily inevitable that you have to take away ORR's role in enhancements just because of the problem that project planning might not coincide with the five-year period. You do not have to fix the final cost at that time.

Q239 **Chair:** But if you have allocated an amount of money and the costs are so excessive—

Professor Smith: Then you have a separate process, whereby you look at what caused the costs to change, and then DfT, as the funder, would have to agree to find the extra funding.

Q240 **Grahame Morris:** For very large projects, would it make sense to spread it over one or more control periods? Would that be beneficial in spreading the cost and the work and so on? It is not a trick question.

Nigel Harris: It needs scoping properly and then managing professionally. This is not rocket science. There is engineering like this going on all over the world every day. It is not complicated engineering. The project management is not complicated, but somehow we have made it so. Bureaucratisation from the top down is a big part of that. How is it so expensive and difficult to build a bridge that is bog standard engineering? It is not difficult stuff. We are good at doing it in other industries.

Q241 **Chair:** I am sure we will come to that in a moment. Moving on a little bit, the Department and Network Rail have now signed a memorandum of understanding setting out how the enhancements are going to work in the future. They have taken it out of the control period process and they have a "develop, design and deliver" pipeline. Is that going to fix the problem? If the mistakes of CP5 were over-ambitious, poorly scoped projects that were not properly costed, will this new memorandum of understanding approach work?

Mick Lynch: I don't know. I used to work in the construction industry myself, and in my experience very little worked on time and to price. It is the approach that HS2 was built on. You say, "Here is the work packet,"



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which is a big section. "Go off and design it and deliver it at the price we have dictated." It is not that unusual. Whether it will work in the existing railway, I do not know. With a greenfield new railway it is easier to do, but the problem in the running railway is all the other factors that come into the equation; people want to use it at the same time, you cannot get the access and all the rest of it.

I do not know. We think that Network Rail should be the guiding mind on enhancements. They should be in control of them. We would like them to have more direct involvement, but it may mean that other people do the enhancements and Network Rail starts to become a peripheral figure in enhancements. We do not like that as a trade union, and we think it is a dangerous thing for the railway, because it will start to fracture. They will have to prove for themselves that they can manage these projects. Everyone knows that the last period was not a period of glory for them, but they will have to get better project management. They keep telling us that they have all these private sector attributes and people from those sectors who can do it. I imagine that is the way things will be. Whether it will work or not, I do not know; we will have to see.

Q242 **Chair:** Do any other members of the panel want to comment on this new memorandum of understanding approach? Is it sufficient? Is it going to work?

Nigel Harris: There is no shortage of intention to make it work. Anybody who believes that Network Rail enjoys being in the position it has been in for the last few years would be perverse. There is an intense desire for it to work, and year 1 of CP6 will be crucial. They have to spend it wisely, hit the ground running and do it properly. The pipeline thing is a good idea, and there is no reason why it should not work, provided there is not a lot of re-scoping, de-scoping and political changes in scoping. That is the death of projects; it rips them apart. The direct answer to your question is that there is no reason why it should not work and every desire that it should.

Q243 **Chair:** Is there any evidence that it is starting to work, and that Network Rail has started to respond to that memorandum of understanding and put things in place that give us confidence going forward?

Nigel Harris: We are too early into it at the moment.

Q244 **Chair:** It is too soon to know.

Nigel Harris: It is too soon to know, and much as I would love a crystal ball, I do not have one at the moment.

Professor Smith: My feeling is that it could work. I cannot say whether it will. What worries me is that there is potentially a lack of ORR scrutiny and that you will suddenly take enhancements out of the ORR's remit. Who will adjudicate whether the money that DFT is providing is sufficient for the job and all the interdependencies between operations, maintenance, renewal and enhancements? OMR will be under the



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jurisdiction of ORR and the other part will be under DFT. The devil could be in the detail of how that aspect works.

Q245 Huw Merriman: We have talked a little about the deficiencies of the control period process. The Government have decided to take enhancements out of that process and establish a continuous planning pipeline approach to enhancements. Can I ask each of you if you think that is a correct decision?

Nigel Harris: Yes.

Huw Merriman: That is straight to the point.

Professor Smith: To reiterate what I said a few minutes ago, I can see the benefits, but I can obviously see the problems that have emerged previously, and I worry. My feeling is that I would like to see ORR still have a role in that process as an independent regulator, to ensure that the funding and outputs agreed between Network Rail and the DFT are consistent.

Q246 Huw Merriman: Perhaps I could add a supplementary question and then we can carry on. Do you think that if enhancements are outside the control period process—separate from renewals and maintenance—there is a risk management issue, because two separate functions are going on in a separate timeline process?

Professor Smith: Absolutely.

Q247 Huw Merriman: Do you feel it is a risk, or is that perhaps overstated?

Professor Smith: I think it is a risk. It could be managed by putting it back as it was, but, assuming we are going down this route, it is important that there is a clear ORR role to ensure that there is, first of all, consistency in what is being asked for and, secondly, reconciliation between what is happening in the enhancement projects and what is happening on the running operational railway.

Tammy Samuel: There has to be a view across the whole of the railway, and a decision taken on big issues such as capacity, what it looks like and how you enhance capacity, and that influences what you might do in operations, maintenance and renewal. Certainly what you do not want is a complete disconnect between the two. If you have a complete disconnect, you could be agreeing to enhance a piece of railway that Network Rail is planning to do OMR on.

The division of the two for other reasons—for planning purposes and for additional scrutiny over the design and how to implement it—is a good idea. We need that. Why do projects overrun? They overrun because they were not rightly specified in the first place, or things came up during the planning that meant what was specified in the first place was not right, or you make expensive variations as you go along, which becomes very expensive. A separate planning process does not mean you should not look at the system as a whole and develop it as a whole.



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Network Rail has talked about competition in enhancements, having different people coming in to do the enhancements, and potentially owning, funding and financing enhancements. You open up a whole new stream of financing if you can do that and get it right.

Mick Lynch: Obviously, we want it all done in-house. Apart from that, we believe that Network Rail must be a controller. If third parties are going to come in and do that work, or joint ventures and all the rest of it, it has to be in charge. You do not want too much diversity and things going pear-shaped because nobody was telling them what to do.

I know that Network Rail is saying, "Well, see if you can do it better," because it has been criticised so heavily when it was trying to get work done on our Victorian infrastructure. It is, in some ways, looking forward to other people coming in and seeing if they can make money, and make better time and use of how the railway works. They are quite interested in seeing that comparator. They are not fearful in that sense, as a senior management team. They are telling us that they welcome it, because it may actually show that they are not quite the white elephant that everybody likes to make out. They always have done that about the railway, going back years.

It is a tough job to get enhancements on, and run the railway underneath the enhancement at the same time. It is a very difficult process. When you come in from another sector, even if you are an experienced civil engineering company, you have not had the responsibility up to now. It depends how far that responsibility goes: "Well, you run that railway for that period, because we have to run that, satisfy the TOC, satisfy the Government and all the stakeholders." It depends how much you are going to say to the people doing the enhancements, "You are entirely responsible."

If you just throw a bit of concrete down and Network Rail takes the can anyway for any disruption, you have not really done it, whereas Network Rail has to do both of those things at the minute. They are quite interested in it themselves, from what I pick up from them. They think that some of the interested parties will want all sorts of indemnities and the contracts padded so much that they cannot fail to lose. We have seen that before in lots of other sectors. In nuclear power, for instance, they said, "We'll build it, but you've got to make sure we make some money before we commit any risk." How much risk they will put into these projects as private enterprise, as it is called, we will have to see. I do not know.

Q248 Huw Merriman: I will come back to Mr Harris because I asked a supplemental question of the other three members of the panel. You said that you thought it made sense to have the split. Does the success or otherwise of this come down to whether Network Rail can properly co-ordinate, keep some level of control and project manage both arms?



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Nigel Harris: As Andrew said, when you make changes, you create risk. As in all aspects of the railways, it is how you manage and discharge that risk that determines success or failure. Tammy outlined that those two arms would have to be properly managed and co-ordinated, so, yes.

Q249 **Chair:** That is a mixed bag. Who is the person who makes sure that we are not doing operation, maintenance and renewal on the same bit of track at the same time as we are planning enhancements? Who ensures that there is no inefficiency? Is it Network Rail?

Nigel Harris: It is the system operator emerging in Network Rail now, and it would be a key role for them to tie all that stuff together so that it works.

Q250 **Chair:** Do they have everything they need in terms of power and status to be able to do that?

Nigel Harris: It is a work in progress. The system operator is unfolding its wings as we speak.

Tammy Samuel: You can take a really narrow system operator approach and say that all the system operator is there to do is what is required by law: capacity allocation and charging. That is all that is required from that independent body, but actually what we are seeing coming out of the ORR and consultation is that that body is going to take a greater role in tying the network back together. There will be devolved management at the roots, but a fairly big centre of Network Rail will be the system operator looking at how you tie those back together. As Nigel says, what that will be is still evolving. Is it the ORR, the system operator or the Government who need to look at how things work overall, and set the policy and the framework for Network Rail at the centre to implement?

Chair: We are going to come back to route devolution in a second.

Q251 **Huw Merriman:** Let me ask a question on the back of your question, as it were. Should it not also be the train operators? They are customer facing. In an ideal situation, they are the ones that have the disruption. They should be the guardian of their passengers, but at the same time they are so keen to make sure that the enhancement or the maintenance is done to their line that they just want to get it done. It is very hard for them to play the role I first described because they are so desperate to get the work in the first place. Is that fair or not?

Nigel Harris: It is perfectly fair. It leads me to the point I wanted to make anyway. Tammy talked earlier about having every constituency involved in running the railway. It is a system and it involves different people. What I worry about to some extent with a system operator is that it should be the slave and not the master. If we create a beast that is controlling everything but that has no accountability—set aside whether it has the skills; it certainly does not have the incentive to manage the sort of things you are talking about—it has to drive back through the system from the bottom end, so that we get the railway we want, as specified



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through the high level output and what the operators actually do on the thing. We must not let that system operator determine what happens. It would be very easy for that to happen.

Chair: Hold that thought because we are going to come back to it in a moment. Before we do, Paul wants to ask about the ORR's role in the enhancements process.

Q252 **Paul Girvan:** The ORR's written submission is quite neutral on taking enhancements out of the periodic review process, stating that that is a decision for Government. Shouldn't the regulator at least have a view and potentially participate in shaping the new approach?

Tammy Samuel: If we go back to where we were at the beginning and say, "What is the ORR there to do?" the ORR is there to regulate the monopoly infrastructure and the only body that owns and manages that infrastructure, which is Network Rail. Predominantly, my view is that that is operations, maintenance and renewals.

Network Rail is not the only body that can do enhancements. Enhancements can be competed for. They can be more efficient. They can be done elsewhere. Why should the regulator necessarily be involved in enhancements when they are not part of that monopoly?

Professor Smith: I am surprised at one level that the ORR does not want to express a view, because I think they should be involved in the process. They are there to ensure that Network Rail has the right amount of funding to do the job it is being asked to do. I think private operators and investors in the railways would want to see the independent regulator having a role there, so I am surprised that ORR has not been pushing for that role.

Chair: We are keen to talk further about devolution. Nigel has already touched on the potential tension between route devolution and a powerful system operator. Iain will lead on this topic.

Q253 **Iain Stewart:** Nigel, I want to pick up on a number of comments you have made this afternoon. You said that inefficiencies arise from a top-down planning approach that does not allow for sensible flexibility where the job is actually done. We often see gold-plating of specifications for projects that end up being vastly more expensive than they need to be to do the job in hand. There are potentially billions to be saved across the network without compromising safety. What is the optimal point of devolving decision-making powers? Is it to the route managers?

Nigel Harris: The route managing director is the guy or the lady who needs to take these decisions and manage that risk. I always wince when I hear gold-plated, because it tends to send the discussion off in all sorts of directions.

To give you a specific example, the King's Cross station throat is about to be refurbished, where all the tracks come together. They are, effectively,



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moving the junctions from between the platform ends and the tunnels to north of the tunnels, and reinstating the track through the currently disused eastern tunnel to make the operation much easier. They are also doing some work on the station.

Some of you may be familiar with the glass footbridge halfway down the platforms at King's Cross. It dates from 2012, when we upgraded the station. Owing to changes in electrical clearances—the distances between the contact wire where the trains pick up the current and when you are on the bridge—it is no longer compliant. Strictly speaking, according to the standard, if we adhered to it by the letter, we would take that bridge out. That would cost about £10 million. It is worse than that, because the minute you do that, you interfere with the core basis of the railway and you trigger all sorts of other things. A project currently budgeted at £237 million would overspend by about £150 million.

Rob McIntosh, the route managing director, looked at that bridge and said that the regulation, or the standard—the 3 metre thing—is the maximum amount of safety built into the standard for any bridge on the network. One out in the middle of the country where there is no management, no oversight and no nothing is great, but if you stand on that bridge for more than two minutes—you are welcome to try it—two Network Rail guys in blue tabards will turn up and say, "Excuse me, sir, do you mind if I ask what you are doing?" Because it is managed, Rob carried out a risk assessment, which went through the RSSB procedure, and they are now leaving the bridge where it is. That project will not now overspend by £150 million.

What made the difference? A bloke who has lots of big capital experience. He has the confidence and the backbone to take a professionally judged decision and implement it, and, fundamentally, he has the devolved authority to do so. That saved £150 million.

A similar behavioural process took place in Scotland on the electrification of the Paisley Canal branch, a five-mile branch out of Glasgow, diesel-worked. It was causing chaos when the diesels emerged into the electrical network. Network Rail priced it at £28 million to electrify that branch. In the way that Tammy outlined, the operator, Network Rail and the contractor got together and worked really hard on how they could each get the best out of that, and completed it for £13 million. I asked Rob—I think some of the paperwork was circulated—"Are you saying you could get the same degree of savings if you applied that thinking to anything and everything Network Rail did?" He said, "I can't put a percentage on it, but if you act like this, you will save money."

That may set in context some of the remarks I made earlier about the bureaucratisation of the safety process. You have a guy who is a civil engineer and knows what he is doing. He has taken the decision and the responsibility. He has interpreted the standard flexibly. It is not gold-



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plated, but he has said, "Look, do we need that full safety margin compared with a bridge out in the middle of nowhere?"

I am told by RSSB that on the entire Great Western electrification programme there was not a single example of a flexibly interpreted standard, and we all know what happened to the costs of that. To me, there is a blindingly obvious behavioural thing that devolution can make a real impact on, which enables more work to be done for the same amount of money, which keeps more of Mick's men in employment. If you read this stuff there are real signs. I understand it is going on in other parts of Network Rail, certainly on London North Eastern. It is the clearest example I have seen. When we talk about standards, it can get very dry and difficult, but there is a really easy to understand example of how you can save 150 million quid on one footbridge.

Q254 Iain Stewart: That begs a question. Do we have among route manager personnel the requisite experience, skills and gumption to make those decisions, or is the mentality ingrained too deeply that they have to obey what comes down from the top?

Nigel Harris: The current range of RMDs are all of the same mindset as Rob. Whether they have the same degree of big capital project experience I do not know, but you can always bring that in. A problem of course is that most of the people who have that experience tend to earn more than the Prime Minister, so Network Rail finds it very difficult to take them on. If you look at the numbers, you can see that, even if you only got a fraction of the saving on that footbridge across the country, we are talking about billions of pounds.

Q255 Iain Stewart: There is one further question for you before I invite anyone else to comment. You mentioned earlier that the system operator should be the slave and not the master.

Nigel Harris: Absolutely.

Q256 Iain Stewart: I appreciate that this is very much work in progress, but in terms of what we could recommend as a Committee, what specific points would make sure that we end up with that type of relationship, and not the inverse?

Nigel Harris: To generalise the answer to that, the current system puts a lot of decision making into the hands of well-meaning and probably skilled people, but they are completely separated from the business of running the finished railways. Even if they have the skills, they do not have the incentives of a really engaged client to get the best job at the best rate and get it done in the best way. When you get transport and engineering decisions made closer to the coalface, generally speaking, the evidence is that you get more efficiency, better projects and better railways. That is what the taxpayer and the fare payer want to see.

Q257 Iain Stewart: Thank you. Does anyone else on the panel want to add to that?



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Mick Lynch: We might talk about devolution again, but I would encourage Nigel not to get carried away by a couple of examples. Empowering local managers, chartered engineers and chief mechanical and electrical engineers is not a new thing. Each region used to have those people and they were prepared to make decisions. What happened as a result of the disaster of Railtrack was that a lot of decision making was taken into the centre to ensure that standards were reinforced. The whole loose nature of what the railway had become under Railtrack was tightened up.

We are not opposed to having properly qualified people making good decisions and being authorised to do that, but that is a different argument from complete devolution of the structure of the routes and starting businesses, which we may touch on again. Sensible empowerment of properly qualified and capable people is something that every organisation would want. You want your decision making as low down the chain as possible, and as close to the decision and the bit of infrastructure involved as possible. That is about confidence.

My experience of route managers is that they are not all mechanical and electrical engineers. A lot of them have come from quite peculiar backgrounds, in my experience. They have MBAs in all sorts of things, but that does not mean they have been running a railway for 25 years. It does not always mean that the people around them have come from the sector. Rob McIntosh is an exception to that. I am not saying that everybody has to be a horny-handed, 40-year railway person to make any decision, but you have to have the confidence that, as well as running a devolved business, they can run a devolved electrical, mechanical and civil engineering function, and are very well qualified, and can evolve the knowledge and qualifications as well as the budgeting, structures and all the rest of it.

The two things are not exactly the same. Business devolution is not the same as decision-making devolution. Some of that devolution is within departments. When BR used to have a massive fleet operation, it had its own rail operation, with fleet people in the regions to handle that side. You have to have the qualifications to make those decisions. It is not just a matter of giving it to them. You have to make sure that people are there and able to make those decisions sensibly at the time.

Tammy Samuel: Your original question was about the optimal amount of devolution. I suppose we already have a fragmented railway industry in some senses. We have lots of different parties. We do not want to create a system that just has new parties involved. What you want is the amount of devolution that gives you proximity to the people who are going to be using the services. That is working together with the TOC and the local authorities to have a devolved organisation that allows you to move closer to the people who are going to be using your services, and for Network Rail not to see the ORR as its customer, not even to see the TOC as its customer, but to see passengers as the customer.



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To reiterate the ownership and decision-making point, it is really important that the devolved Network Rail works with the other TOCs and has the authority to be able to make decisions and not continually be referring back to the centre. That is the slave not master point that Nigel was making earlier. They have to have enough that they can make their own decisions while being able to say to the system operator, "This is what we are doing." The system operator has to be able to carry out a function, which is to make sure that everything is tied together, but without telling the devolved authorities how they should do that. The how they should do it should be dealt with at a local level.

Professor Smith: In addition to those points, having eight routes to compare against each other in some sort of yardstick competition or framework really will enhance the regulatory framework going forward. We actually will have hard data comparisons. One route could be doing it differently and better, and we can observe that in the data. At the moment, there is a lot of discussion about challenging business plans and people saying, "Why are the costs going up?" At some point—who knows?—once you have some hard data comparisons, you can start observing that some parts of the network are doing it differently and better. Then you can start asking why. It offers significant possibilities.

Q258 **Chair:** On that point, Andrew, if you are going to have people doing things differently, do you have to accept that sometimes it might go wrong? I do not mean dangerously wrong, but, if you try different approaches, some approaches will really work, and you want people to learn from the things that work, but do you not have the possibility that some things will not go very well and you also have learning from things going badly?

Professor Smith: I suppose the answer must be yes. I do not think I have any particular additional insights. It can be easier to handle in a privately funded environment, because in that situation it is perhaps the shareholders who suffer when something goes wrong.

Q259 **Chair:** When you are spending public money, can you afford to allow that risk?

Professor Smith: But there will still be a regulatory process overseeing it. There will still be a five-year control period process; each route will have to put forward its own business plan and that will be scrutinised.

Nigel Harris: On top of the regulation, we have a risk-assessment process for the specifics where I gave you examples. That is a very clear process looking at how safe something will be and whether departure from the letter of the standard is a big risk. That goes through the RSSB process as well. There is a clear process to manage assessment of the risk and to say, "Well, we do not need that in this circumstance because that piece of asset structure is managed differently from that one." That also shields all the individuals, because a process has come up with the end result as to how you do that.



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Q260 **Chair:** I know that Mick was sceptical about the role of the system operator in overcoming the risk of fragmentation. Do you want to add anything, Mick?

Mick Lynch: We are worried about the whole process of devolution. What we are afraid of is that Network Rail just becomes some sort of standards library at the centre, where you ring up and say, "I want to do this job like this; is that okay?" and because they are the slave rather than the master they have to say, "Yes, get on with it and I'll send you the specs in the post or by email." We want a national railway infrastructure operator that will deliver a railway that we can all respect.

I think the whole devolution project is a halfway house to privatisation. The reports were not brave enough to demand route privatisation, but I am sure the day will come. It is not very far away, depending on the electoral headwinds and what goes on in the next election. Somebody will say, "This business has been innovative on this route. We are going to privatise it, either with a TOC or a third-party investment." We are in the halfway house to privatising those devolved businesses. In BR, we had profit centres and all the rest of it before we made the leap into full privatisation. People are moving the plates, and they are pushing at the more and more devolved sections. I think that will just lead to fragmentation.

There will be failure. No doubt there will be some innovation, and some people will run with it. There will be other people who will make millions and millions of pounds if they get towards a privatised railway based on the routes. There will be sections of the country that will lose out because they are under-invested or under-innovated.

We are very worried about it. We think that in the next control period, the company is going to be driven to come at the workforce. Through devolution, we think that national bargaining will probably go out of the window, or they will attempt to chuck it out of the window in the next control period. Somebody bright and innovative with devolved authority will be allowed to break away from national collective bargaining. It will cause massive industrial relations problems. We will not just be saying, "Oh, that's all right, we'll go with LNE, and next year we will go and negotiate with the Western region." That is not going to happen as far as we are concerned.

The people who get these RMDs, who might be replaced by the next generation of route managing directors who are far more in tune to the political direction, will attempt to break up our national infrastructure company. We will be left with some kind of authority that is just a licence holder, standards provider or something like that, which is what you can probably read between the lines in some of the railway press. Certainly I think that is the way the DFT wants to go. They keep telling us that the TOCs are very reliable, when they are probably the flakiest bunch of people I have ever come across. Special economic vehicles do not even want to support the pension scheme any more. It will be a push through



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devolution, which is not really what they want. They mean privatisation, and that is what the devolution project is all about in our view.

Q261 **Chair:** Are you worried that route devolution will not bring forward innovation but just a push on reducing terms and conditions?

Mick Lynch: It will bring people trying it on; that is what it will bring forward. I do not think anybody in the route is going to invent a new type of ballast or a new type of cheap sleeper. That will be done by the people who do that type of work and supply the industry. They will come up with what they think are innovations, which is getting people to work at different hours and getting our members to give up their terms and conditions. Every time we talk about efficiency with those same people, the RMDs, they go on about our members' money, how much holiday they get and when they go to work. They do not have too much innovation about what I am used to in productivity: how do you make the organisation work more intelligently; what are the engineering gains we can make; how can we make our people more skilful and more responsible? That is what I was used to in engineering in past lives. They just look at terms and conditions. They are quite short-sighted because they have been fed that the workforce is the problem: "If only we could get rid of this workforce and get another more pliant workforce, we would all be far happier." I think that is where the next stage of devolution will end up taking us.

Q262 **Chair:** But the sort of examples that Nigel gave were not about changing workforce terms and conditions.

Mick Lynch: But you can do that anyway. That is why I am telling Nigel not to get carried away. If there was proper empowerment of managers within the present Network Rail structure, those sensible engineering decisions could be made today, in this structure. Telling qualified people to use their qualifications and make decent decisions does not mean that we have to devolve all of Network Rail to the routes.

Q263 **Chair:** Nigel, why doesn't it happen now? Those people are there.

Nigel Harris: I do not recognise any of that. None of what I talked about was about terms and conditions of staff or anything else. It is about getting a lot more engineering for your money by not wasting it on process.

Q264 **Chair:** But why does that not happen now?

Nigel Harris: It is a whole range of things. A lot of it is a very top-down and bureaucratic system centrally controlled. You have a lot of people making decisions. This is a master and slave business. If you have people miles away from the railway that they are deciding on, they do not have the incentive, even if they have the skills, to really make the best of that. This is all about engineering. It is not about staff terms and conditions; it is nothing to do with that.



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Have a read of the document I have here, and what Rob actually says. If you do your engineering like this, you will get a lot more engineering for your money, which means you would need a lot more people working for you.

Q265 **Chair:** But if you were not as good as Rob McIntosh—as you obviously think he is—would you end up going, “I do not know about the engineering gains to be made so I will just cut terms and conditions”?

Nigel Harris: No. To be honest, I do not know anybody else who would follow that path. I understand the reason why Mick is taking that view, and that is fair enough, but I do not recognise that.

Q266 **Luke Pollard:** I have a quick question about the ORR and route-based regulation. This is perhaps a question for Andrew. How confident are you that the ORR can adapt to route-based regulation?

Professor Smith: That is a good question. As an economic regulator, they have basically been strengthening their team. The kind of methods you would need to use for route-based benchmarking are very similar to those you would have to apply in water or energy, and are similar to the kind of international benchmarking that has been done in the past. I know that the ORR team is continuing to apply those kinds of methods.

At the methodological level that I tend to get involved in, and given that they can of course commission consultants and academics, as all regulators do, I imagine they should be able to rise to the challenge and regulate on that basis. I do not see any reason to suppose they cannot.

Q267 **Luke Pollard:** Are there any other views?

Nigel Harris: I shared your concern right at the start of the privatisation period. John Major had the idea that the old big four would come back and be regulated as independent companies. Your fears are exactly why I thought we were better with one system and one regulator.

Andrew says that there are real benefits from it, in competition and by emulation and benchmarking, among different things. It is established in other regulated industries. I guess the simple answer is that they would have to. If that is what we, the people, decide we want the regulator to do, they had better shape up and deliver it.

Tammy Samuel: It is making sure that you are comparing apples with apples as well, and in some respects making sure that there is consistency across the piece. There are some small comparisons at the minute with HS1, but HS1 is regulated completely differently from the rest of Network Rail, so comparisons are quite difficult to draw. At the same time, yes, route-based regulation, but make sure that there is one system that applies to all of them equally.

Q268 **Luke Pollard:** That is a very good segue, because it brings me to perhaps my main fear about route-based regulation, which is layering



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devolution of Network Rail on to devolution of other transport powers. I represent Plymouth in the far south-western area, which is horrendously under-invested in terms of transport, but as a region we do not have a sub-national transport body. Transport for the North, Midlands Connect, TFL and others are building regional infrastructures. The logic behind that is that they can do transport investment better and bring more money into those areas when they have aggregation of powers.

I am interested in your expert view as to whether the double devolution, effectively, of Network Rail routes down to some areas means that local authorities and other transport bodies will be better at gaming the system, because they will have more capacity and better ways of doing that, rather than some areas that will not have the capacity to game the new system.

Tammy Samuel: Turning it on its head and asking what happens now, is that already in place and will devolution therefore give local areas more of a voice? You are just talking to your regional Network Rail as opposed to trying to talk to a central Network Rail that is balancing more priorities. I would say in that sense, with devolution moving it closer to the train operators and moving it closer to the local authorities, you might find you have a greater voice.

Q269 **Luke Pollard:** Do you think it will be a greater voice in terms of the share of funding as well? My concern is that you are locking into areas that do not have strong voices and strong additional capacity at the moment. You are, effectively, locking in a funding settlement. Perhaps not in pounds, shillings and pence, but in terms of the overall percentage figures, the south-west will still get a much lower figure than elsewhere. How strong will the south-west route be to fight, in whatever structure, for its share of funding afterwards?

Tammy Samuel: You hear about funding coming from lots of different sources. If you are saying that you will have to fight to get your share of the central Government funding pot, could you work with local housebuilders or local developers—a key thing coming out of what the Secretary of State is trying to do—to try to release some of that value and use that to improve your infrastructure? Could you be getting funding from elsewhere and not necessarily just relying on central Government funding?

You could work really closely with your train operator, the TOC. TOCs want to help fund those investments, whether or not it is through the private sector. I know that is muddling funding and financing, which we sometimes get muddled up with. The TOCs themselves can get funding through their franchising competition and their franchising commitments. If you are responsible for helping to choose who that train operator might be, you might be able to get funding in that way as well.

At the minute, you are in a situation where you are fighting for part of a huge pie that is centrally governed. A slightly smaller pie that is all yours



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might be more beneficial, with ways to make your own personal pie a bit bigger.

Chair: That brings us neatly to third-party financing and funding.

Q270 **Huw Merriman:** In case Mick thinks I am being deliberately provocative, I will fess up; this question has been put on the briefing paper and I am going to read it out. It has been suggested that I ask it of Tammy and Nigel. Do you agree that leveraging the involvement of third-party specialists in the funding, financing and delivery of railway infrastructure projects has the potential to increase innovation and efficiency?

Nigel Harris: On the basis that everything has to be done to the right standard in the right way and all that sort of thing, then, yes, I am told repeatedly that there is a wall of money out there seeking places to be invested. We would like to get it into the railway, yet we cannot seem to get it.

We have touched on some specifics about engineering costs, which would put people off. For example, if we did value engineering and flexible interpretation of standards, who knows what it might cost to reinstate via Okehampton and Tavistock, if it was properly priced? There are companies out there who have told me that they would like to get involved in reinstating Colne to Skipton or the Wisbech branch, and there is the Okehampton line.

It could all be done, but we have contrived to make it very difficult to get third-party funding into the railway. Tammy can probably speak far more authoritatively than me on that. I am just told it is there, and that we have done a singularly poor job of getting it into the railway.

Tammy Samuel: I can absolutely say that it is there. I have been working with clients for a number of years. I remember doing the rounds with clients 12 or 13 years ago, going to see Network Rail and going to see people and saying, "We've got this financing. What can we do? Can we take some of the stations off your hands? We will do up your station for you, Network Rail, in return for being able to develop around the station infrastructure. We will build you a brand new depot and in return, Network Rail, we will also enhance other areas of your network for you."

The structures are there. It is envisaged, in the various railways Act structures and access and management regulation structures that allow third-parties to come in and give financing. There is even a mechanism in them for gaining a return for that. It is called the investment recovery charge. It was used by High Speed 1 and is being used on Crossrail. There are methods available. We do not have to reinvent the wheel. We can do it in a railway context that will work.

There are pension funds and debt funds out there, and other investors, who are all interested in providing money to invest in the railway. At the minute, they are doing it on rolling stock, and there is some limited investment taking place in depots. In fact, one of my colleagues is



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working on one at the minute. There is money that can be used to enhance the infrastructure, and it can be used in all kinds of different ways.

Q271 **Huw Merriman:** You covered both existing assets and new assets there, and they would be interested in investing in both.

Tammy Samuel: Both.

Q272 **Huw Merriman:** I have to confess that I wrote an article where I talked about stations being sold off and Gatwick being the first one. To turn my argument on its head, because stations such as London Bridge are a retail experience as well as a destination, is there not a danger that, if you break that part from Network Rail, it is less of a great place to work and you start to fragment and lose the benefits of centralisation? I am arguing against myself and trying to be devil's advocate, but there must be some downsides.

Tammy Samuel: There are some stations such as London Bridge and King's Cross where it makes a lot of sense for them to be done by Network Rail. To take stations as an example, there will be a whole bunch of other smaller ones where all they need is a few more seats to make them look nicer. There might be others that have a huge car park that could be double storage. You could put flats above it or have retail there.

It is not what Network Rail is set up to do. Network Rail should not be building shopping centres or car parks, but it has the land and the real estate that could allow you to do that. It does not mean that the station cannot still be owned by Network Rail; it can, but the development opportunities around it could be huge.

Q273 **Huw Merriman:** Why don't we take advantage of those?

Tammy Samuel: Because Network Rail will not allow it.

Mick Lynch: You may deny yourself a lot of revenue if you let a third party come and take control of stations and get all the improvement money. You are denying Network Rail a massive revenue stream. They are currently selling railway arches. I was shocked to find out that they get £200 million a year from that. They are selling them for £1 billion or thereabouts; the sale is not done yet. It does not take very long to work out that after 10 years they will have given away a lot of money, and that somebody else is going to make more money out of that.

These assets can be important revenue streams. It is likely that in 10 years' time they will have to pay someone to get back the access to something they used to own, because no doubt somebody will find a clever lawyer who will say, "You've got to pay me to put your crane next to my multitude of coffee shops" where we are all going to be working in the future. There are dangers.



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It is not as if it is the parish council coming along to put up a few flower pots and a couple of extra benches in the waiting room. They could do that now if they wanted to, and Network Rail would probably let them. It will be building developers who will tell our people where they have to live and how they are going to get to work. They will say, "I want to build this here and you are going to make sure that there is an extra chord that comes up to my massive housing development that is going to be at a price that most people cannot afford."

It is not as if it is benevolence. These people are looking to make billions and billions of pounds out of a national asset. It depends whether you want a national asset that is for the people, providing a transport system, or whether you just want to keep providing profits for people who are going to exploit the people using that system.

Q274 Huw Merriman: One thing that tends to come up is that over the years Network Rail has not done things as well as—

Mick Lynch: But it does not operate most stations. It only operates 18 stations.

Tammy Samuel: But it owns them all.

Q275 Huw Merriman: It has not done things as well as they could have been done. Therefore, with that in mind, there could at least be an argument that, rather than being so bloated and having to do so many different things, it could do fewer things better, because it would be more focused to do that. In most walks of life, that argument carries some weight.

Mick Lynch: It is just a privatisation argument that you are putting though, isn't it? Why don't you say that? Let's privatise bits of it.

Q276 Huw Merriman: My streamline is your privatisation, I suppose.

Tammy Samuel: There is a joint venture, Solum Regeneration—I do not know whether you have heard of it—where Network Rail is one of the active shareholders. Network Rail put in some of the railway land, and the developer put more of the land, into the joint venture. Network Rail got the stations upgraded. It is a joint development with shared profits. There are ways to do it. There are also ways to do it where you can involve a financier over a period of time, and once the financing is paid off, the asset reverts back to the public.

Q277 Huw Merriman: Are the financiers put off by what we talked about with regard to Network Rail? Because maybe they cannot control all their risk, they are less willing to join some of the joint ventures.

Tammy Samuel: The main risk with working in the railways is that you are going to close down the whole railway, meaning that nobody can run anywhere. That is a huge risk. It is a risk all the time, whether you are building on, under, near or over the railway. There are ways to manage that. In fact, Network Rail has a contractual enhancement structure in place, with industry risk funds that you can pay into to offset some of



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those risks. It is like an insurance scheme. Maybe that is one way you can get around some of the risks. I am not talking about compromising safety, by the way.

Q278 Graham Stringer: I have a follow-up question for Mick. I am sympathetic to the argument that this leads to privatisation, but wasn't one of the problems with Railtrack, which led to people dying on the railways, that they were valued and saw themselves as a property company and not a railway company? If they get into property development, where there is a lot of profit, they take their eye off the ball and people die.

Mick Lynch: The renowned or famous accidents that happened in the run-up to them being brought back in-house were because they were not focused on the day job, which is to run a safe and efficient railway. It is possible for Network Rail to do all the things you are describing. I am not against some innovation, but you need to be careful. What people are talking about is getting Network Rail chopped up and put into the private sector so that the people will not control it in the future, but profit will control it. Profit will control those assets. If that is the agenda, I do not think it should be tied up in fancy words around getting third-party involvement. What is happening is that you are going to put it out to people who are going to make lots of money out of it for their friends.

It depends whether you want a railway that serves us as a country or serves people who want to make profits. That is a political argument. Network Rail is meant to operate the railway safely and efficiently. It is also meant to provide a nice environment for passengers and the staff at the stations. I am not against what it has done at King's Cross, Birmingham or St Pancras. They are great examples. These things can happen and you have a much pleasanter environment, but it has to be with the secure idea that it will remain a national asset and not a private asset. Safety, efficiency and transport for the people should be at the heart of the organisation, not profit.

Q279 Graham Stringer: I want to go back to what Tammy was saying about signalling. One of the difficulties with having a long-term, strategic view of the railways is the assumption that lies below that, which is that, essentially, things stay the same, whereas the real problem with signalling is that there is so much innovation going on and technical change. We have seen in this Committee real disputes about what can be done with smart signalling. In a long-term plan, how do you deal with the speed of that technological change?

Tammy Samuel: I do not have all the answers.

Q280 Graham Stringer: One or two would be good.

Tammy Samuel: What I can say is that we cannot stay where we are currently, which is the old system of visual signalling. Unless you start moving, you cannot ever get to where you want to be. Digital signalling will release capacity on the railway. We all know that capacity is very



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expensive to build. HS2 is being built and it is very expensive. If you can eke out more capacity by having signalling moving the trains closer together, it increases capacity. The prize is huge.

I think you have had some people here before talking about signalling.

Graham Stringer: Yes.

Tammy Samuel: The infrastructure itself is pretty dumb. It has little boxes, as I understand it—I am not a technical person—and the main equipment is on the trains. Essentially, a lot of it is software driven, so, provided that you can have a system on there that can be upgraded—I imagine that you have a cupboard and you can take one box out and put another box in—what that system is doing is talking to the balises on the track and telling it where the train is.

There are different forms of signalling at the minute, and, yes, undoubtedly in years to come we will have completely self-driving trains. Cover your ears, Mick, when I say that. Unless we start the process, we are going to keep visual signalling. We need to make a leap and move into digital signalling. Then, provided what you are buying is something that can be upgraded to the next level of signalling, you should, in essence, be able to future-proof it slightly. I do not know whether anybody else has any thoughts.

Professor Smith: The key point is developing the business case, because the prize is enormous in terms of capacity and performance. There are issues about obsolescence and getting the timing right for the investment to fit with everything else, and investing in lines where it is really worth it. It is not worth it on all lines.

Q281 **Graham Stringer:** Do you think the Secretary of State has got it right when he talks about not needing extra platforms at Manchester Piccadilly, 13 and 14, because the signalling will improve, and not needing electrification all the way in south Wales and across the Pennines, because signalling will do the trick rather than expensive electrification?

Mick Lynch: I do not know if the signalling handles the electrification issue. That is about the type of rolling stock and how cheap it is. It is about your ecological outlook, using diesels and all the rest of it.

Do I think the Secretary of State for Transport is right? No, never. On your other point about when you go for innovative change, there is a danger. If you take the signalling system offered to you today, by the time you have put it in and installed it all, there will be another one coming along and you will have to rework it. It does happen, and we are not against innovation and change or automation. We have been campaigning for automatic signalling systems since Clapham.

The point about the driver is that he is there to manage the interfaces. You get many different interfaces in different systems in different areas. The Eurostar has seven or eight signalling systems on it. The driver's



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main function is to make sure that all of that is working properly and regulated. Some of the time, he is not driving it himself. If you get into other areas or have to come off main lines, you need the old manual systems because it is not worth upgrading every line all of the time or all at once. Often the driver is managing all the different interfaces in different parts of the railway.

It will have to be done. The rolling stock manufacturers will push it along, because they are often the same people. Siemens will want Siemens equipment in Siemens rolling stock and in Siemens parts of the routes. Hitachi, Ansaldo and all the other manufacturers will want their stuff deployed on the routes so that they have a virtual monopoly. That is where the competition is going to come, between those providers.

Tammy Samuel: Although it is interoperable.

Mick Lynch: Yes, it has to be, but it will be about the reliability of the equipment.

Tammy Samuel: It is probably easier to upgrade software than it is to upgrade lineside signalling.

Q282 **Chair:** Thank you. Is there anything that any of our witnesses would like to add to the evidence before we finish?

Nigel Harris: All the stuff I have talked about is nothing to do with privatising or profitising the railway. It is about creating more railway for the money we are spending. That is what we have absolutely got to keep sight of. The Treasury has come up with £58 billion for the settlement for CP6, which is £10 billion more than CP5, so there is confidence, but we are not spending that money wisely.

If we constantly look at the top end, and from the top down, in a very bureaucratic system, I do not think we will get anywhere. We have to look at how we get more railway for our money. As I said earlier, it is not complicated engineering. It is being done all over the world all the time. We just need to find a way to make sure that we can do that on the railway, and create more jobs and more trains for the people who pay for it. There are some examples where we can see that happening. We should encourage that.

Q283 **Chair:** I am sure that we all want to see continued investment in our railways and good value for the money we spend. Does anybody else want to add anything?

Mick Lynch: We are not against innovation. We are not against what Nigel was saying about the empowerment of managers and engineers in the right way. What we cannot have is being a stalking horse for disintegration and privatisation of the railway. Obviously we are opposed to that. Whatever your views are, we believe that everyone can stand behind the fact that we want a national railway system. We do not want separated railways reappearing because it is not good for the country. As



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long as we can get there, we can maybe work together on it. I am hopeful of that one day, but maybe it will need a change in the political outlook somewhere.

Chair: That almost felt like a moment of consensus. Maybe that is a good point to stop. I thank the panel for giving evidence to us today.