

Transport Committee

Oral evidence: Rail Infrastructure Investment, HC 582

Monday 26 February 2018

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Members present: Lilian Greenwood (Chair); Ronnie Cowan; Paul Girvan; Huw Merriman; Grahame Morris; Luke Pollard; Iain Stewart; Daniel Zeichner.

Questions 95 - 203

Witnesses

I: Geoff Brown, Chair, Peninsula Rail Task Force; Maria Machancoses, Director, Midlands Connect; Barry White, Chief Executive, Transport for the North; and Mick Noone, Director of Integrated Transport, Merseytravel.

II: Malcolm Brown, Chief Executive, Angel Trains Ltd; Jonathan Willcock, Managing Director, Signalling Systems & Infrastructure, Alstom UK & Ireland; Rob Morris, Managing Director, Siemens Rail Automation UK; and Alan Price, Chair, Rail Sector Interest Group, Association for Consultancy and Engineering.

Written evidence from witnesses:

- [Peninsula Rail Task Force](#)
- [Midlands Connect](#)
- [Merseytravel](#)
- [Angel Trains Ltd](#)
- [Alstom UK & Ireland](#)
- [Siemens Rail Automation UK](#)
- [Association for Consultancy and Engineering](#)

Examination of witnesses

Witnesses: Geoff Brown, Maria Machancoses, Barry White and Mick Noone.

Q95 **Chair:** Welcome and thank you for coming along today; I am glad that the snow has not appeared and stopped you getting here. Please can you introduce yourselves, with your name and the organisation you represent, for the record of our proceedings?

Mick Noone: I am Mick Noone. I am the director of integrated transport for Merseytravel. I am representing the Liverpool city region.

Barry White: I am Barry White, the chief executive of Transport for the North.

Maria Machancoses: I am Maria Machancoses. I am the director for Midlands Connect.

Geoff Brown: I am Geoff Brown. I am the chairman of Peninsula Rail Task Force.

Q96 **Chair:** Thank you very much. We are obviously interested in the issue of regional disparities in investment in the railway. Is there inherent underspending on rail infrastructure in the regions outside London? If so, why?

Mick Noone: From a northern point of view, we think there is underspending in the north. Fortunately, we now have Transport for the North who are going to fight our rebalancing case on that. We totally understand that it is a difficult situation. As DFT and many other people have said, with rail investment the impacts are wide and it is often difficult to pin down exactly which area or scheme is benefiting, hence the need for NPR and Rail North. We feel the need for much more investment to come to the north.

Obviously, growth continues in London unabated, and investment in London and the south-east continues likewise. We feel that if Government are serious about rebalancing the economy, much more investment needs to go not just into the north but into the midlands. We will present our case through Transport for the North for further funding.

Q97 **Chair:** Barry, why has the north been missing out on rail infrastructure investment?

Barry White: Thank you very much for the opportunity to be here today. At the heart of it all is the fact that a lot of the decision making is based on demand and transport intervention. In the history of how business cases are assessed and decisions are made, they rely on those features in a big way. The proposals that we bring forward for northern powerhouse rail and other major strategic transport interventions for the north are all aimed at unlocking additional growth to help rebalance the economy.



We need to provide the evidence in a way that satisfies the current process, but also the scenarios that show the transformational impact that investment can have on growth. That is a really big opportunity. Our suggestion is that the process should recognise that impact more formally than it does currently, rather than the emphasis being on current users and current demand, which is inherent in the system as it is today.

Q98 Chair: Maria, would you agree from the midlands perspective? Is it that the current system does not recognise potential rather than that it feeds the beast that is London and the south-east?

Maria Machancoses: Absolutely. I echo Barry's comments. There is another element we have to acknowledge. At the moment, the planning system, in terms of how decisions are made on future investment, is very much about using a cutting-up approach: "The problem is there and we are going to resolve it here." The progression from five years to the longer term is also an interesting debate. A lot of effort has been put in by agencies such as Network Rail and Highways England to plan in a five-year period rather than two or three years.

As part of the rebalancing of the economy argument, which is where the regions are coming from, we need to look far better at planning for the long term. We must plan long term with the economy at heart, not just with the performance of the networks at heart. It is about influencing and shaping the decision making that Barry referred to earlier.

There is an argument for better long-term planning. There is an argument for better understanding that long-term planning will support a wider economy and not just the national, overall economy, but regionally. Each region has a different set of economic needs and different requirements from the transport network. One of the key roles of the national transport bodies is to articulate and help Government understand the role of infrastructure in the long term, to support the long-term economic growth of the area.

As you say, it is acknowledging how national Government and agencies such as Network Rail and Highways England give due regard to the long-term economic prospects of a region in the decision making, so that it is not just based on operational capacity and demand.

Q99 Chair: Does it make sense to analyse it in regional terms? Can you make that distinction from contributing to the overall UK economy? Does it make sense to base it in regions?

Maria Machancoses: It does. That is the whole argument and rationale we are bringing in from a national transport perspective. Our business and political leaders have acknowledged that bringing an argument and shaping national investment from a local perspective is not the right way to go about it. It is much better to bring in and understand the role of national infrastructure on a much wider scale. Therefore, bringing together coalitions of local authorities and businesses on a wider scale



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such as the midlands or the north makes a lot of sense. It provides evidence for how the economies interact with each other, what sectors or industries are emerging and the interrelationships between cities and towns. Therefore, there is a much clearer understanding of the future role of transportation. That is what Midlands Connect has done through the long-term transport strategy. There is a clear message to Government about what is required for the midlands to support economic growth.

You are quite right, Lilian, that it is not easy. What we need to do is work very closely on this idea of the rebalancing toolkit. It is a very exciting measure.

Q100 Chair: We will come to that in a moment. Geoff, you are in a minority, in the sense that you do not sit as part of one of the potential or existing sub-national transport bodies. How do you see the question of regions being left out of the picture? Does there need to be something different to rebalance that?

Geoff Brown: I certainly agree with Maria that one of the things we need to do is to take a much longer-term view. That is why 15 months ago the Peninsula Rail Task Force presented the 20-year gap plan to the Department for Transport. Incidentally, we have not had a reply to that yet.

In terms of funding, it is interesting that we look at rail from a financial point of view. PRTF looks at it from a passenger perspective, and what the passengers should be expecting. Our view is that we should have a resilient, reliable line that has capacity, comfort and a reasonable speed of journey time. That is the focus. If we can deliver that, the financial side is secondary.

On regionalisation, we are probably unique with Peninsula. In the Peninsula Rail Task Force, we self-fund. All the funding to run the Peninsula Rail Task Force comes from local authorities. We do not have the benefits of the funding that northern rail and the midlands have, but we are working towards creating a shadow sub-national transport board. We hope to recommend that to the Department so that we can get support for it.

Q101 Chair: You have made quite an interesting argument focused on passengers. Obviously, a lot of the people who would potentially benefit from improvements made in the south-west would come from further afield. Perhaps some of the investment that went into your area would benefit other parts of the country.

The DFT suggests that a regional analysis is problematic within a complex national system because benefits will often be felt in places other than where the investment is physically made. Do you think that is a fair assessment, or have they got it horribly wrong?

Barry White: You can assemble useful metrics on a regional basis. I think that is an indicator of current spending. We are really much more



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focused on the outcomes we are trying to get. One of the metrics we are using is how many people can access four of the major cities in the north of England within an hour. That is important for business and employees, so that they can access new jobs in a wider jobs market, and businesses can access a wider skills market.

Q102 **Chair:** It is about potential passengers rather than existing ones.

Barry White: If you look at increasing supply rather than simply saying, "How do you make an intervention in the current demand?" that is where you start to get the economic impact from that intervention, rather than the transport impact from the intervention. There are other metrics we can use to assess how we can increase accessibility to work and employment on a wider basis. Those can be developed over time. The transparency from regional metrics of spend per head of population is useful as an indicator now, but other metrics about how you are improving the economy are important in the long run, too.

Mick Noone: When looking at things regionally, one of the real challenges is how much it costs us to develop a business case. To give you an example, the Skelmersdale link is costing over £5 million just to get to GRIP stage 3. When local authorities are faced with the budget pressures they have, that is a huge amount of money when we do not even know whether we are going to get approval for it. Even on a much smaller scale, we are looking at a proposal costing over £500,000 for what will probably be a £14 million to £15 million scheme. Again, that might not sound a lot in the grand scheme of things, but to small local authorities it amounts to an awful lot.

Finally, in terms of trying to present a business case, fortunately the DFT now recognises the need to take the wider economic impacts into account, but the LUTI model that we need to do that is in itself a very expensive tool to use and develop. Those are some of the challenges we face.

Chair: We will probably want to hear a bit more about that in due course.

Q103 **Iain Stewart:** To what extent is it inevitable that you will get a disproportionately large chunk of investment into heavily populated areas, whether that is between London and the rest of the UK or even within a region? If you look at spending in the west midlands, I bet that Birmingham takes a disproportionately large share. How can the way you analyse these statistics be realistic? Taking Birmingham as an example, you might want to develop New Street station in a way that creates more paths in from suburban towns. The spending will not be in the towns, but it will be to their benefit that there is investment in the centre.

Maria Machancoses: That is a very good question and one that we have tested in the last two years as part of Midlands Connect. One of the things we want to make clear is that when you start putting figures on the disparity of investment, no matter which formula you look at—whether by the DFT or the Treasury—they all say that outside London it is



just not working. They all conclude that we are not investing enough outside London. I would like to build from there and move forward.

Midlands Connect had exactly the same issues as we were talking about nationally. You are quite right about the key economic centres within the midlands; as the largest second city, Birmingham was attracting a lot of interest because of capacity constraints, demand and patronage. It is an amazing, growing city, with increasing patronage figures on the commuter network.

What we are trying to do is to understand the role of the national infrastructure to support the wider midlands. As part of that debate, we have to understand through the evidence approach where the network requires more intervention to support wider economic growth. In the midlands, we are very focused on east-west connectivity. We acknowledge the fact that most of our roads and rail provide amazing north-south connections, but there is very little east-west connectivity.

When we looked at Birmingham in particular, we very clearly found that for the midlands rail hub—the scheme we are promoting as a flagship project for the Midlands Connect partnership—we might be investing in Birmingham physically, because that is the way the network is reconfigured, but doing that will open up another 10 trains per hour in and out of Birmingham, and another 85,000 seats for the region. That is a huge amount of capacity.

We are having a debate with Nottingham, Leicester and Derby about what we do with those new connections. What will be best for the midlands economy? We are having that debate with Network Rail as it looks at its devolved route approach and what interactions we need. This is not about Birmingham or London being more important. The midlands is determined to understand that we are dealing with national infrastructure and that there will always be a role for national trips and movements. Quite rightly, whatever we look at and the way we plan for it has to acknowledge the national interest.

Through Midlands Connect, we are determined to understand what options we have in the debate, and to articulate that nationally it could be important, but regionally it will make a huge difference to us. Instead of waiting for 10 years, we could really do with these things in five years. That is the sort of debate we are trying to secure from Government at the moment: exposure to the evidence, to the process and the decision making, so that we can have those discussions in an informed and mature manner.

Q104 Iain Stewart: Before the other members of the panel come in, let me follow that up. To take HS2, I do not have the exact breakdown of figures, but I imagine that a disproportionate amount of the capital investment is at the London end, because of the tunnelling to Euston and so on. That project has enormous benefits to the west midlands and indeed other cities in the north.



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That makes my point. It skews the investment figures to London, but it creates an enormous opportunity for the west midlands to provide all the connectivity to it. What I am trying to get at is how can we get away from looking at the bare figures that money is skewed in London, and Birmingham if you look at the west midlands, and look at how to plan properly for the overall benefit for the regions, rather than “You’re not getting this”?

Maria Machancoses: HS2 is a very good example of how the midlands have said, “HS2 is a huge opportunity for us.” It is phase 1 and 2, by the way. Let’s not talk about London or Birmingham; phase 2 is equally important. The way we plan for the arrival of HS2 has to be fully integrated with the way we plan for the railways and the motorways. Let’s not talk only about stations. Obviously, there will be a lot of economic activity going on around them, but let’s talk about what we will do with the released capacity that HS2 will create on the west coast main line, for instance, and therefore what new connectivity we might get out of that, and how much freight we could put on our railways.

We could also talk about the long-term planning—this is the argument—and how much consideration has been given, for instance, to accelerating the development and opportunities for housing and employment in phase 2. Let’s not just wait for phase 1. What can we put in place to do that? Is Network Rail giving due regard to the long-term aspirations of phase 2 cities, so that it is all integrated in the long term, not just five years?

In the midlands, there is a huge commitment to making HS2 a success. We are certainly not looking at how much London is getting. We are just making sure that, when it arrives in the midlands, we are ready for it. That is definitely how we are approaching it.

Mick Noone: Until the actual modelling itself changes, it will always seem that London is benefiting more than anybody else. You are quite right that HS2 will open up wider economic impacts for us all, but we have to build on that. As I said earlier, if the Government are serious about rebalancing the economy, they have to change the policy as well as the models. While they are now looking at wider economic impact studies, reports and so on, I am still not convinced that that will give the regions the opportunity to prove that transformational growth will occur there. We need that opportunity.

Q105 **Chair:** Do you accept, as a panel, the point that Iain was making, which is that a lot of the spending on HS2 will go to London because you have to do the works around Euston, but the benefits are not just limited to London? In fact, if anything, the benefits are further north.

Maria Machancoses: Absolutely. We seriously get the advantages of HS2. As I said, it is not only from the fast connectivity perspective. There are opportunities to release capacity, and new connectivity east-west. We are not looking at how much London is investing in HS2. We are just making sure that when they are planning for HS2 in the midlands, the



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wider transport network is ready for it, and that due regard is given to the interventions that need to take place. We do get it.

Mick Noone: That is why, from the Liverpool city point of view, we see a connection to HS2 as absolutely essential for growth in the Liverpool city region.

Barry White: But you can still publish figures. The transparency the figures bring to regional spend is helpful, but we would always bring it back to whether we inherently want to see a rebalanced UK economy. If we continue with the current processes and the current investment profiles for UK productivity, we have a very strong economy in the south-east, but it is a high-cost area as well. It is high cost in property and labour. In the long run, if we do not rebalance the UK economy, and have other bits of the UK with extra investment to secure that transformational growth, it will damage the UK's prospects. Therefore, when we are bringing our proposals forward, we believe it is investment in the north.

Northern powerhouse rail is one of the big investment programmes. We are working right now on the business case. That is about securing some of the benefits from HS2, so that as it comes north you have a faster train service to Bradford rather than getting off the fast train from London and then getting on a very slow train to Bradford. It is how we spread that benefit more widely, to allow other areas of the north to benefit as well.

The metrics are still useful, even if there are some idiosyncratic bits. You can look at the trends and the transparency it brings. That is still helpful to understand the picture.

Chair: We would like to delve a little further into the evidence around economic rebalancing.

Q106 **Paul Girvan:** When I look at it, I am slightly detached from what goes on, and sometimes I wonder where this investment on rail is going; we see very little of it in Northern Ireland. How can investment in rail infrastructure contribute to rebalancing economic growth across the regions of the country? The difficulty is that a lot of it is just about commuting in England. You are widening your commuting area. Are those people just coming because a journey that was an hour's commute before can be 100 miles further up and still within an hour? HS2 will provide the opportunity for people to commute from a farther distance into London, and potentially not make any contribution to the community or to the economy of that area. I am just wondering how investment in rail is rebalancing the economy of the regions.

Geoff Brown: The current philosophy is that you fund the greatest number of people or the biggest conurbations to the detriment of the smaller areas. If you continue to do that, the disparity will get much wider and you are never going to close the gap, which is why you need to revisit the imbalance in the regions. The economy has to be a key focus



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for that. For every mile you move out of London, the impact on the economy is greater, to the point where, if you are commuting from the south-west and you can reduce the journey time by an hour, it would impact positively on our business economy by about £1.2 billion. It is a huge benefit to the economy to try to improve journey times.

Q107 Chair: Is there other compelling robust evidence of the way in which investment drives economic growth?

Barry White: To look at the connection between northern cities as an example, at the moment, 10,000 people can access four of the major cities in the north within an hour. The proposals for northern powerhouse rail would increase that from 10,000 people who had access to those four cities within an hour to 1.3 million. That means people can change jobs and not move house. It means that people can move their business and have a wide network to recruit from. It makes it more likely that businesses will locate there and also allows people to take opportunities when they arise.

People who work in London talk about a thing called liquidity of employment. If you lose your job, you can be pretty certain of getting another one, or, if you take a risk and take a new job, you can be fairly confident of finding another one without having to move house. The connectivity we are talking about to create that growth allows cities to work together as an economic unit. It allows and enables growth. The independent research we have had done suggests that that type of investment can secure £100 billion of extra GVA by getting better connectivity.

Q108 Paul Girvan: Mention was made about the overall investment being worth £1.2 billion. How robust is the figure you have come up with, and how can you equate that to investment in rail?

Geoff Brown: Certainly that is the impact on businesses that was assessed when we lost the Dawlish line back in 2014. The impact of losing that line was estimated by the Government to be £1.2 billion to the local economy. There is a fantastic disparity with my colleague who said you can get to three cities within an hour. To get here today and to get back to Cornwall tonight, I had to drive 100 miles to Tiverton Parkway to get a train to London because I cannot get a decent connection back to Cornwall after about 8 o'clock this evening. There is huge disparity for the south-west. We are trying to connect with the capital, Birmingham and Manchester—major cities that can connect on a regular basis on a half-hourly timetable.

Mick Noone: We have some evidence. We have done a lot of work on what it would mean to us to have an enhanced link from Liverpool to Manchester with High Speed 2 and an east-west link on northern powerhouse rail. If I could briefly give some facts, in the Liverpool city region alone we think there will be a £15 billion boost to the economy, with 20,000 new jobs, an additional £30 million a year in business rates



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and 10,000 more people looking for a house in the Liverpool city region. That in itself generates the housing market that we need to generate the city region. We have the evidence, and I am happy to share it if you would like to see it.

Chair: We would very much welcome that if you want to send the information afterwards.

Q109 **Iain Stewart:** I have a quick supplementary. It is very difficult to anticipate likely benefits. To what extent do you look at existing projects to evaluate how they fared against the initial projections, good or bad? The example that comes to mind is the reopening of the Borders rail line in Scotland. That has vastly exceeded passenger forecasts. The economic development is quite significant, to the extent that they regret not having put in a double track but only making it single track. How much do you look back at what has happened in investment terms, and the benefits that has released, in planning for the future?

Maria Machancoses: When making the case, we look back. There are a lot of expectations on us. We look back at the impact of schemes. From our perspective, we looked at what electrification schemes and tram networks have done for the region. What we are not doing very well is capturing how that experience links in, and why, at this particular time in the midlands. A lot of the comparisons we are getting are with the London schemes. You cannot compare the kind of analysis done on the impact of transport schemes in London, or the way we go about developing business cases for schemes in London, and outside London.

Q110 **Chair:** Why is that, Maria? Why can you not make a comparison of the return on an investment in the midlands and a return on an investment in London?

Maria Machancoses: Because of the way the business case for development is made, and the data that is captured on land value return, benefits of job creation and so on. London has the scale and the mass to provide those tangible outcomes in a more quantifiable manner. If we were to explore that between cities at the moment, it would definitely show the economic benefit of linking cities such as Birmingham and Nottingham together, but the scale of the impact will be as I said; the capacity, the constraint and the demand are the tools that beef up the business cases. You cannot mirror that in other parts of the country, where the actual argument for investment is not capacity or demand; it is more about investing in a future economy and allowing agglomeration benefits by bringing cities of similar economies closer together.

We are doing a lot of research about how to fund these types of schemes and how to develop a business case through WebTAG. It always links us to the national appraisal and the national forecast for growth. It does not really acknowledge the midlands. It does not acknowledge the local economies in a better way. That is what we are asking for, moving forward.



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Rebalancing the economy is not about whether our case in the north is stronger than in the midlands or in London. It is about saying that we are determined to provide the UK with a balanced economy throughout. What we need to do is understand how those economies are evolving and what the role of transportation is in that. I keep coming back to that point. That is why we are so interested in this toolkit and how we are going to go about it in the future.

Geoff Brown: We could manage very well to examine investment in the south-west and the benefits, if we had any. I can give you a very simple example. We have a branch line that runs from Truro to Falmouth. We simply invested in putting in a passing loop. That enabled us to double the number of trains on the line. Passenger footfall has gone up by 60% and it has significantly helped Falmouth University to progress. That is a real benefit.

The 20-year gap plan that we have put in—£2.3 billion, which is a fraction of what is being spent on HS2—would give the south-west rail network the resilience, reliability and speed of trains that we desperately need. Our passenger footfall is already increasing, by about 131% in the past few years, which is twice the national average.

Chair: We come to the question about how the bias you have all identified could be corrected.

Q111 **Grahame Morris:** I think we are all in agreement. The figures the Committee has been furnished with from the House of Commons Library amply demonstrate public expenditure on the railways over the five-year period to 2016. I recognise Geoff's tortuous journey. I am from the north-east, and the levels of investment there over five years are less than those in the south-west. I fully understand Paul's point.

In trying to analyse the problem of the Committee in making representations to Ministers and decision makers, several of you identified the inherent bias in the Department for Transport scheme's appraisal methods, using different datasets. There is a bias towards large population centres; you mentioned the west midlands as well as London. Those centres tend to be doing quite well economically. How can we address that bias? Can the Government's proposed regional rebalancing toolkit correct the bias? What do you think should be in the toolkit? To your knowledge, has any progress been made in respect of modifying the proposals or developing the toolkit?

Mick Noone: From our point of view, we welcome the toolkit. We think it is going in the right direction. It gives a number of ideas about what we now need to be looking at to prove the point.

Q112 **Chair:** Can you tell us a bit more about what they are? We would really welcome that.

Mick Noone: It gives a strategic direction. It gives us a number of ideas as to how to start proving that this can rebalance the economy, in terms



of economic growth, housing growth and so on. What it does not do, and where we think it is weak, is to drill down and give us more examples of the sorts of things, both qualitative and quantitative, that prove that this rebalancing will actually take place. As I say, we think it is going in the right direction, but we need more information from the DFT as to what it expects from us in terms of how we produce the evidence—what sort of evidence they need and how we can get it and prove it.

Q113 Grahame Morris: In terms of correcting it, what criteria do you advocate should be in the toolkit to address the regional imbalance over quite a lengthy period? What are the specifics?

Mick Noone: One of the challenges, if I can put it that way, and where we think it is weak, is that current models are totally dependent on assuming no net additionality, as it is called. If there is one job, and we create something else, it just takes that job and plonks it there. It takes no account of things like foreign direct investment. That is the sort of thing we need the toolkit to start looking at and taking account of. We will be submitting a detailed response on the toolkit. Again, as I said earlier, we are happy to share our views on how we think it could be improved.

Barry White: We are working on the business case for northern powerhouse rail at the moment, which we believe can help the north-east enormously by improving links to the rest of the north of England. What we are proposing as part of making that submission is that we will submit it absolutely compliant with the DFT processes, with WebTAG and everything else, but we will include with that our scenarios for what the impact of transformational growth could be on the economy, and what we suggest for the future.

At the moment, that is useful context that could be considered as part of painting a picture, but if you want to rebalance the economy it should be much more at the heart of the formal consideration and the investment decision-making process. If we want to rebalance the UK economy, looking at transformational growth should be formalised as part of the process. The rebalancing toolkit does not get us there yet. It is a step in a welcome direction, but we think it has further to go.

Mick Noone: There are two models they always focus on: NTEM and TEMPro. From our point of view, they do not take into account local circumstances. They do not give us the opportunity as regions to present our case fully. They continue to favour the more populous areas. Again, we can give you written evidence as to how we feel that those two models in particular could be treated differently.

TEMPro, for example, seems to underestimate employment growth in the north by something like 11% to 16%. That is a serious error that we have to address. I could probably go on for ages about those two models in particular and their weaknesses. We are happy to submit those views, if you wish. I do not know whether Maria has the same view on them.



Chair: We would certainly welcome further written evidence on those specifics, if you would like to provide it.

Maria Machancoses: I will not go more into the technical element; we are absolutely on the same page on that. We want to know how the toolkit is going to be used in the wider context of rail investment. As you know, we have the eight devolved routes. As they progress, and they plan for a particular route, they are supposed to be more responsive to local areas.

STBs are pressing very hard to be part of the supervisory boards of the devolved routes and on how the toolkit could and would be utilised for those routes in terms of influencing and shaping the debate around what needs to happen along that route. They could then recommend to Government the priorities for investment. That will also be an important thing.

Q114 **Chair:** I am still not clear what is in this toolkit. Can you tell us a bit more about what is in there?

Geoff Brown: With the toolkit, the one bit missing is the passengers, as I mentioned right at the beginning. The passengers should be the main focus. You can have KPIs that look at resilience and reliability of journeys, and speed of journey times, capacity and comfort. That is a really important focus for delivery of a rail service. For example, in 2016 we lost 40 journeys into the south-west because trains could not run across the Dawlish line. Once the spray goes over the line, they stop them at Bristol or Exeter.

Q115 **Chair:** We certainly remember that. Geoff, that was a great answer on what is not in it, but what is in it? Can someone summarise for me what is in this toolkit that will help correct the bias?

Maria Machancoses: The way it works is that there is a requirement for any decision making on privatisation or investment for the long-term rolling programme—the pipeline of schemes we have developed together with Government—to have due regard to how that will translate into investment in the regions per head and so on. That will be a requirement as part of the presentation of a specific project and a national programme by Highways England and Network Rail. How will it translate in terms of investment per head in a region, and how likely will it be to support the wider economic benefits of the particular area? Housing would be brought into play and so on.

It is trying to create a link to the industrial strategy as well, in that sense, but you are quite right that it does not really give you clear parameters. It does not really show you yet guidance about how it will be monitored, who will monitor how it will be put into play, or whose role it will be to do that. It relates to the point about how to revisit those schemes and whether they deliver the rebalancing of the economy that they were intended to do. All of those things are still not quite clear.



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We, as STBs, are trying to provide a role for us to help in that debate. We understand our economy. We work with our partners, and we want to make sure that the parameters that are going to be used are well informed through our collaboration.

Q116 **Chair:** Mick, you said you think it underestimates some of the figures.

Mick Noone: Yes, it does. Another challenge for us is the fact that while it is positive, and that is the way we need to go, it will put more effort on us to produce a business case to prove the wider economic impacts. It is great to see that it is happening, and we have pushed for it for a long time, but it is going to be a challenge for us. As Maria says, it is twofold. It is on individual projects and region-wide investment programmes, so there are two elements.

The good thing is that the STBs will definitely be able to prove the second point. Hopefully, with the resources we will all have, we will come together to prove that point, but the challenge will be how we do that and how long it will take.

Q117 **Huw Merriman:** I have a slightly reverse way of looking at it from Mr Morris's. I take into account that you will all look at your regions in terms of where, for you, regional imbalance means that more is needed. If we look at the sum totals per region, it is hard to argue with that, but if you look at it by subsidy per passenger kilometre it seems to show, for example, that at Govia Thameslink railway there is a subsidy of 1.1p and the British average is 5.1p, so there is a huge underspend in terms of subsidy.

If I look at some of the other Network Rail train operator subsidies—I have taken the figures from the rail regulator—Northern's subsidy is 24.7p and Merseyrail's is 17.5p. At the moment, it does not show us that there is a regional imbalance. It is away from what may be the busiest railways. As you know, Southern with its 1.1p subsidy has the lowest PPM of all the operators in the entire network. Is it not the case at the moment that there is a lot of money flowing to the regions, according to those figures?

Geoff Brown: I do hope so.

Barry White: The important point that sits behind that is that, if you look at the uptake of rail travel in the north, it is at a much lower level than it is in the south-east. People are actually choosing to travel by car at the moment because the rail service, in terms of capacity, reliability and speed, does not provide an alternative. Therefore, in some ways it is a self-fulfilling prophecy. I will give you an example to illustrate the point.

On a daily basis, there are 4,500 commuter journeys between the Sheffield city region and Greater Manchester. There are almost seven times as many people who go north from Sheffield city region towards the Leeds city region. Our argument would be that there are only 4,500



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commuter journeys going that way because of the quality and the supply of the service, in terms of rail journeys, speed, reliability and capacity.

If you improved the rail service, that is one of the routes where we think customer use could increase enormously if the service was more frequent, faster and more comfortable. Those are the things that are holding back rail travel in the north. That is why we would say that if you focus on passenger numbers now, we will perpetuate the current system; whereas if you focus on the number of passengers that could switch to the railway and use the railway in the future, you would get a slightly different decision-making outlook.

Q118 Huw Merriman: My figures would suggest that, if the British average is 5.1p and Govia Thameslink is 1.1p, the 23% of all the UK's rail passengers who use that network are subsidising the regions. By definition, they cannot be getting a good enough service to warrant more people joining that service because they have the worst PPM in the entire country. Doesn't that add a pretty convincing argument for more investment in that network as opposed to yours?

Barry White: But to go back to the fundamentals, if you want to rebalance the economy and see more economic activity outside the south-east—we want the south-east to continue to flourish as well—the investment decision-making process has to look at how we create transformational growth. If we want rail investment to support transformational growth, making decisions about how to create the supply to unlock the growth is an important part of the decision-making process.

Maria Machancoses: What would also be interesting is to see how those figures have changed year on year. I have to hand the figures from the ORR on total passenger journeys on the railways. The number for London and the south-east has gone down in the last year. In the rest of the regions, it is going up. In the east midlands, there is a 3.4% increase. The west midlands is leading the way with 5.4%. The north-west is 4.7%, whereas London is actually minus 1.1%. Although the capacity and the number of passengers using the railways are slightly down, what you see is growth.

We are very clear in the midlands that we no longer say that we are a poor region and please take care of us. There is huge momentum. Cities, towns and sectors in the midlands have a clear ambition for growth. Our railways are being used more and passenger numbers are on the rise. This is the time to look at our networks and invest in the future prosperity of the midlands.

It might be interesting to look at how the figures you have just relayed have changed from last year to this year and see how subsidies have reduced as there is more patronage, with more users on the network. That is part of improving reliability and frequency. It is all part of the equation. I hope that tells you that this is not just about us feeling it is



not well attended. There is real momentum and real need in the rail network outside London.

Q119 Grahame Morris: I was a big fan of Michael Portillo's journeys across north America. One of the fascinating things about that was when he was discussing why the railways were driven out to the west. It was the economic potential. It was not that there were huge population centres, industry or markets there. There was recognition that in order to get economic growth they needed transport infrastructure—railways in particular. I would like us to learn that lesson of history, apply it to our circumstances and make the appropriate arguments to Government.

Touching on your answers to the earlier questions, is there a kind of unanimity of view among the south-west, the midlands and the north about what we need, not just in the toolkit but in terms of what is wrong with the Government's appraisal? It is a little bit like the Portillo experience. In order to get investment, you have to already have economic success in population centres. Our argument is that, if we had the infrastructure, those things would come.

Some of this is really quite technical. Can you explain how we take the arguments forward? There is the Department for Transport's WebTAG guidance, and there is often reference to the Treasury's Green Book approach. How does that disadvantage regions like yours?

Barry White: First of all, I think there is broad agreement between us. We are proposing an economic investment, but, to justify that economic investment, it needs to be looked at in a fresh way. From that point of view, we will be sharing our work with Maria, for instance. We think that what we are putting forward is good for the UK, not for the north. We are putting it forward on behalf of the north, but we will very readily share our work with other people. We want good connectivity between the midlands and the north as well as within the north. We are not looking at this in an isolated way. We are looking at it very much as how we grow the UK economy and make sure that growth is rebalanced across the UK.

One of the key things is that we have on our board 19 constituent local authorities. We also have 11 local enterprise partnerships, as well as the four delivery partners: Highways England, Network Rail, the Department for Transport and HS2. That business and economic outlook is right at the heart of what Transport for the North is doing. In relation to the development and strategic corridors we are assessing in the north—seven corridors—the first thing we did was to plot where the key economic activity was taking place. We are starting by asking how we can unlock the growth that is there. This is very much a positive economic message.

To be straightforward on the DFT point you raised, it is helpful that the rebalancing toolkit is used in a strategic context. That is a helpful step forward. We think it needs to be formalised more into the process and needs to look more broadly at how that transformational growth can be achieved.



Q120 **Chair:** Does it sit alongside WebTAG or does it change the way WebTAG works?

Maria Machancoses: It has to be intrinsic to it. One of the things we can say for the WebTAG approach in the UK is that it has been recognised as a pretty successful tool shared by the world and celebrated. I have to say that. However, in terms of moving forward, and if we are serious about rebalancing the economy, one of the things that WebTAG can do is to stop looking at growth in a fixed way.

The DFT and the Government have said that growth projections are set across the country. One of the areas where WebTAG could be more inclusive is utilising a more progressive growth tool to allow the regions and our work with Network Rail and Highways England to look at scenarios of growth, to be more flexible and look at options. What will happen, if you look at delivery options, to the different growth ambitions and future economy scenarios that we, in the midlands, believe can happen?

It is part of it, in answer to your question, Chair. It is not having something parallel and separate. The whole of regional thinking about future growth scenarios for the midlands and the north needs to be intrinsic in the decision making by Network Rail, Highways England and DFT when we are producing a specific business case for a specific project. To have the flexibility to look at options is very important, if that makes sense.

Mick Noone: The wider economic impacts report is actually supplementary to WebTAG. It goes back to the point about, "Go west, young man." In our original One North proposal, which was the precursor to TFN getting going, we focused very strongly on the example of Rhine-Ruhr and Randstad as to what can be achieved if centres are connected together in a better way.

That is really good, hard evidence of what could be achieved in the north and the midlands given the chance. That is the sort of evidence we look to and which we initially presented, and have now subsequently built on with NPR and the work that Rail North is doing. I speak for the north and I am sure that Maria has her own examples. The evidence is there, and we now need to use the report as supplementary guidance to allow us to prove the point.

Geoff Brown: Representing, as I do, the south-west frontier towns, I support the idea that we need to invest in distance to boost the economy. In the south-west, we are talking about 2.2 million people, and the economy there is phenomenal. In order for PRTF to achieve that, we need to look at becoming a sub-national transport board. That would give us the ability to develop the business plans to take that forward. We have already presented a 20-year plan. We need to try to move away from five-year blocks of development in the rail network to a much longer-term view, so that we have a strategic view going forward.



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Chair: Grahame, are you happy with that?

Q121 **Grahame Morris:** I am. Having made those representations to Government, have you had any response at all?

Geoff Brown: We are still waiting after 15 months.

Mick Noone: No, we have not.

Grahame Morris: We will take that up with the Minister.

Maria Machancoses: We are waiting to hear a bit more about the proposed rolling programme for the railway. We understand that the five-year approach is no longer going to be the position. The rail upgrade programme, as it is called at the moment, is going to be more of a long-term pipeline of ideas and concepts that we will continue to develop together. That will be useful for the long-term setting of aspirations as well as the short-term approach.

Mick Noone: To be fair, in terms of any kind of response, as a rule we would not expect one on a consultation exercise. We always offer the opportunity to engage further, and we are always willing to do that.

Q122 **Chair:** Barry, in the work that Transport for the North has been doing on an appraisal methodology that would reflect the key factors in economic growth and take in the wider range of benefits, are you satisfied that you are getting enough response from the Treasury on that issue, and that their framework provides support for the work that Transport for the North is doing?

Barry White: We are on a journey. In terms of what we are putting forward, we have more work to do with both the Department for Transport and the Treasury to talk them through how we are going to present things as we advance our northern rail modelling systems, or NORMS for short.

We will be making that representation in a very formal way to the Treasury and the Department for Transport: "This will provide the scenarios that will show you that potential." We think that giving a range of scenarios is a better way to present it, so that we can see within different scenarios just what the outcomes would be.

Our position is that we have to be WebTAG compliant and work within the current system. Those are the rules. We have to make sure we do that, but we are going to work and push very hard to say that this is not necessarily the best way to look at it, and there are better ways to look at securing rebalancing. We will continue to make that case as our development of those models continues.

Q123 **Grahame Morris:** On the point about a national transport strategy and the implications for regional investment, I want to go back to something that Geoff said earlier about things that were not measured, such as passenger comfort and reliability of the trains. This question is for Barry



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and Mick in particular. As well as the right infrastructure, do you think that passengers need the right level of staffing to ensure that we maintain and improve quality? In particular, I am coming to the fact that there are some disparities. In Scotland and Wales, they have ensured that their new trains keep guards on the trains. Is it necessary? Do you agree that we should try to keep guards on the trains and build that in, in terms of ensuring passenger safety and continued comfort?

Mick Noone: I will have to be careful, because this relates to the RMT issue. I speak from a Liverpool city region point of view. We strongly believe that the way we are moving forward, with limited guards on the trains, is the way for us. Merseyrail, as you know, is investing £460 million in a new fleet. The current guards will be redeployed. They will be given a job elsewhere, if necessary. We think that is the way to go forward. It has been proven elsewhere in the country. That is the model we will follow.

Q124 **Grahame Morris:** What about Scotland and Wales, where they have specified as part of the new arrangements that the new trains will accommodate a guard? As someone who travels regularly on the northern line, I just wonder how on earth disabled people and blind people will get on and off without a guard. Shouldn't we have the same standards as they have in Scotland and in Wales?

Mick Noone: I fully take the point, but it is a decision that has to be taken. I agree that there are challenges. There will be guards at various stations and at various times to help those with such disabilities, but, because of the additional benefits of not having a guard, we think that is the way forward.

Q125 **Grahame Morris:** There are stations in my area that are not manned.

Barry White: There are a number of points. Personally, I am very relaxed travelling on the docklands light railway without a driver, so for passengers—

Q126 **Grahame Morris:** But you are not blind or disabled, are you?

Barry White: No. The point I am making is that the safety and comfort of passengers has to be foremost in those considerations. The train operators—Northern is the company you are referring to—have full belief that they can operate the trains safely, with the modern fleet coming on. There is over £1 billion of investment coming into the train franchises in the north. It is about the systems to make that work effectively. Northern must make sure they are there to do that effectively.

Q127 **Grahame Morris:** Within the context of regional priorities against a national priority, in the terms of reference of this investigation, do you think there is any conflict of priorities? I will be quite specific. Is there a fundamental problem with the lack of a national transport strategy that emphasises the national importance of regional investment?



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Barry White: The most important thing for us is that the national economic and industrial strategy is the starting point. We believe that our strategic transport plan, which is out for public consultation at the moment with 33 events across the north, is as much an economic plan as it is a transport plan. At the moment, we believe that focusing on the economic impact of our transport proposals is the best way to secure investment in the north. We believe that is the bit that can get the £100 billion of GVA that transformational growth can unlock.

Q128 **Chair:** Do you think the Government have enough of a national transport strategy within which your strategy sits?

Geoff Brown: The two can work together. You need the regional strategy to be developed in an open and transparent way, which then feeds into the national transport strategy. It should equally be open and transparent about the priorities for investment.

Maria Machancoses: What matters, and what I welcome the Committee knowing, is that these are efforts from the regions. They are large areas that have come together to make it easier for Government to make decisions on prioritisation. We understand that it is not an easy challenge. Therefore, rather than having 26 authorities in the midlands, or 23 or 21—it doesn't matter—talking about 300 schemes that they want to deliver in the next five years, the effort that the sub-national transport bodies are putting in is bringing in the wider economic narrative and understanding what it is, and getting consensus and a one-voice approach that can then articulate clearly to Government.

As the Government make decisions on national investment programmes, this is what the midlands will really welcome. We do not want to be just another consultee or another document: "That was helpful; thank you very much, midlands." We want to really help shape the rebalancing economy agenda and make it easier for Government to understand and have a transparent process. We feel engaged in that. It is a wide decision made on wide ground. That is where we are coming from. It really is about making it easier to prioritise.

Q129 **Chair:** Let me take that point on, Maria, with a specific. For example, we had the cancellation of large-scale electrification. I know that Midlands Connect say it is working with the DFT on plans for the midland main line. That seems to me a real example. Was Midlands Connect consulted before that was cancelled? Do you feel that there has been sufficient transparency around the reasons for that decision? Should regional bodies have more say before those sorts of national decisions, which clearly have huge regional implications, are taken?

Maria Machancoses: Absolutely, Chair. I agree that that is a perfect example of how, moving forward, the work of STBs needs to be given due regard. We were not consulted. We were disappointed not only with the decision but with the way the decision landed on the midlands and how it was communicated. We were not party to any consultation or discussions



with Government. That was not very good for us at that particular time. The partnership had good momentum. Like our partners, we, Midlands Connect, felt that we were heading towards becoming a credible partner with Government. Therefore, such decisions needed dialogue and conversation. Ultimately, it had a massive knock-on effect—not only on businesses but on the rail sector, which the east midlands is terribly proud of, as you know.

It is a perfect example of how the midlands almost expected this to happen, but we turned it around. Rather than just criticise Government for what they have done, we were very keen to come up with options and solutions as to how in the future Government can engage with sub-national transport bodies. We came up with the idea of engaging with the Government about how to scope the technology they want to bring to the midland main line. Bi-mode is one suggestion where we have definitely listened to Government, but what else are we going to put in place? Looking at the long term, how will it link to HS2? Can we secure evidence on provision for HS2 and compatibility with the midland main line in the future? What is the journey between bi-mode and HS2 arrival? Can we have that debate together?

We also explored how HS2 and the work around the midland main line could be done ahead of HS2 arriving. By that we mean that the acceleration of Toton is going to be extremely important for the east midlands. Normally, what happens is that there is land assembly and economic activity, but what happens to the midland main line? That is not just a five-year proposal. It is a long-term plan, and we are very pleased with the response we are getting. We need to refine that plan together. Hopefully, becoming statutory will anchor that position.

Q130 Chair: In terms of having more accountability, more transparency and a wider role for Midlands Connect, it is about having a statutory footing and being consulted. Would other bodies agree that that is right, or is there something else that needs to be done to ensure that you are included in national decisions?

Mick Noone: We agree that the absence of a national transport strategy is not helping. I mentioned right at the very beginning that that policy needs to be there, to be clear that we want to rebalance the economy, and this is how we are going to do it.

You yourself, Chair, in an article in *The House* magazine, said that it is not just what a scheme costs but what that scheme produces in terms of wider impacts. That is why we need a national transport strategy to help the STBs move things forward and rebalance the economy. Until that strategy is produced, and gives us that guidance and policy, things will continue. There will be a lot of onus on the STBs to do what we need to do to rebalance the economy, but without the strategy it is not particularly helpful.

Q131 Chair: Presumably you want to be part of creating the strategy, not the



recipients of it.

Mick Noone: Indeed.

Maria Machancoses: The recommendation I would really welcome is anchoring the role of STBs in the decision-making process. I have made it very clear that we do not want to be just consultees. We want to help and work with Government in shaping that programme of investment in the future. We will do our very best to bring in local knowledge of economic projections for the future, not just the short-term scenario. That is our commitment. That is what we would welcome as part of clear guidance from Government about the role of STBs, in the long term, in the decision-making process nationally.

Geoff Brown: It does not help when plans are shunted from one control period into the next. A good example is Dawlish. We are told it is the main priority for the Department of Transport. It is the one really weak link in the whole rail infrastructure. It was a priority in 2014. It has now been shunted into the next control period, which is 2019-24. It could be another six years down the road before it is addressed, and that is a main priority for the Government. There is something really worrying about that. Network Rail has agreed to invest £35 million in Dawlish, in the flood works around Cowley bridge and the Somerset levels to try to secure reliability. We are told it is a priority, yet it has been pushed back into another control period.

Chair: One of the issues we want to look at is the way in which the different statutory and non-statutory bodies are able to influence some of those things.

Q132 **Luke Pollard:** Barry, the journey towards Transport for the North has been a long one, but it sounds like it was a very important one for the region. Do you think having that joined-up approach between the different bodies and different councils will make a really big difference to the north in delivering actual benefits to passengers?

Barry White: I think it will make a fantastic difference, and it is already doing so, because our predecessor, Rail North, helped set some of the improvements under the current franchise agreement. There was more than £1 billion-worth of investment in the franchise period, including rolling stock. What that means is 40,000 more seats at peak times across the north. From that point of view, the deliverables, in terms of what passengers will see, will start appearing as that new rolling stock comes on line.

Q133 **Luke Pollard:** Do you feel that your statutory position gives you greater lobbying power?

Barry White: It allows us to articulate the case in a really cohesive, innovative and straightforward fashion. It gives us much more strength coming together as 19 constituent authorities. Having looked at the seven development corridors and the 11 local enterprise partnerships,



saying "This is our view as to the priorities" carries a great deal more weight.

- Q134 **Luke Pollard:** Given that these bodies are competing for finite resources, do you feel you will be more successful with bigger co-ordinated bodies than if you were separate?

Barry White: The case can be stronger. We can put forward a very strong case about investment. We have already talked about how the business decision process could be improved. One of the critical things we are seeking, and one of the key bits of evidence we submitted, is that we need decision making to look more at transformational growth. That is one of the key aspects we are pushing very hard.

- Q135 **Luke Pollard:** As the UK has different regions at different levels of integration on the transport agenda, do you feel that your integration will take resources away from other regions that might have an equally pressing case for transport investment but do not necessarily have that regional co-ordination or integration?

Barry White: We absolutely think that extra investment is needed in the north. We have set out in the strategic transport plan that we think it is about £50 per head per annum across the north. We think we have been very pragmatic in our vision for the north. It is a vision but it has to be deliverable.

In terms of the scale of what we are proposing, we think it is achievable as well as visionary. That has been key in what we set out. We are saying that the economy in the UK will be bigger as a result, so in the long run that is good for everyone. We will work very closely with other STBs, or those yet to be formed, to share what we are doing. We want to see the midlands succeed as well, because that is really important for the UK.

- Q136 **Luke Pollard:** Geoff, one of the accusations about why the south-west does not get funding is that it does not speak with one voice in an integrated way, whereas other regions have the benefit of that. Is that a fair assessment of why the south-west has a problem?

Geoff Brown: I think it is. We are very much a Cinderella compared with the national boards. PRTF was formed post-Dawlish. It was asked by the Government to work as a south-west group. It comprises all the local councils in the south-west and the LEPS. It is a strong vocal beast, but I do not think it commands the same respect as Rail in the North, because we do not have a single dedicated officer working for us.

- Q137 **Luke Pollard:** The Transport Secretary wrote to all Conservative MPs in the south-west saying that Dawlish remains "the number one national priority for rail." Is that something you recognise in the work of PRTF?

Geoff Brown: In the 20-year plan, that was the priority we presented. It was that and the flooding at Cowley bridge and on the Somerset levels. We have consistently said that. We have been saying it for 15 months



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since we presented the "Closing the Gap" document to the Minister. We are still waiting for a response. We have been assured that we will get one by the end of this month, which I believe is Wednesday.

Q138 Luke Pollard: In his letter, the Transport Secretary also said that he expects to set out the Government's strategy by the end of February, which is two days away. In terms of the strategy you are looking for from Government, is that something that maps over the PRTF, or is it a strategy similar to the ones that the other regions have worked on, for example, Transport for the North? Can we compare like for like in the south-west and the midlands or the north?

Geoff Brown: I do not think we can compare like for like, but we have presented a very strong case for what is needed in the south-west to improve reliability and resilience for passengers; to provide capacity and comfort; and improve journey times. Some of those have not been huge asks.

We have not asked for electrification of the entire line from Penzance to Paddington. What we have suggested is that there are small banks in the middle of Devon that, if you electrified them with the new bi-modes that are due to start this July in the south-west, could actually improve journey times and efficiency. They are small asks compared with some of the much bigger asks in other parts of the country.

Q139 Luke Pollard: In the absence of our having more money put into rail, are you all confident that your region will get a larger part of the pie, because of your integration, co-ordination and the better cases you are making? Do you think you will all get a better bit of the pie as a result?

Geoff Brown: I cannot speak for anybody else, but certainly in the south-west we are now speaking with one voice, albeit slightly hamstrung by the ability to manage and produce business cases. But we did that and we produced the business case. We will wait and see at the end of this month.

Maria Machancoses: It is going to be interesting. It is important to realise that in the next 18 months we will hear allocations for RIS2, and we will hear a bit more about allocations for CP6. Believe you me, the midlands will be saying, "Did you hear the voice of the midlands through Midlands Connect?" and quite rightly so. As I said, efforts have been put in place, with mature conversations, coming together cross-party from east to west, from Lincolnshire to the Welsh border to say, "This is what we would really like Government to give due regard to as part of the next investment programme for road and rail."

It is going to be very interesting. Of course, we will continue. We have been given funds and resources from Government to accelerate the development of some of the priorities that are really important to us. That has been extremely welcome. Obviously what matters most is the delivery. It is not just talking about projects and concepts; ultimately, it



is about making things happen. It is going to be a very interesting and important journey for us as an STB in the year ahead. That is why we welcome the Select Committee session today. We are here to stay for the long term. Therefore, our role in shaping and not just responding to national investment programmes is extremely important for us in the future.

Barry White: From a northern perspective, we are focused on outcomes. We are very much focused on how we secure economic growth. That is the key metric driving us. Therefore, one of the great benefits of things like northern powerhouse rail is that it can be a programme of investment, and, because it has separate elements, it can be brought in over time. We think we have been very pragmatic in what we are proposing. We think a very strong case is being articulated for investment in the north, based on pragmatic and deliverable proposals that will secure economic growth.

Mick Noone: We really believe that through TFN we will be able to produce the evidence required. Funding is becoming more and more dependent on evidence. The modelling work and the studies that are going on through TFN—for example, the strategic corridor work that is being done, are looking in detail at where we think our priorities will be. It is not just sub-regionally but right across the north. We will have the evidence to actually prove that, and in doing so, hopefully, acquire the necessary funding.

Chair: We like evidence. We just hope that the DFT likes it as much as we do.

Q140 **Daniel Zeichner:** I have one final point. Listening to what you have been saying, you are making a strong case for links between transport improvements and wider economic issues. It seems to me that you are going beyond being just transport bodies. Listening to you, it is all about asks; it is all about trying to influence and lobby. Don't you yearn for some real power? Are you not vassal regions within the UK at the moment?

Barry White: I will tell you what we are doing as a body set up as, and about to become, a statutory body on 1 April. Later this year, the smart ticketing programme will see smart tickets being delivered and rolled out across Rail North, and extended to bus and tram over time. This is evidence that influence can bring extra investment. Through Rail North, we have secured a huge change in investment and rolling stock in the north. Pacer trains will be phased out during the period of the current franchise. If you have not travelled on a Pacer train, you do not realise just how big a deal that is. It is a really big change.

It is our job to use the power we have to make a really strong case for investment. When we put the case forward for the HS2 touch point, to allow northern powerhouse rail to be built, we said that we needed to facilitate those contact points with HS2 as part of the HS2 hybrid Bill. We



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put that case forward last summer, and it was announced in the autumn as funding secured. We use the power we have to great effect, and that is what we will continue to do.

Maria Machancoses: It is a very good question, and it is being debated hugely in the midlands at the moment, as we develop our own proposal to become an STB. The word “power” is quite interesting when you are dealing with national decisions or national investment programmes. At the moment, we are far keener to articulate the point about the wider perspective and wider understanding. What Network Rail and Highways England want most from Midlands Connect is wider understanding of the wider economic benefit of its proposed programmes and policies.

At this particular time, we are in that place with sub-national transport bodies. It is all about helping to shape programmes and investment. At the moment, we are being given due regard. As I said, the proof will be in 18 months or 19 months’ time when we see with how much regard our priorities have been considered to really help the midlands economy. Power is an interesting word. I would like to explore a bit more what you mean by that.

Q141 **Daniel Zeichner:** Be bold. Take back control.

Maria Machancoses: The sub-national transport body and the legislation that allowed the creation of the sub-national transport body was to draw powers from central Government into the regions. That is something that we have explored as an option, but we are saying that you need to walk before you can run. As I said, we are having very mature conversations and we would rather understand, most importantly, how the current national programmes and the national decision-making process works and how we can build from there. Let us see where that leads us. We feel that at the moment we are in a good place, and we just need to continue to build that relationship.

Q142 **Chair:** You will be looking for how big a slice of the pie you get and how big you manage to make the overall pie as a result of the slice you get. Would that be fair?

Geoff Brown: Certainly in the south-west we are looking to work with the rail network, because we are developing one public transport system. In the south-west, it is dependent on getting two trains an hour up and down the main line. That might sound easy, but we still change our signals using wires and levers. We do not yet have an electrified signalling system throughout the network. That is something that is key to unlocking the two trains an hour, which will then unlock the investment that the local authority is putting in to deliver connectivity with bus and everything else.

Q143 **Iain Stewart:** This is more a comment than a question. I appreciate that you are at the very early stages of your establishment, and it is absolutely right that you are focusing on projects within your region. My



plea is not just to think that your boundary is at the end of it. There is a need for you to co-operate with each other. I cannot remember who raised smart ticketing, but, if somebody wants to go from Birmingham to Liverpool, they may need a smart ticket from Birmingham or Milton Keynes or wherever. Many of your projects will be in collaboration with others, and not just entirely within your own region.

Maria Machancoses: Absolutely. I completely endorse that. We certainly do not want to become parochial. What brought us together in the first place was our partners saying, "We need to stop that." We are working closely, as Barry said, with Transport for the North and with the economic heartland. The port of Plymouth supports some of the initiatives of Midlands Connect because it is very important to have freight links between the midlands and the port. We are trying to do the same with Liverpool and Immingham port. You are absolutely right: let us not create silos in their own right. It is really about supporting the economy. We think the geographical area where we operate is the right one to do that.

Chair: Thank you. That concludes our questions for the first panel of witnesses.

Examination of witnesses

Witnesses: Malcolm Brown, Jonathan Willcock, Rob Morris and Alan Price.

Q144 **Chair:** Welcome and thank you for coming along today. Would you please introduce yourselves for the record?

Malcolm Brown: I am Malcolm Brown, chief executive officer of Angel Trains Ltd.

Jonathan Willcock: I am Jonathan Willcock, managing director of Alstom's signalling and infrastructure business in the UK.

Rob Morris: I am Rob Morris, managing director of Siemens Rail Automation.

Alan Price: I am Alan Price, employed by Jacobs, but here today as the chair of the railway sector interest group, the Association of Consulting Engineers, which represents big and small consultants from across the whole supply chain.

Q145 **Chair:** I think you were all sitting in, so you heard the debates about how we split up the pie that is rail investment, and the difficulties that we currently experience with Network Rail's pie being quite limited. You will perhaps understand that 2016 was a record year for third-party investment in rail infrastructure, but of course that is still a tiny proportion of overall spending. What proportion of overall spending should we realistically be aiming for in terms of third-party investment?



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Rob Morris: That is quite a difficult question to answer—it is almost, “How long is a piece of string?” First, I am going to go back a little bit, if I may, before I leap forward. From Siemens’ perspective, we have been in the UK since 1843. We employ 14,000 people here and we have 14 factories. During most of that time we have invested in the rail industry in terms of our R&D, our manufacturing and our engineering, installing and commissioning. We have a big investment in the UK and the rail industry.

Moving forward, there are lots of fresh opportunities to invest and improve our investment in the UK, and to take a bigger part. You are right that it was up to about £1 billion between 2016 and 2017, but there are now fresh opportunities to invest. Recently, the Secretary of State announced the opening of disused lines. That in itself is an opportunity for contestability and increased third-party investment.

At Siemens, we actually have an investment arm—a financial services arm—where we can help our clients look at alternative ways of financing their projects, and we have a strong appetite to do that. Given the right environment and the right circumstances, we can add to that funding through the right sort of investments.

Q146 **Chair:** Jonathan, where does the railway most need that injection of third-party capital?

Jonathan Willcock: We welcome the Hansford review, which was done by Network Rail a few months ago. My view is that it will lead to more third-party investment in schemes that are linked to developers of a station. It enables a housing development or car park, which removes a barrier to get on to the railway.

The bit we are missing is the big technological transformation that third-party companies such as Alstom or Siemens would probably be willing to invest in. That is the transformational change on the railway that would give capacity or performance benefits. At the moment, we are quite light on how to make the digital railway a reality through a different type of model of working with the private sector.

Q147 **Chair:** Alan, do you agree? Is it all about the technological side? Are there difficulties with the third parties coming in?

Alan Price: There are opportunities on a number of different levels and with different sorts of projects. I do not think one size fits all, by any means. With the rolling stock industry, my colleagues here control the construction and manufacturing process, and they understand that risk. From an infrastructure point of view, the risk is not always easy to understand and identify. When we did the periodic review of HS1, in one of my former roles, I worked very closely with Canadian pension funds. They were quite happy to take on infrastructure projects once they had got through that phase. They said, “Okay, we have bought HS1, so what



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else can we buy, because we are not short of money to spend?" There are real opportunities in that approach.

Q148 **Chair:** That is buying a new piece of infrastructure though; it is all shiny and new. Most of our railway is not in that state, is it?

Alan Price: No. We talked about passenger flows earlier. Probably 70% of journeys, from my understanding, start or end in London. One of the big constraints on the whole network is capacity in London. That is where the big opportunities probably are, and private investors are up for some of those.

The Chinese have recently considered the opportunities for what they call the Brighton main line 2 scheme. They want to come in and build a whole new line and relieve some of the stuff that your colleague, who has now left, talked about earlier on the Brighton main line. There are those opportunities, and that is up to the Government's appetite for risk transfer.

I do not think it is all about the big opportunities. You talked earlier about station programmes. Network Rail has a huge land bank surrounding its stations. Some of them are in city centres. If we look at what TfL has done with small sites such as Rickmansworth, for example, it sold its station to Waitrose. Waitrose built a much better station car park.

It gave that station much better passenger facilities and built a supermarket on top of it. It got the site it wanted in the middle of a town, and Network Rail, or TfL, made quite a bit of money out of that. There are a lot more opportunities to do those things, which can bring small and medium-sized enterprises into play, rather than just the bigger, major schemes.

Q149 **Chair:** Malcolm, you are one of the organisations that actually brings third-party finance into the rail industry. What would you see as the opportunity for more third-party capital and where would it most add value?

Malcolm Brown: The objective would be to chunk it. There are clear places where there is a commercial opportunity to invest, such as in major stations that to all intents and purposes can be considered shopping centres with a station on them.

There are other opportunities right across the network, whether that be on stations or perhaps in areas that are less glamorous but vital for social inclusion—for example, electrifying certain sections of line and investing in that area on a complete ownership basis, a concession basis or on a partnership basis. It does not have to be one specific way. It should be designed to mirror the risk and objectives of either Network Rail or the DfT and not try to make one size fit all. There is appetite from pension funds and investors, who are looking at UK rail and saying that underlying it, fundamentally it has been a success and they can put money to work there in different models.



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Chair: We ought to know a bit more about the appetite for third-party investment.

Q150 **Daniel Zeichner:** There is appetite from you guys. Do you think there is appetite from the public for this? I could not help noticing that one of the members of the Hansford review was the performance improvement director for Carillion. I think a lot of the public would have thought, "Hey, what's going on here?" You have an appetite, but do you think the public have an appetite for it?

Malcolm Brown: In terms of the structure, the public are looking for an improvement to their services. They want it done in a cost-effective manner, not paying over the odds. There are plenty of examples right across the UK where that works in a very quiet and subtle way. It just goes on, day in, day out. It goes back to the fundamental point that I was trying to make, which is to understand what the objectives are for the investment in the first place, rather than some grandiose scheme that sucks money in and vanishes.

Rob Morris: If the investment is around improved technology over a period of time, as Jonathan mentioned earlier, it creates greater capacity, faster journey times and improved passenger comfort. Yes, the public would enjoy that.

Q151 **Daniel Zeichner:** I could not help noticing from the written evidence that Siemens said that where rail infrastructure is privately funded Network Rail would "need to give up control over the specification and management of projects." Siemens' view is: "If Network Rail retains control over the specification of projects, then it is hard to see how the private financing initiative can make a material contribution to the investment programme and encourage innovation in the sector." I look at that as a worry that we are going back to a previous era, of Railtrack, effectively. How can you give me confidence that we are not going back to that period?

Rob Morris: There are lots of specifications out there. Mark Carne and the executive committee of Network Rail realised that a lot of those standards are unilaterally applied and can be applied on a more proportionate basis at times. The critical safety standards are right. We all need to stick with those, but there are perhaps some other standards that do not need to be applied everywhere. There needs to be a more modern, risk-assessed approach to the application of those standards. By doing that, with the right investment around it, you can bring in new innovation.

Alan Price: You asked whether the private sector had an appetite for it. To be fair, the private sector is a bit frustrated with the approach that Network Rail has driven over the last five years. A lot of the rail industry has been very much distorted by the enhancements portfolio in CP5, and the cutting and changing because projects were not properly scoped in the first place. There is a lot of stuff that entered CP5 where Network



Rail, to be fair, did not know what the scope was. There was a rather large number and a big timescale attached to them. We very much need to get back to what operational problem we want to solve rather than what infrastructure people want to build. Network Rail's answer will always be a big infrastructure scheme, and it does not always have to be.

For example, at the start of CP5 Transport Scotland had a real concern. They wanted to increase or improve some journey times. The answer to that was that Network Rail came up with a £300 million infrastructure scheme. Actually, when we had further discussions with them and got back to it, if you just bought slightly faster trains, you could achieve the same result for a much smaller amount. We need to not get hung up on what infrastructure we can build; it is, what operational problem do we need to solve? We need to get the right minds round the table to specify the project before we start.

Q152 Daniel Zeichner: That moves us quite neatly to a point I will put to Jonathan. In your evidence you suggested that basically the project should be specified in performance outcomes rather than just physical outputs. Explain to us why you think that would play to your strengths and possibly work with Network Rail's competencies.

Jonathan Willcock: That was in the context of the next generation of train control and signalling around digital railway. Technology changes so fast that you are talking about downloading software rather than physical assets in some cases; quick revisions of software change what the technology does.

If Network Rail is very clear about the problem it is trying to solve—whether it be a capacity problem or a performance problem on a line of route—and then enters into a relationship with a technology provider where it transfers the risk for the design, the technology and the deliverability over a long-term period, we believe that will give a far better and more cost-effective outcome for the industry, because companies are doing the right things. Network Rail specifies the problem and the technology company is responsible for delivering the change to enable the outcome to be achieved, whether it be more capacity or better journey times.

Q153 Chair: The rail industry is a complex system, and not many things work stand-alone. They are all interrelated, so how easy would it be to do that, given that you would probably also need rolling stock that was compatible with new signalling systems?

Malcolm Brown: First of all, on the latest rolling stock, we are buying 665 trains from Derby—the new Aventras for Greater Anglia. The system we are talking about, the digital railway system, is already hardwired into the train. We do not know when the system will go live, but it would be crazy to buy an asset now that did not have that capability. Effectively, it has a gap on the dashboard where you plug it in; everything else is there.



We plan on 30-year, long-term horizons because we are trying to future-proof the asset. You are quite right that it is a complex system. Right now, we are funding the development of the stuff on train. We would like to finance the full system because then it would be seamless, and we could hold it for 20 years and then return it, whatever the methodology we have. We could then cut down the interfaces, and the people who are good at what they do would be doing one bit, and others would do the other pieces so that we do not have a constant interface. The fewer the interfaces, the better, but having the right people responsible for the right bit is absolutely critical.

Q154 **Chair:** When Network Rail effectively runs out of money, as it did in CP5, and then changes its plans, such as removing electrification, doesn't that lead precisely to lack of seamless interface?

Malcolm Brown: Yes. We had a plan for electrification. There are a lot of new electric trains that have been bought for the UK, and that rolling programme of electrification appears to have been paused—I think that is the terminology—at this point in time. Clearly, we need a programme that will actually use the electric trains that are currently being procured.

Chair: We are going to look a little bit more at the way risk is allocated.

Q155 **Luke Pollard:** Which asset types present workable opportunities for third-party investment, with clear and acceptable risk profiles? Can you give us some examples from your experience of what would be suitable?

Rob Morris: It would be train control equipment, signalling and the like. Who better to deal with that than the actual technology providers? I guess it is the same for other parts of the infrastructure as well. From our perspective, if we look ahead to the next 15 years, or the next three control periods, something like 60% of the signalling on the network has to be replaced. It is up for renewal.

There are perhaps a couple of ways we can deal with that. There are the rural networks, which are currently controlled by the old signalling boxes, with guys operating levers. One way of bringing third-party investment there is to bring in plug-and-play, digitally ready-type technology, and the financing of that we would provide, or Alstom would provide, typically, would be funded by the operational savings from the closure of the signal boxes, and of course the signallers and the central control would go to the regional operating control centres. It is a much more efficient way of doing things and would bring a benefit to the taxpayer.

In the longer term, you would look at a route upgrade, transferring it to a full digital upgrade. That would improve capacity and reduce all live costs.

Q156 **Luke Pollard:** Do you think a whole route would present acceptable risk profiles?



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Rob Morris: In terms of provision of technology, yes. If you look at it from a short-term perspective—we currently look at the planning process and the funding process in five-year chunks—a full digital upgrade over a route possibly would not look cost-effective and there would not be a business case for it, but over a long period of time it would be, through the improvement of performance.

Q157 **Luke Pollard:** What you are saying is that the risk profiles against a control-period spending horizon do not make that worth while, but, if you were attaching three or four of those control periods together, the risk profiles for a third-party investment would start to look acceptable.

Rob Morris: Absolutely, yes.

Q158 **Luke Pollard:** Are you getting the signal from Government that that is what they want to do?

Rob Morris: Yes.

Jonathan Willcock: You talked about signalling. There is the obvious stuff around stations that Alan mentioned. Around electrification, we have been talking to the DFT about the east midlands or west midlands franchise—I might have got that slightly wrong. There is an appetite for power generation companies such as ourselves to provide a third-party funded electrification scheme and build into the franchise competition that operators have to work with companies such as ours to provide that. There is a real interest and appetite for more than just signalling and traditional development at a station or some land adjacent to Network Rail.

Q159 **Luke Pollard:** Jonathan, you have put forward a “thin client” model that you said “transfers risk in a manageable way.” Could you explain what that might be in plain English?

Jonathan Willcock: It goes back to risk transfer to a technology company, again in the context of digital railway, where you have a “thin” Network Rail that specifies a set of outcomes it wants. It then partners with a technology provider for 20 or 25 years. It transfers the risk. We take responsibility for, say, a whole line of route and for managing the complete signalling and assets, and then the transition from the conventional to digital signalling or whatever interventions need to be made. We take the risk on that.

At the moment, Network Rail specifies everything to every last detail, and then we wonder why we do not keep up with the changes in technology.

Q160 **Luke Pollard:** For someone listening to that who may not be familiar with the rail sector, it sounds a little bit like rail PFI. Could you give some assurances to people who might not be rail experts that that is not what it is; or is it?

Jonathan Willcock: It is the public working very much in partnership with the private sector rather than PFI. You have to ensure that the right



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safeguards are around it. It is very much a partnership approach rather than the transactional approach we currently have today, where Network Rail procures every little scheme, specified in a lot of detail, and then wonders why the costs are so high. If you give certainty on a set of assets and there is enough scale in the assets, your costs actually come down. It is an environment that would then encourage third-party investment.

Alan Price: Currently, Network Rail infrastructure projects directly have over 5,000 people. I would not consider that to be a thin client.

Q161 **Luke Pollard:** That is a fair point. All your businesses to a certain extent rely on digital railway. What is the assurance about where digital railway is going? You all operate with similar modes; there is not a signalling operator for one route that will come out, effectively, with a 21st-century version of a wide gauge railway when another operator is on another gauge railway. They are all compatible in terms of the products you are putting in.

Jonathan Willcock: Yes.

Q162 **Luke Pollard:** Do you think that the reality of a digital railway can be achieved in the next couple of years of the control period, or do the Government need to do something fundamentally different to reach that goal?

Rob Morris: I think we are already there. At Thameslink at the moment, Class 700 trains are already in operation with the appropriate kit. They are on-board units that enable digital operation. We have ETCS, which is the digital solution for signalling, along with automatic train operation, already installed through the core of Thameslink. By early next year, we will have Thameslink, through London Bridge, fully operational on a digital railway. From when the project first started to where we will be next year, along with longer trains and the remodelling of London Bridge, capacity will have increased by something like 250% over four or five years.

Q163 **Luke Pollard:** Thameslink's upgrade is one of the Government's flagship, multibillion-pound projects. Can the digital railway on other tracks and lines be achieved without that massive injection of funding, just as the usual process of upgrades is done, or do you require a massive multibillion-pound cost to get us to where we need to be? The Thameslink project sounds as though it will deliver a lot of benefits and it has lots of digital railway tick boxes where you can say, "Yes, that looks like a digital railway," less so for the Great Western line or the CrossCountry line. What needs to be done to take the experience of the digital railway on those types of line and make it more cost-effective so that it can be rolled out?

Rob Morris: The application of that model in the right places will bring the right benefit for the lowest cost.



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Malcolm Brown: Chunk it and do a line or a route at a time. The business case is there because, fundamentally, you are taking the current infrastructure of the track and, putting it in common terms, making it dumb and making the train intelligent. There are cost savings to be had on the Network Rail infrastructure. Yes, there are costs in putting it in a train, and certainly retrofitting it is more expensive than building it into a new one, but there is a business case for it being done in that space. As I said, a controlled rolling programme line by line, which obviously has mixed use, is the way I would take it forward.

Q164 **Luke Pollard:** Does that programme exist?

Malcolm Brown: There is a programme where a number of people are collaborating to get the trains ready. Whether it will be implemented on that specific route or not is yet to be seen. There seems to be some question about that. I genuinely do not know why there is a question on that, but that would be the way, rather than trying to do the whole of the UK network in one go. You literally break it down. It operates on routes, so you take a route at a time and work on that basis.

Q165 **Luke Pollard:** To summarise, the industry wants to get to a full digital railway across all routes, but you need a Government policy that will enable you to plan and fund it appropriately via the different bits, and be able to take the risk with third-party investment as they go through.

Malcolm Brown: Correct. If I could put a bit at the beginning of your statement, there is real benefit in the digital railway to the travelling passenger, because you are able to run trains in a more effective and efficient way. You will get more trains on the track and you can carry more passengers, so there is a real benefit to the travelling public on that basis, because more people will be travelling.

Q166 **Luke Pollard:** Do you think we have a strategy that will enable us to get there? The digital railway sounds as if it has huge potential right across the network, but I do not feel that we have a strategy to get us there or which enables industry to invest in the way we have just been discussing. Do you feel that there is one, and that your business is happy with it, or do you want something else from Government?

Malcolm Brown: We are happy to invest. We have the money set aside and we have already started. We have done faster class trains right across the network, and some of the older rolling stock as well. What we want now is visibility of the programme. We know that we are doing it. Everybody seems to be in agreement with that, but let's have the programme visible so that we can say, "Right, we know that pot is coming up and when," and go forward on that basis.

Rob Morris: It is fair to say that the strategy is evolving. The digital railway within Network Rail has gone through its strategic outline business cases. There is greater emphasis on those strategies across each of the individual routes through the strategic plans that have been issued over the last two weeks.



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Alan Price: At the end of the day, it comes together at Government level, because they control what goes through the franchises and what goes to Network Rail. You have to bring both the trains and the infrastructure together on a particular route. On really busy mixed routes—the west coast, for example—there will be several different operators, all of which will need trains that are compatible with the infrastructure.

Q167 **Chair:** That requires the Department to have a clear strategy that does not suddenly change. Jonathan, you said that Alstom was working up proposals for potentially electrifying part of the east midlands franchise, yet we heard the Secretary of State tell us that there is no business case for electrifying the midland main line. Given that when Network Rail undertook the electrification of Great Western it turned out to be a highly risky and difficult operation, why would someone like Alstom be willing to take that on and consider it an acceptable risk?

Jonathan Willcock: It would be under a different type of model from the traditional electrification that was done on the Great Western. I do not need to go into all of that here, but the cost for the electrification contract on Great Western was done from a very underdeveloped design, without ground investigation and without understanding the different types of piling. When all of that was found out, the costs started escalating.

There is an appetite, not just from us but from the power generation companies, as per the model on HS1. Companies are paid for the supply and availability of power to the trains. We believe, from our point of view, that it makes a lot of sense. We have got to the point of lobbying on that with the DFT and no further. It will probably go down the route of bi-mode trains, as it has already suggested. From the work we have done, we think there is a compelling argument, and I am more than happy to provide the written submission we sent to the DFT, if that helps.

Chair: Thank you.

Q168 **Iain Stewart:** Malcolm, I want to take you back to an earlier comment you made, and to your written evidence, about the risk profiling of the railway's assets. You have called for almost a prospectus of the different assets as a way of unlocking third-party investment. It sounds like an enormous task, given the range and complexities of the assets. How realistically do you think that can be achieved?

Malcolm Brown: If you are talking about the whole or the totality of Network Rail, yes, that is a massive task. However, if you are looking for external third-party investment in groups of assets, it is actually achievable. It happens all over the world all the time. A prospectus is produced with forensic analysis of the assets. If you are in a position to buy a house, you would not do it off an A5 flyer; you would want a survey to understand what condition the building was in. If you can give that understanding—not 100%, but a reasonably strong understanding of



the asset condition—and have groups of assets, a group of stations, a line or a section of rail that was being electrified, you could start to unlock that. To try to do it in one whole piece is ridiculous. That will not be achievable. If you have groups of specific assets, start with some of the easiest and work your way beyond that, it is highly achievable.

One of the areas we are very interested in investing in is depots. They are not sexy and nobody ever thinks about them, but they are vital to providing good train maintenance, looking after our assets—the trains—and getting trains out for passengers in the morning. Many of them have not been invested in since the Victorian era. There are one or two new depots that have come in with new trains, but if we could put some more investment into depots it would be a win-win for everybody.

Q169 Iain Stewart: Who should lead that audit? Is it Network Rail? If it is, does it have the inclination or capacity to do it, or should it be some other body that comes in?

Malcolm Brown: It can be either. I have seen it done on different models in different places. Ideally, we would want the current asset owner to undertake it, so it would be Network Rail. Technically, it should know what asset it is sitting on. I have 4,352 vehicles just now. I have an asset record for every single one of them. I know when spanners went on them and I know when investment took place, literally down to the day, and who signed for it. A good asset owner should have that record. If that is not possible, it is up to the buyer to undertake the asset inspection and the due diligence that goes with it.

Q170 Chair: I think we know that Network Rail does not have a complete picture of its asset.

Alan Price: That is why the regulator set some quite stringent requirements for its asset knowledge. It is not there yet.

Q171 Chair: Looking back at CP5 and its failure on some of the upgrade works, do you think that the blame sits squarely with Network Rail, or do the regulator and the Department have a responsibility?

Alan Price: I certainly think an awful lot of enhancement projects were announced prematurely where the scope was not known. Some of those were clearly for political reasons; there is a rush to get things out by arbitrary dates for the periodic review. Lots of people have suggested that it is time to take enhancements out of the periodic review.

Q172 Chair: Is there consensus across the panel?

Malcolm Brown: Going back to the previous evidence, one of the things that is very clear is that this is a capital-intensive industry. We invest in large-scale projects, which, by their very nature, go beyond five years from inception, planning and delivery, and review, which is important: how well did it go? If it did not actually go beyond five years, having an artificial time band of five years creates constraints and conflicts in



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certain respects. I look at an asset and I plan for 35 years. That is the time horizon we work across.

Q173 **Chair:** When we talk about having a pipeline model for enhancements, where is the long-term view of what is in the pipeline and when it might come forward? Is there a view about where that should sit? Does it happen in the long-term planning process, or is there somewhere else it needs to be articulated?

Alan Price: It comes back to the way the Government set their policy as to how they want to upgrade the network. You need a pipeline. TfL works on the promise that it develops schemes and it knows what operational problems it is trying to solve. It has a whole load of stuff on the shelf, and when money becomes available it releases those projects. Because people are releasing projects for control period stuff, it is either released too late and is not what is needed any more, or it is too premature to release it. The approach should be to work up what you are trying to solve and release projects at the point when the Treasury has the money, not trying to rush them all out of the door. We all know what was rushed out of the door at the start of CP5.

Q174 **Chair:** Complete transparency about the projects that are sitting in the pipeline, ready to go.

Alan Price: Yes.

Rob Morris: Combined with early involvement of the specialists who can identify where the problems are going to be early on. Rather than leave it until an option is decided and then worked through, which is currently GRIP 4 stage, get involved earlier so that you can really understand what the best option is moving forward for the longer term, and where the problem areas are going to be, to mitigate away from those.

Alan Price: To go back to Malcolm's earlier point about depots being the poor second cousin in the rail industry, that is because technically the freehold sits with Network Rail, but the train operating companies have the leasehold. When a train operating company comes in and takes over a depot, and it has very poor-quality assets, it does not have the length of franchise to allow it to invest properly in those assets.

Network Rail can recover assets over a 40-year depreciation, whereas a TOC can only recover stuff over a five or six-year franchise. The industry and, certainly, the operators are quite happy to invest if there can be some kind of residual value mechanism whereby they transfer those assets and just pay their appropriate share, rather than trying to write them all off within the life of the franchise.

Q175 **Chair:** The TOCs might have a good understanding of what they need, but do they necessarily have the skills and experience to invest in infrastructure better, faster and cheaper than Network Rail?



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Alan Price: For the big line upgrades, probably not, but certainly for smaller depot projects and for stations, absolutely they do, yes.

Q176 **Chair:** Alan, you said in your written evidence that the facility charge existed—the idea of having a residual value mechanism to enable TOCs to invest within the timescale of their franchise. Why was it abolished? What prevents it from being re-established?

Alan Price: It was actually a really sensible mechanism that was not very well known. It comes from the days when Network Rail was on a regulated asset base. It could put capital investment on to a regulated asset base, which obviously in those days was off the Government balance sheet. The way it worked was that a train operating company could, for example, come to Network Rail and say, “I want to invest in a wheel lathe that has a 40-year asset life but could make a massive improvement in the performance of trains during the leaf-fall season by turning the wheels and keeping trains in service.”

Network Rail has a contract with all the train operators already, which suited me because it did not have lots of lawyers involved. What that meant was that you could basically put the investment on to the Network Rail asset base and the train operator paid while they were in situ, and when the next train operator came along it was an incumbent liability on that franchise. There was a mechanism to put the funding in, and you only paid for it while you were there.

The problem was that, as we went into CP5, the massive overspend that Network Rail had on all the enhancement programme completely crowded out the regulated asset base, to the point where it was not interested in the smaller schemes. Several operators went to them and were told that there was no more headroom; basically, the Treasury had put a limit on the credit card, obviously for good reasons. As a result, the mechanism did not work.

If something like that or a residual value mechanism on a franchise can be put in place, clearly there are opportunities for small-scale investments, which would massively improve performance for passengers, and the depots would definitely be on the cards.

Q177 **Chair:** Obviously, it would not be going on Network Rail’s regulated asset base. It would have to be money that was coming in from the TOC, but with the understanding that at the end of the franchise it would pass on part of the cost. Is that the sort of mechanism you think could be introduced at this stage?

Alan Price: Yes. Effectively, it is a Government-backed debt.

Q178 **Grahame Morris:** We touched on this in earlier questions; it is a point about appropriate risk transfer to the private sector and it is directed to Mr Price. You called in your evidence for the Department for Transport to formally consult the private sector on “ways to manage risk and to achieve an appropriate risk transfer to private sector investors.” Is there



anything you want to elaborate for the Committee? If that is still your position, what would be an appropriate timeframe for the consultation?

Alan Price: As we said in the opening questions, there is investment at different levels and different things suit different opportunities. There are the HS1s where you can sell them off as going concerns; they are new assets and the risk transfer is fairly easy to arrange. There are also issues where you could build completely new lines such as Brighton main line 2. That is one where investors would need some guarantees that they could recover the cost of the actual capital investment.

Q179 **Paul Girvan:** I realise, Rob, that you welcomed the commitment by Network Rail to publish a pipeline of opportunities for the forthcoming year—third-party funded projects to bring forward by the end of the year. Do you think meeting that target by the end of the year is a realisable option? In light of what we have already heard, will they be investable by the private investors who will deliver those projects?

On the basis of what we have already heard, I feel that certain people who have invested money in the past will find that the carpet is pulled out from below them three quarters of the way through the whole process. It is not really playing cricket, to be truthful with you. What is your view?

Rob Morris: First of all, am I confident that that process is under way by Network Rail? I think the answer is yes.

Q180 **Paul Girvan:** Is it going to be completed by the end of the year?

Rob Morris: Yes. That dialogue has started to come up with some pathfinder projects. We have been involved in the process, and others have as well. That is good. It is an ambitious target to have that ready by the end of the year. The important thing now is having rich and in-depth further discussion with people such as Siemens and other organisations to fully understand what risks there are with particular projects, what benefits come out of them and what are the likely returns from investment. There will be complexities and barriers to investment. Understanding what those enablers are will make that list successful.

Jonathan Willcock: At the top of the list should be the mechanism for how it happens and what we expect from Network Rail, and that Network Rail has measured through KPIs or service level agreements what it has to supply to the investor. Being clear about the process we all have to go through is very important, as well as providing a list of projects.

Malcolm Brown: We hear the words “risk” and “risk transfer” getting bandied around a lot. The private sector is fine with risk. I have a lot of very clever people who price it and put a value on it. The way to reduce that price and that value is by reducing the risk. Where the private sector and my investors struggle is ambiguity. As you described, it is the ambiguity of the rug being pulled from underneath you halfway through a project, and things like that. That is the struggle. As long as the risk is



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appropriate, and we can manage and control it, it should sit with the private sector. If it is a risk that is completely outwith our control, frankly it should not be coming to us because we have to put a price on it that is not good for the economy.

The transfer of risk is important. The private sector should take it, but they should understand what they are taking and they should be able to manage and control it, and deal with it accordingly. The problem in all these projects comes down to ambiguity—the rug being pulled, as you described it. That is what everybody struggles with.

- Q181 **Paul Girvan:** How do you think you will protect the risk calculation that you have to put into a contract? How do you ensure that you are not putting an unfair balance on that? I understand that contractually policies change halfway through a Government. A Government can make a change of direction, and, as a consequence, you, as a private company providing the technology or delivering the project, are left carrying the can. How can you ensure that you get that underwritten, or is that part of the writing of the contract?

Malcolm Brown: It does not have to be underwritten. In certain circumstances, yes, we would be looking to underwrite it, “We are not going to do this,” if it is totally outwith our control. For example, Angel Trains has invested in 95 bi-mode trains costing £232 million. We are getting them built just now. They are being assembled in the north-east at Newton Aycliffe. A bi-mode train is a pantograph. It can run under the wires or you can drop the pantograph and it has a diesel engine. Forgive me if I am telling you things you know.

The Rail Minister has just announced that diesel engines will go in 2040. I do not even have the trains delivered yet and I have a 30-year asset life on them. How do I protect myself from that? In the analysis for buying that train, we anticipated that there would be issues with diesel engines, so in the design of the train we went for an electric train that has a power pack that happens to be diesel today, but that we can drop out and either run it as a purely electric train or put in whatever the alternative will be in the future and run it that way. That is me managing my risk.

- Q182 **Paul Girvan:** But that is putting in an initial up-front cost, because you have had to design something that is a hybrid model and that has to be flexible.

Malcolm Brown: Yes.

- Q183 **Paul Girvan:** You could have put in a cheaper design had you known at the outset whether or not you were going to have to make those adjustments.

Malcolm Brown: Not in that specific case. That train is going to run where there are not any wires, so I was always going to need a power pack of some description. It is not whether I have two sources of power. I was always going to need two, so there is no additional cost in that. The



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additional cost will come in 20 years' time when I have to take out the diesel engine and put something else in. I get what you are saying, but it is not quite that way. You are right that, by not having a clear, long-term policy, costs can be put into the system that are unnecessary.

Q184 Chair: If the risk is borne by the private sector, will the private sector not have to put significant cost in because of that risk? Will it be cheaper than doing it in the public sector, as Network Rail is at the moment?

Malcolm Brown: It is straight economics. It should be exactly the same figures as Network Rail is working from. You are working in a risk and you are putting a price on that risk. If that risk is within our control, we can bring it right down. We invest in assets all over the world in different fields, and we factor in those things. It is straight economics. I am not sure why Network Rail could be cheaper.

What the private sector brings is a degree of rigour and commerciality. I am on the hook to get this right. I bought those trains two years ago, and, when the announcement about diesel engines came out, fortunately I could go back to my papers and say, "I anticipated diesels would go and therefore it will be a different power pack." It is that rigour and accountability that I am on the hook for.

Q185 Chair: How easy is it to identify parcels of work where it is within your own control rather than being interdependent?

Malcolm Brown: That is what we do for a living. That is what I am employed to do. I am looking at different parcels of risk, whether it be an airport, a shipping line or a port. I am looking at them as opportunities and risk combined. That is what we do, and that is how we invest right across the piece. A cross-relationship puts a different price on it. You are then looking at contractual relationships with others to make sure they stand up to it.

Going back to Luke's point, I am against PFI in the rail industry because I do not think it works. For lots of different reasons, I just do not see how it can work in the rail industry—for certain assets maybe.

Q186 Chair: Alan, in your submission you emphasise that Network Rail has a very inefficient approach to asset protection when third parties work on the railway. How significant a disincentive is that to third-party investment?

Alan Price: It is something that third parties really struggle to understand, certainly infrastructure investors. There was a scheme recently to electrify by a third party to Hull, because that is where an open access operator operates trains to. It was engaged with a contractor who was completely competent to provide asset protection resources to Network Rail, but Network Rail insisted that it had somebody watching the people who were capable of watching it in the first place. It got very frustrated by the level of scrutiny that was put on it and by the additional resources that were required, and the additional costs that were then



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transferred to it. All asset protection resources are a cost to the third party.

Q187 **Chair:** Network Rail, in response to the Hansford review, says it has now implemented a clear asset protection service level agreement to make it easier to work with Network Rail. Are you seeing a new approach, as it describes? Is that improving the situation?

Alan Price: The service level agreement still means that it is providing the resources and the bureaucracy that goes with it. The fact that there is a service level agreement has not actually removed the need for those people, from what I can see.

Q188 **Chair:** They are still supervising the supervisors, as you see it.

Alan Price: Yes.

Q189 **Chair:** What would need to change to improve that situation? What would make it easier?

Alan Price: If they have contracted on their own frameworks, which are competent to do the job, why would they need people to supervise people they had deemed were competent in the first place?

Q190 **Chair:** What would be the arrangements for maintaining standards or quality assurance?

Alan Price: Any contractor working on the network has to work to the standards. All we are doing is talking about taking away the people who are watching.

Q191 **Chair:** But presumably they need some sort of checking mechanism. How do you ensure that people stick to the standards, even if they are accredited?

Alan Price: I am sure that Network Rail has project managers who watch the people watching the people.

Q192 **Iain Stewart:** Rob, I want to pick up your earlier comments about the gold-plating of standards that we often have in investment projects. First, I want to confirm that this is not about skimping on safety. It is about looking at what you actually want and what the product does. The example that comes to mind is the new platform at Doncaster station, which is referred to as Doncaster north, because it is so far from the main station. It is for regional services but is kitted out to take TGVs from the European network. Can you confirm, first, what level of product you want? Can you give me some evidence as to why this gold-plating has deterred investment from third parties?

Rob Morris: Let us take a signal gantry as an example. What has happened in the past is that specifications have increased such that gantries have become heavy duty to match all sorts of circumstances. Those gantries have maintenance platforms; because of their weight and size they need heavy foundations.



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The reality is that technology has moved on; for example, things are lighter. Signals are now equipped with LEDs, which have a 30-year life. As a consequence, you do not need a maintenance platform because the number of times they will need to be accessed in that time is minimal. A lot of additional cost has gone into that signal gantry for no reason whatsoever. If you are going to try to attract third-party investment, the best way to do it is with standards that are fit and appropriate and allow innovation and technology to play a part.

Q193 Iain Stewart: Do you think that the culture within Network Rail is going to evolve in a way that allows that to happen?

Rob Morris: I think we are already seeing signs of that. After the Hansford review, Mark Carne and his team were encouraging the supply chain to challenge those standards. An annual review of those is being undertaken. At the same time, RIA is involved in helping Network Rail identify standards where a more risk-based approach can be taken.

Q194 Iain Stewart: I have a final question on that. Do you think the power to make those decisions is at a level sufficiently close to the project to enable common-sense decisions to be made, or is it set far too high up the hierarchy?

Rob Morris: It is high up in the hierarchy now. I see challenges from the route managing directors, who say, "Why are we building these gantries? Why are we doing deep UTXs on ground crossings?" Asset managers are now starting to challenge those, so it is starting. That behaviour is not wholly across Network Rail, but the culture is starting to change.

Q195 Chair: Is it all about Network Rail? Are some of these standards European or national? Is it about understanding and interpreting the standards? What is the problem?

Rob Morris: Personally, I think it is national. I do not think it is international. It is around indiscriminate use of standards across the whole of the network without a risk-assessed view locally on each project.

Q196 Chair: From your perspective, it is Network Rail?

Rob Morris: Yes.

Q197 Chair: Do the other members of the panel think the same?

Malcolm Brown: I think it is about the interpretation of the standards.

Q198 Chair: By Network Rail.

Malcolm Brown: Yes. By their very nature, it cannot be exclusively by Network Rail, but it is the biggest procurer, so, yes.

Alan Price: Rob's signal example is a really good one. It is over-designed because it has been added to and added to. If we look at what



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has driven the really big cost increases, it is not just about the standards but about specifying the scope.

To take a good recent example, the east-west rail project was put out as being contestable. The first thing that people like Phil Verster did when they went in there was to call for a review of the scope. When people did a review of the scope, there was all sorts of stuff buried in there; the standards had driven some things and then the route had asked for something because somebody else was paying for it, and somebody else had asked for other things.

There was one ridiculous example. Originally, the scope included electrification, so a bridge was being raised for electrification. Because the bridge was being raised and it was a single-track bridge, it had to be widened to a double-lane bridge. Because it was near a roundabout, the people in Bicester said, "Can you upgrade our roundabout, and, by the way, the roundabout ties into a bypass that we are going to make a dual carriageway, so you need to make a roundabout fit for a dual carriageway?" It added £10 million of costs to the project. When we said, "If you delete electrification, you will delete all of that scope," they said, "But we have agreed all that." It should never have been part of the scope. That is not a standards issue. It is just a horrendous lack of control of the scope.

Chair: That is a sort of mission creep. Everybody wants their little bit of improvement off the back of the project.

Q199 **Luke Pollard:** I have a quick final question. We have had difficulties with CP5 and the funding. There has been over-specification of procurement in the past and other difficulties around railway spending, procurement and projects. Do you feel that the industry is sufficiently robust with Government and has the avenues to explain to Ministers and officials what is wrong with the system? It seems that with CP5 various problems were known about quite a long way in advance. Over-specification of projects has not just hit us in the face; it is something we have known about. Do you think there are sufficient channels between industry and Government, whether privately or publicly, where you can have those necessary conversations?

Malcolm Brown: Certainly, from the rolling stock perspective, yes. Whether the comments are listened to or dealt with is a different matter, but the channels are there, yes.

Jonathan Willcock: I would say the same. You can certainly have the discussions. We have been through a significant challenge with the boom and bust in CP5. We have certainly been able to have the conversations, but, on the ability of people to change direction, it is very difficult.

Q200 **Luke Pollard:** If you have all been having these conversations and if everyone has been flagging up that there is a big problem coming down the track, and the conversations are as open and robust as you suggest,



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why did they fall into the same trap that industry was flagging up to them, with over-specification and problems with funding?

Chair: Does anyone want to answer that?

- Q201 **Luke Pollard:** It might be more rhetorical. In relation to where industry sits, you have a lot of expertise and a lot of experience, but it seems that the client is not as informed or as empowered as it perhaps needs to be to make good decisions in this process. What I am trying to understand is whether you, as suppliers or contractors, however you define that relationship with Network Rail or Government, feel that you can challenge sufficiently to get best value out of the system.

Something clearly has not worked, to get us to this point. I am wondering whether you feel that the lessons have been learned sufficiently so that when we get to the end of CP6 we are not going to be in the same situation, saying, "Well, CP5 didn't work very well and we are still in that place now, but all our conversation routes are robust to get there." What do you think needs to change, or has changed, which will alleviate those concerns so that we are not going to be in that place?

Alan Price: A lot of us alluded to it earlier. The supply chain is engaged far too late in the process. Often, the DFT specifies that it wants to buy something. Network Rail then turns it into a project. It gets to GRIP 4 and the supply chain is asked, "How much can you build it for and by when?" When you look at it, you might say, "Well, if I started from here, I would not want to get there." It is too far down the road before the DFT decides what it wants to fund, rather than actually talking to people who have the experience. As I said earlier, if you ask Network Rail to deliver a project, it will be a large infrastructure project, and it does not always have to be.

- Q202 **Chair:** Is there something that will drive the cultural change in Network Rail that you have just said needs to happen? Is it just the fact that it cannot add extra money to its RAB? Is that sufficient to drive the cultural change that we need?

Alan Price: The problem is that the DFT has been somewhat guilty of throwing projects over the fence to Network Rail too early. Someone needs to specify what the problem is before it gives it to Network Rail.

- Q203 **Chair:** Are you confident it is going to happen in the control period coming up?

Malcolm Brown: On the rolling stock side, I have lost count of the number of reports that have been written about Government, on the broadest possible spectrum, procuring rolling stock and paying too much for over-specifying it. There is a statement that Government are no longer going to procure rolling stock; they are going to leave it to the market to do.

We have collectively been able to drive the cost of a train vehicle down to the 2006 pricing. We have been able to do that by commerciality, production lines, and so on. As long as we can continue with that process,



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we should be okay. If we start dabbling and meddling again, the costs are just going to go up.

Chair: Thank you very much for attending today. That concludes our session.