

Transport Committee

Oral evidence: Rail infrastructure investment, HC 582

Monday 30 April 2018

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[Watch the meeting](#)

Members present: Lilian Greenwood (Chair); Huw Merriman; Grahame Morris; Daniel Zeichner.

Questions 390 - 493

Witnesses

I: Jo Johnson MP, Minister of State, Department for Transport; and Brian Etheridge, Director of Rail Network Services, Department for Transport.

Written evidence from witnesses:

– [Department for Transport](#)

Examination of witnesses

Witnesses: Jo Johnson MP and Brian Etheridge.

Q390 **Chair:** Welcome, and thank you for coming along today. For the record of our proceedings, could you introduce yourselves?

Jo Johnson: Good afternoon. I am Jo Johnson, Minister of State for the Department for Transport.

Brian Etheridge: I am Brian Etheridge, director of network services in the rail group in the Department.

Q391 **Chair:** We want to start with a few questions on regional investment in our railways. The Department has questioned the value of analysing regional trends in spending on transport infrastructure, but how else can we tell whether regions are receiving their fair share of transport spending?

Jo Johnson: First, thank you for having me. This is my first appearance before the Committee and I am pleased to be here.

It is an important question to start with. We do analyse regional spending in the Department. We look carefully at studies—for example, those done by the IPA—and that has provided an interesting breakdown of spending across the country by region, which has shown a different light from what is often suggested for the mix of transport spending across the country.

It is often suggested that London and the south-east dominate our public spending on transport. The analysis the Department looks at has found that it is the north-west that does best overall, with the north—the three regions of the north-east, the north-west and Yorkshire and Humber—having a total of about £10 per head more than the south. The Department does look at it; for example, we have looked at the Infrastructure and Project Authority analysis I have just cited.

Q392 **Chair:** I have not seen the specific figures you are referring to, but if we look back over the last few years, from 2011-15 to 2015-16, at public spending on the railway by region, London has had over £20 billion and the east midlands has had £1.2 billion. London has had way more than any of the other regions. Even in the past year, London's total transport spending was £973 per head, of which £746 per head was on railways, compared with the south-west at £277 per head, of which £94 per head was on railways. London is way above anywhere, including the north-west, which is £203 per head on railways. Isn't that a problem when it comes to fairness?

Jo Johnson: I would be interested to see the numbers you have cited.

Q393 **Chair:** They are from the Treasury's country and regional analysis and a paper by the House of Commons Library.



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Jo Johnson: As the Committee knows, when we look at transport spending we do not look at it on a per head basis. We are guided by the business cases that come to us. We are keen to support strong business cases wherever they are in the country, and we are helping regions, wherever they are, to develop strong business cases that we will be able to support. That is why our support for bodies such as Transport for the North, Midlands Connect, Transport for the South East and England's Economic Heartland is important. It enables those regions to speak with a more powerful voice to Government, and pull together business cases that are more likely to be successful in bidding for public funds.

Q394 **Chair:** To be clear, do you or do you not accept that, according to the Treasury's own analysis, London has had five times as much total spending than any other region?

Jo Johnson: I would like to see those figures. What I can tell you is that, according to the Infrastructure and Projects Authority, central Government transport investment is more balanced than the numbers you suggest, and that all regions are within 33% of the average spend per head per region, with the north-west expected to receive the most spend per head between 2017-18 and 2020-21.

Q395 **Chair:** That is looking forward over quite a limited period. You are saying that in the future there will be a greater share going to the north-west and other parts of the north. There will be more equal distribution, but do you think that to date transport spending has been fairly distributed?

Jo Johnson: It is driven by the assessment that the Department makes of the value for money of the schemes presented to it. I would be interested to see the breakdown you have presented, and we can take a view on it.

Q396 **Chair:** Are you not aware of the Treasury's breakdown?

Jo Johnson: I have not seen the numbers you cited, but I am happy to take a look at them if you provide them to us, or we can provide them.

Q397 **Chair:** What is your definition of fairness? Is it just about what has the strongest business case, and therefore that is fair, or do you think there should be similar levels of spending in different regions? Do you think that it should be similar on a per capita basis, or just similar in total quantum? What is your view?

Jo Johnson: We are keen to support more investment in the regions where there is a strong business case for it. Obviously, we have to be attentive as a Government Department to value for money for taxpayers, and ensure that we do not fund schemes that have no sensible business case underpinning them.

We are trying to help regions develop strong business cases. We recently put out guidance for a regional rebalancing toolkit that helps them flush out factors that may not be captured in a classic business case, in



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particular in the benefit-cost ratio. There are sometimes factors that are hard to capture in a narrow monetary sense, and we are keen to help regions, local authorities and local enterprise partnerships, when they are thinking about developing business cases, to pull out the factors that might support their case so that we can take a more rounded view when making a funding decision.

Chair: We would like to ask you further questions about the rebalancing toolkit and what impact it might have.

Q398 Grahame Morris: Minister, I am slightly perplexed by your answers. You said you did not recognise the figures, or that you were not familiar with them. They were published by the House of Commons Library. It is quite clear that the spend in the north-east region was £1 billion and the spend in London was £21 billion in the five-year period up to 2015-16. The transport spend per head on railways in my region, the north-east, was £110, and in London it was £746. Without getting into a row about methodologies, how are you going to demonstrate the Government's commitment to addressing regional disparities and inequalities when, however you look at the figures, there is massive imbalance in the spend, particularly between London and some of the peripheral regions?

Jo Johnson: We are committed to investing in all parts of the country that would benefit from public investment in our transport network, and we assess business cases on their merits. We are keen to support regions to develop positive cases that we can invest in on behalf of taxpayers, but you will understand that, as custodians of public resources, we cannot invest in schemes that lack a strong business case.

Q399 Grahame Morris: A little earlier, you referred to how the rebalancing toolkit would work in practice. How do you expect it to benefit regions such as mine, specifically the north-east? How will it work in practice to meet economic needs? You mentioned demonstrating a business case. How will it do that?

Jo Johnson: Effectively, it is a checklist of things that the promoters of specific schemes can ensure they have thought about when developing a business case so that they do not miss an opportunity to bring to light elements that will be attractive to funders. For example, is the scheme aligned with the broader strategic economic development of the area? It is basically a checklist of questions about potential evidence that can help them describe the rebalancing case for a specific transport programme.

Q400 Grahame Morris: Is there not a risk that it is skewed in favour of areas that are already economically buoyant, such as the south-east, and London in particular? Some of the planned spend after 2021 is very much geared towards London. I hate to mention Michael Portillo's great train journeys in articulating the case for economic development, but if we had followed the Government's line, the west would never have been won in the United States, would it? Those opportunities to develop markets and create employment would never have existed. Is there an argument that



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the methodology is skewed to favour London and the south-east?

Jo Johnson: It is precisely that problem and challenge that the rebalancing toolkit tries to address. Clearly, if a higher economic value attaches to schemes in the south-east, it will make it harder, with finite resources, for schemes in other parts of the country to compete against them. The rebalancing toolkit is supposed to enable regions to develop other aspects of their business case to complement the benefit-cost ratio so that the Government Department or the funder, whoever or whatever it is, can take other factors into account as well.

Of course, transport spending has a big part to play in ensuring that we do not entrench prevailing economic strengths and reinforce them in a repetitive way. We need to use transport as a means of galvanising economic development in all parts of the country.

Q401 **Grahame Morris:** We heard evidence in earlier sessions from Midland Connect, making the case for transparency, that data on proposals submitted using the rebalancing toolkit should be open to public and parliamentary scrutiny. Do you agree with that?

Jo Johnson: Which data in the toolkit?

Q402 **Grahame Morris:** Data putting forward a business case for funding particular schemes.

Jo Johnson: It is an idea we can certainly consider. I have not encountered it before.

Q403 **Chair:** The rebalancing toolkit might provide a checklist, but we are concerned that, if it still has to be consistent with the economic case, inevitably places that are more densely populated and prosperous will still have stronger business cases and be the recipients of investment. Can you give us an example of where the toolkit has been used, and explain how it made a difference to the decisions made by the Department about investment?

Jo Johnson: It is relatively early days for the toolkit. Unless Brian corrects me, I think it is in the process of being developed and made available to potential bidders and promoters. It is early days for me to be able to provide you with a number of examples of how it has fleshed out a business case, unless Brian has any examples.

Brian Etheridge: I think that is right. If I can help the Committee just a bit, there is a seduction to look at just the benefit-cost ratio as one aspect of the business case appraisal methodology. Of course, we use five cases, of which the strategic case is one, so the purpose of the toolkit is to make sure that promoters, or anyone, including ourselves, have a much more rounded and coloured-in view of exactly what the business case is providing. The economic case provides for the strict BCR, but the strategic case looks at much wider societal benefits; it looks at the overall context of the development of the area and the economic appraisal of the



plans of local authorities and LEPs. Those enable us to colour in a business case much more fully than just the BCR.

Q404 **Chair:** Is that a recognition that there is a problem that needs to be fixed?

Brian Etheridge: I am aware of the figures you mentioned earlier. As the Minister said, we have more up-to-date figures from the IPA. What it illustrates is that there are lots of ways of looking at the problem. Just looking at the amount of cash spent in an area is not necessarily a reflection of the benefits that accrue from that. We are looking at 30 to 40-year investment periods. There is a cycle that goes with those investment periods. More money will be spent in some than others; some interventions are inherently more expensive than others, and then there is the conundrum that if you make a development in one area, particularly closer to London, all the people, particularly those on a train line, who benefit from that intervention in getting to London are in some way benefiting from it. We recognise that most people turn almost automatically to the BCR as the defining criterion for how we make investment decisions, and we are just reminding people that there are many other aspects that should be considered.

Grahame Morris: Following on from that, I think you are absolutely right about investment periods and the historical levels of investment that a particular region has received. My impression is that you are disputing the IPPR figures as too crude. They measure investment just over a particular year, or a five-year period. Looking at the cost-benefit analysis, the toolkit and the five elements, my concern is that that does not take into account, in the figures from the IPA that the Minister quoted, in regions such as mine, that there is historical underfunding. We have had very little funding for a very long period of time in the north-east. An attempt to compare apples with apples is very difficult because we have historical under-investment in the north-east that needs to be addressed. That is a statement, not a question.

Q405 **Chair:** Do you accept that the north-east has suffered from lack of investment over a long period and has a long way to go if it is to catch up?

Jo Johnson: We acknowledge that there is certainly a productivity gap in parts of the country. Some of that can be attributed to a host of factors: lower levels of R&D; different types of transport infrastructure; different levels of skills in the local labour force and so forth. A host of factors explains differing productivity levels across the country, and certainly transport infrastructure will have a part to play in all of that. Looking forward, which is what we can reasonably do from this point, we are ensuring, as per the IPA numbers that I cited, that the north is getting, per head, the most in the period ahead.

Chair: That is a matter of dispute, but we will come back to it.



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Q406 Huw Merriman: Any of us can claim that our own region does not get as much as it should. The south-east is often taken as getting plenty, but you and I both know, being in the south-east, that Southeastern and Govia Thameslink carry as many passengers as the two rail providers in the south-west, Northern Rail, the two providers in East Anglia, and Wales and Scotland all put together. In that sense, it is interesting that Northern Rail receives a per passenger per kilometre subsidy of about 25p, but the two south-eastern providers receive between 4p and 6p. Of course, I would say that the south-east is not getting as much, but how do you distinguish between them, so that, on the one hand, you try to boost parts of the UK that need further investment and, on the other hand, you do not leave behind the regions that may be essential to provide the subsidy that then goes back into the coffers to provide the money? It strikes me as a very difficult balancing act, and I wondered exactly how it is done.

Jo Johnson: Of course, it is always a challenge. In any one control period, different regions will appear to do better than others because of the lumpy nature of investment in the transport network. It will never be easy to have an apples-for-apples comparison from one control period to the next because of the long life cycle of many of the assets that are being created through public investment.

To address your question, we are investing very considerable sums in the rail network overall. It is about £48 billion in control period 6. That will benefit all passengers across the country regardless of where they are travelling from and to.

Q407 Huw Merriman: We have talked about the north-west and London; you have used the north-west and we have looked at London. Those are examples where the mayoral position is quite powerful. Do you think there is a danger that regions that do not have the advantage of a mayor to join them together will get left behind, because they do not have that powerful presence to win more of the share?

Jo Johnson: It is certainly true that combined authorities and areas that have elected mayors will have powerful voices, and an ability to put together comprehensive, well-analysed and thought-through business cases to funders, and that may put them at an advantage. Obviously, the Department for Transport will continue to look carefully at all schemes wherever they come from in the country, and will offer support to local promoters, whether local authorities or local enterprise partnerships. Regardless of whether or not they are within combined authority areas and have mayors, they will continue to get support from the Department for Transport to develop good schemes.

Q408 Huw Merriman: Over the next 25 years, the population of the south-east is expected to grow by 16%. Where are future population growth calculations taken into account when we look at planning ahead for spending in certain regions? Is that growth taken into account?



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Jo Johnson: It certainly is taken into account. Within Network Rail there is a long-horizon planning process; it has a 30-year horizon. That would certainly take into account demographic changes in the country, and shifts in population within regions, in its assessments of transport needs.

Q409 **Chair:** You just said that, looking forward to control period 6, there would be £48 billion-worth of spending and that would benefit all regions. Those of us who looked forward at the start of control period 5 might have expected significant investment in a variety of regions, but what is delivered is not always what was planned. One of the issues that has concerned the Committee is what has happened around the electrification programme. Since we had a Minister in front of us, we have had a National Audit Office investigation that found that the main reason for the cancellation of electrification schemes in the midlands, south Wales and the north-west was simply that the schemes were no longer affordable. Would it not have been better if the Department had been clearer about this from the outset, and that that is why investment in those regions has been cancelled?

Jo Johnson: The reasons for the cancellation of the schemes were set out last year when the Secretary of State put out a statement announcing it. Essentially, they were cancelled because, since the time they were first announced, new technologies have developed that enable the bulk of the passenger benefits to be realised by other means, principally through the arrival of the new bi-mode trains. At the same time, the cost-benefit ratio of the schemes had deteriorated, although that was not the principal driver of the decision to cancel them. The principal driver was the emergence of better value-for-money ways to deliver passenger benefits.

Q410 **Chair:** Minister, I hear your answer, but that is not what the National Audit Office said. Despite what we heard from the Secretary of State, and in the statement he issued to the House in July, the NAO said that the reason those schemes were cancelled was not that there had been a change in the cost-benefit analysis but simply that the Department had run out of money. On the Department's claim about the passenger benefits of bi-mode operation, which is not a new form of technology, it said that "bi-mode trains with the required speed and acceleration did not exist when the Secretary of State made his decision." Are you saying that you think the National Audit Office was wrong when it reached that conclusion?

Jo Johnson: No. I think we are arguing over a point that has led to some misunderstanding. The technology at the time the cancellation was announced last June was already being trialled on the Great Western main line in substantially equivalent form to that which would ultimately be necessary. I do not think it is quite fair to say that the technology did not exist; it was already in trial in basically equivalent form, and the Secretary of State could see that, as and when DfT wanted to procure substantially equivalent trains to run on the east coast, the Great Western main line and the midland main line, he would be in a position to do so. They did not exist because they had not yet been procured, but



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the technology was already being trialled and was substantially available once the procurement process took place.

Q411 **Chair:** There are plenty of people in the rail industry who would dispute what you have just said, and the National Audit Office report disputed it. It said that “bi-mode trains with the required speed and acceleration did not exist when the Secretary of State made his decision.” At the time the Great Western main line electrification was being carried out, there was always a plan to have a mixture of bi-mode and electric trains, and bi-mode trains do not have the acceleration in diesel operation that they do in electric. Isn’t that the case?

Jo Johnson: My understanding is that they were being trialled on the Great Western main line at the time the announcement of the cancellation was made, and that, with a very minor upgrade, they would reach the required speeds to deliver the benefits that electrification would otherwise have secured by other means and at much greater expense, not only in money but in disruption to passengers travelling on the network while the works were done.

Q412 **Chair:** Where is the evidence that bi-mode trains in diesel operation can meet the speed and acceleration required to operate to 125 mph on the midland main line?

Jo Johnson: I might pass the more technical aspects of your question to my colleague Brian, but my understanding is that the speed requirement is 120. Am I right in saying that?

Brian Etheridge: It is absolutely true that our advice to Ministers at the time was that a train operating to those characteristics did not exist, but we did not think that that was an insurmountable problem, partly because, as the Minister says, we were already looking at trains on the Great Western in an unmuzzled mode, which simply means the way they were delivered. Their characteristics would change. They were already able to run at greater speed.

If you do not push the market, you will not get a response. We now know that people such as Bombardier have come forward to say that they are developing a train able to run both in diesel and in electric at 125 mph, with the option of taking out the diesel engines as electrification progresses. That was not a surprise to us; we expected it to happen, and it will be in time for the competition on the midland main line, where those are the characteristics we are looking for.

Q413 **Chair:** I accept that Bombardier believe they can deliver a train that meets those characteristics, but am I right in thinking that there is no evidence of a train currently in operation that meets the requirements we would need to deliver the same passenger benefits?

Brian Etheridge: The trains currently running on Great Western are getting very close to that. They are probably capable of 125 mph. I am



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not sure whether they are achieving that in running practice at the moment, but they are certainly running at 120 in diesel mode.

Q414 **Chair:** We know from the National Audit Office report that the Government knew they were going to cancel the midland main line and Lakes line schemes in March last year. Why did they wait until July, on the day the House rose for summer recess, to make the announcement?

Jo Johnson: That was before my time, but I assume the announcement was not made because the decision had not been taken. I do not think a final decision had been taken until the moment you mentioned.

Q415 **Chair:** That is not the finding of the National Audit Office.

Jo Johnson: As I understand it, the Department continued to examine the projects until the time of the final decision and its announcement.

Q416 **Chair:** You do not believe that it could have been to avoid scrutiny by announcing it on the final day before the summer recess, and not even in an oral statement.

Jo Johnson: These schemes are often complex and require a lot of analysis, and that can often take Departments up until the last sitting day of Parliament, and then there is a rush to get announcements out. That is often the way Government business happens.

Q417 **Chair:** Even though the National Audit Office found that the decision was made in March in respect of the midland main line and the Lakes line, albeit not for Cardiff to Swansea.

Brian Etheridge: The NAO is very clear that a package of measures was put to the Chancellor and the Secretary of State for Transport earlier in the year. That package was accepted. The NAO says we continued to work on it, as we did, to work out fully what exactly the implications would be. I am with the Minister on this one. Rather than the parliamentary timetable being something to get statements out, it is the last chance we as officials have, so I am afraid it is working up to that as a deadline. That is often the way.

Q418 **Chair:** That is very unfortunate. When Alstom gave evidence to this inquiry, they told us they felt that there was still a compelling case for electrification of the midland main line and that they had presented a proposal for a privately funded scheme. Has the Department engaged with third parties to seek alternative funding for the cancelled electrification schemes?

Jo Johnson: Not that I am aware of.

Brian Etheridge: We have discussions with people all the time. A lot of people come to us with proposals for investing in the railway. We have recently put out guidance to assist those people to do that. We are still bound by schemes having a good business case. When we unwrap some of the proposals that are made to us, they may be good for the people



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promoting them but they are not necessarily good for the Government or the taxpayer.

Q419 **Chair:** Are you saying that you have considered proposals on electrification and they do not have a good business case, or are you not sure?

Brian Etheridge: I am not aware of a specific worked-up proposal from Alstom that I could have studied to answer that question. I am aware that people constantly approach me with ideas for how they might invest in the railway.

Q420 **Chair:** Is the Department open to the idea of using private sector funding to electrify the midland main line, or are you committed and tied to the less efficient, less sustainable, bi-mode operation for the long term?

Brian Etheridge: Of course, we are very open. The point of issuing guidance this year and inviting people to two stakeholder days, which I think will take place very shortly, in May, is exactly to see what other opportunities we have for investing in the railway.

Q421 **Chair:** Minister, does it not seem strange to be in the process of expecting to purchase new bi-mode trains, which essentially are diesel trains once they leave the wires, and at the same time setting a challenge to the railway to phase out diesel trains by 2040, which is well within the lifetime of a rolling stock asset?

Jo Johnson: No, I do not think it is inconsistent at all. We want the railway to play its part in reducing our carbon emissions as a country. Emissions have been rising in recent years, partly through increased usage of the network over the past couple of decades. We want the railways to play their part in reducing emissions. That was why I set the sector a challenge to come back to me with a road map for how we could move towards a zero carbon railway. I look forward to getting their response later in the year, in the autumn.

With respect specifically to bi-modes and their part, bi-modes are potentially a bridging technology to a low-carbon future, in the sense that the diesel element of the bi-mode can in time be replaced by other power sources, whether it is electricity stored in a battery, hydrogen units or other technologies in development. That is not fantastical; such technologies are already being piloted and developed elsewhere in the world.

Q422 **Chair:** How confident are you that the diesel aspects of those bi-mode trains will be phased out by 2040?

Jo Johnson: It is an ambition. I have challenged the industry to come back on that, given that we share the goal of reducing the emissions in our economy. The rail network is an important part of our economy and it has to play its part too. I want the sector to say how we can achieve that



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ambition. That is what is going to happen in the autumn with the working group led by Malcolm Brown.

Q423 **Chair:** I think you said there were other places where such technologies were being trialled. Where is that?

Jo Johnson: Various trials are going on. There is a hydrogen trial in the Lakes at the moment, and in a couple of weeks I am going to Lower Saxony in Germany to visit Alstom's iLint hydrogen train, which is being rolled out in that part of Germany.

Q424 **Chair:** Is that something that could be incorporated in an existing bi-mode train, or are you expecting there to be new hydrogen fuel cell rolling stock?

Jo Johnson: I am saying that there are other technologies out there. In time, we anticipate that it will be possible for the diesel pack in a bi-mode to be replaced by other technologies, whether electricity stored in a battery or a hydrogen unit of some sort. I cannot tell you about the interoperability of the technology being piloted in Germany with the specific bi-mode trains that we have coming on to our system now. I do not know the detail of that.

Q425 **Chair:** It sounds as if it is a hope that we will be able to eliminate the diesel engines rather than that you know it as a fact.

Jo Johnson: I do not think you can criticise the Government for setting an ambition for 2040 that we can move towards a zero-carbon railway, and challenging the sector to set out steps it might take to realise that ambition. A Government who did not have that ambition would be accused of not taking their environmental responsibilities seriously.

Q426 **Chair:** Surely, the obvious way to achieve a zero-carbon railway would be to electrify it, which is what all the major rail networks across Europe have done. They are not, for the most part, thinking about how they can use bi-modes and later upgrade them to other sorts of alternative fuels. They are electrifying their railways, aren't they? Why would you not have a long-term programme of electrification, which is a tried, tested and certain technology?

Jo Johnson: Our view as a Government is that full electrification of our rail network is highly unlikely to be the best value-for-money way of achieving the passenger and environmental benefits we are seeking to achieve.

Q427 **Chair:** Highly unlikely. You do not think that electrified railways are effective.

Jo Johnson: It is highly unlikely to be the best value for money. As the best value-for-money means for doing so, we believe that bi-mode technologies have a part to play as a bridging technology towards a low-carbon future.



Q428 **Chair:** How much do you anticipate that converting diesel bi-mode trains into hydrogen or battery-powered trains will cost? How can you make a comparison between that and the cost of electrifying the railway?

Jo Johnson: Those are questions that the working group is analysing and will come back to us with answers on in the autumn.

Q429 **Chair:** But I am asking you now. You have just said—

Jo Johnson: I put the challenge to the sector.

Chair: You just said that electrifying the railway would be less good value for money than converting trains to hydrogen or battery operation. On what basis can you possibly make that assertion?

Jo Johnson: We are seeking the passenger benefits that bi-modes generate, and they are going to be achieved at a lower cost than full electrification of every last mile of track on our railway network.

Brian Etheridge: What we have learned from the electrification programmes that we have, which have been the subject of many inquiries such as this, is that the capital costs are more significant than we thought they would be. Another cost, which we probably have not fully evaluated, is the huge disruption that electrification schemes cause. In assessing these schemes, we have to weigh that in the balance. Great Western and some of the northern schemes are not just a little way out from when electrification was first thought of as the strategy to go for; they are significantly more expensive. The disruption is significant. It has gone on over a significant number of years. We are always trading the cost of both disruption and the huge capital cost against other alternatives. When you do that, the cost of electrification weighs much more heavily in the balance in terms of the available money.

Q430 **Chair:** My contention would be that, yes, electrification has been delivered incredibly inefficiently and poorly on the Great Western, but, surely, we should have learned from that and worked out how to do a more efficient electrification, which would be more certain, rather than putting all our eggs in a basket of technologies that may or may not deliver at a cost that is completely uncertain. I do not see how we can make that comparison at this point.

Brian Etheridge: That is true, except that the great challenge we have is that we are trying to run an operational railway while doing these schemes. Unless there is a considerable change of heart and public policy in that regard, you will always be faced with the fact that it is very disruptive to get on to a railway and build electrification while you are still trying to run significant services.

Q431 **Chair:** It is astonishing that the Department did not think of that five years ago when it committed to electrifying Great Western. Did it not occur to officials that it would be disruptive to the existing railway?



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Brian Etheridge: It did occur to officials that it would be disruptive. Network Rail, on the other hand, had made arrangements for new technology to introduce electrification far more quickly than has actually been the case. Some of this is about working on a Victorian railway. The asset condition is very different; it is not like building a new railway or some of the other interventions we make. We are discovering for the first time how little we know, particularly about the substrata required to fix overhead lines. Some of the topography on Britain's railways is quite a challenge, too. It is almost taken as read that if Great Western, which is largely a straight, above-ground railway with lots of bridges and tunnels, was a challenge, some of the other areas in the country will be even more challenging to deliver.

Q432 **Huw Merriman:** How much work is done internationally with other countries where they may be a little more advanced with this technology? I use the example of the extension to High Speed 1 from Ashford. On an electrification basis, it was estimated to cost about £600 million to extend it to the south-east coast—Hastings and beyond—yet by using hybrid train technology the cost could come in at around £150 million, which makes it viable. The new technology is a game changer, but we come back to this point: is it really there? I am told that other countries have pioneered it. Are we working with countries with that technology, and does that give us cause to be optimistic, or are we very much alone in our pursuit of this proposal?

Brian Etheridge: I do not think we are alone. I imagine it is more a question of Network Rail and the rolling stock companies coming to the market with a proposal that is obviously tried and tested elsewhere. We are aware that in France and, as the Minister said, in Germany these things are not at all uncommon.

Q433 **Huw Merriman:** Would there be any sense in trying to incentivise the technology? For example, we are trying to be the home for driverless cars, lorries and so on. It strikes me that when we have had problems about electrification this gives us a fantastic opportunity to upgrade our rail system in a cheaper way that is also amenable to our Victorian engineering, which you mentioned. What can we do to incentivise and attract the technology? If we rely on just a few providers—the Hitachis and so on—won't they need a bit more incentive to deliver it? For example, are we going to start making contingent orders?

Brian Etheridge: That is something we probably need to take away and look at. It is a broader policy decision. The incentive for them is that the Government are investing significant amounts in the railway, and still have huge ambitions for what they want to do to deliver additional seats and capacity, and additional and faster services. The market might respond, but it is a good question to think about what more we might do to talk particularly to rolling stock providers about their future plans.

Chair: We would like to turn to the new pipeline approach for enhancements.



Q434 Grahame Morris: Minister, can you tell the Committee what steps you have taken to ensure that the Department has the requisite expertise and capacity to take greater control of railway enhancements in the railway network enhancements pipeline?

Jo Johnson: We put in place a plan to learn the lessons from control period 5, which we have acknowledged has not gone in all respects the way we wanted. One of the lessons we have learned is that we need a new way of thinking about how we best do enhancements to the network. In control period 6, we will be taking a pipeline approach, as you said, which means that we will not commit at the start of the control period to a full suite of projects, but we will operate a system of, effectively, three gateways—develop, design and deliver—which, after each one, will require a progressively more detailed and developed business case prior to the commitment of further public funding.

The new skills in the Department are about getting a much tighter grip on business cases before commitments to public funding are given. That is the big lesson from CP5. We felt that we had committed to fund projects before we really had a proper understanding of what they would cost, how long it would take to deliver them and what disruption to the network would be involved.

Q435 Grahame Morris: That is interesting. We have heard previously from the supply chain about the consequences. What steps are you taking to make sure that your officials have the necessary competencies to make those judgments? Is there an overhaul? Are you bringing in people from outside who work in the industry?

Brian Etheridge: Some of it is a collaborative effort with Network Rail and the supply chain. As you know, Network Rail is the principal delivery agent for the Government. To a certain extent, we rely on Network Rail to take some of these measures.

The change we have made in the Department is, as the Minister said, the introduction of those gateways that have a much more rigorous sieve before projects can move forward to delivery. At that point, the Department might be seeking assurances about the quality of the proposal and its deliverability—all of those things—to make sure that it is safe to proceed to the delivery stage. At that point, we can call on additional expertise if we need to, or we can look to our principal delivery agent to assure us of the steps they are taking to ensure the proposals hold water and are worth taking forward at those stages.

Q436 Grahame Morris: Minister, you mentioned the lessons from CP5. I was just looking at the Department for Transport website—I hope you will forgive me—and it lists your responsibilities. You have responsibility for rail, rail security, smart ticketing, devolution, Northern Powerhouse Rail, Crossrail 2 and rail industrial relations. Is the rail industrial relations part new?

Jo Johnson: New in what respect?



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Q437 **Grahame Morris:** Is it a new responsibility for you as the Minister of State?

Jo Johnson: No, I do not believe it is.

Q438 **Grahame Morris:** What does it involve? Have you met any of the trade unions since your appointment?

Jo Johnson: Yes, I have met the RMT. I met them pretty much in the first week of my appointment.

Q439 **Grahame Morris:** In answer to previous questions, you made reference to lessons from what had gone wrong in previous control periods. We have spoken about electrification on the midland line. Do you know what the impact was of the cancellation of the rail electrification programme between Cardiff and Swansea, in particular on 224 skilled workers employed on a project by Amey? Do you know what measures the Government were taking to address any such impact? We have heard from the supply chain about the need to maintain skilled workers in order to take things forward. Were you aware of that?

Brian Etheridge: Cardiff to Swansea was a very poor business case. It ended up at 0.28 or 0.3, which means that, for every pound the Government invested in it, they would have got a return of 30p, so it was not a good investment scheme. Also, with bi-modes, and given the nature of the topography and lay-out of the track west of Cardiff, you gain no benefits.

That said, the Great Western electrification project is still going. It is one of our most significant projects. There are still lots of people working on it, and there will be lots of other electrification schemes coming forward—High Speed 2, Crossrail and so on. This is not turning the back on skills in the industry.

Q440 **Grahame Morris:** Recognising the need to maintain a pool of skilled workers, and given the Minister's responsibility for Crossrail 2 and rail industrial relations, is it possible that there could be a meeting to look at maintaining those skills to see if we can keep that pool of skilled labour in gainful employment?

Jo Johnson: Crossrail 2 is a scheme that is still at the stage of planning a business case. We are not yet at the stage of taking on skilled workers for it.

Q441 **Grahame Morris:** In relation to final sign-off for projects at each stage in the pipeline, who within the Department and Network Rail has final responsibility to sign off projects?

Jo Johnson: Ultimately, significant enhancement projects would come to Government Ministers for sign-off, or certainly to the Department. When relevant, they would be brought to the attention of Ministers for approval.

Q442 **Grahame Morris:** It is ultimately the Minister who is responsible for



sign-off.

Jo Johnson: For significant enhancement projects. Clearly, there is no one threshold to determine what is significant; what is significant is done on a case-by-case basis in the Department. For the bulk of expenditure, you would expect Network Rail to be able to take decisions within delegated limits.

Q443 **Grahame Morris:** Accepting the scale of projects and the limitations, what about timetables? What systems and processes are in place to enable you and officials to turn around proposals for enhancements within a reasonable timeframe? I am talking about substantial programmes.

Jo Johnson: Can you give me a feel for, or an example of, what you mean?

Q444 **Grahame Morris:** What systems and processes are in place to allow you, Minister, and your officials to come to a conclusion and reach a decision for sign-off within a reasonable time? There has been criticism previously about the length of time that it has taken to make decisions, changes and so on in relation to enhancements. Have you initiated changes to systems or processes to allow you to make a decision?

Jo Johnson: The answer to that is yes. The pipeline process is the significant change we have made. As I mentioned before, it has a gateway process—the develop, design, deliver gateway system—whereby, at each stage, you need a progressively more developed and detailed business case and costings for the project.

Q445 **Grahame Morris:** One of the criticisms that we have heard from previous witnesses involved in the supply chain is about uncertainty, and the need to ensure that we do not slow down the delivery of essential enhancement projects. Is it possible that the system that has been adopted, with the three gateways, may actually be more complex, and it might be more difficult to develop a coherent and strategically effective network?

Jo Johnson: That is certainly not the intention. The intention is to avoid the situation where Government commit prematurely to schemes that end up getting cancelled because Government do not have a detailed enough understanding of the eventual cost of delivery, and we end up with the situation we have been in on the Great Western main line, for example. We do not want to be there again; we want to be in a position whereby we commit public money only when we have an absolutely clear understanding of what a project is going to cost and how long it will take to deliver.

Q446 **Grahame Morris:** I have a question about the pipeline approach and the role of the independent economic regulator. The argument is that the pipeline approach to enhancements will strengthen oversight. I am interested to know how that will happen, given that the independent



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economic regulator will no longer have a role in analysing what constitutes value for money. Perhaps Mr Etheridge could answer that.

Brian Etheridge: In answer to your previous question, the pipeline potentially enables you to speed up some parts of infrastructure investment. If you begin to move away from thinking of mega-schemes that have to be fully worked through, to a pipeline with a series of interventions that you make over a long period, there is an opportunity to move forward more quickly on interventions that are ready and proven to be the right thing to do.

I am not entirely sure how effective the ORR's oversight was previously. CP5 may not be a good example of where that regulatory regime was effective in terms of enhancements. Enhancements come back to Ministers making a decision about what they want to invest in, with the Department working with Network Rail. The new process, which is not just about developing schemes for the future but monitoring them as they progress, is in our judgment a much more effective oversight for projects than under the previous regime.

That is not to say that the ORR will have no role in enhancements. In our discussions with the ORR, it is still perfectly respectable to say that Network Rail performance on its enhancements is a measure of its overall performance, so the ORR will still have some oversight. The ORR is also interested in the impact of enhancements on renewals and other maintenance. It is perfectly right that the ORR continues to have some oversight of what Network Rail does for those two purposes. This is now much more like a contract between the Government and Network Rail to deliver specific enhancement projects.

Q447 **Chair:** Most of the people we have heard from felt that it was sensible to move to the pipeline approach, but one of the impacts of taking enhancements out of the control period process is that the wider industry no longer has visibility of what is coming up in the next five years, unless you use the pipeline to ensure that. What will the visibility of the pipeline be? Will we have published, at every stage, the projects that are in the develop phase, the design phase and the deliver phase, so that we can see the range of work that is likely to come forward, albeit that we will not necessarily know what will be delivered in the next five years, and projects might operate at different speeds? Will it be in the public domain?

Jo Johnson: That is one of the changes. We will now be committed only to announcing funding for individual schemes according to a specific timescale that is appropriate to that scheme, rather than announcing all schemes at the start of a specific control period. There will not be a block of schemes right at the start, as there has been in the past.

Q448 **Chair:** I appreciate that there will be different schemes at different phases and at different points in the pipeline, but will the whole pipeline be visible to the public? Will we know what other schemes are currently



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being developed? Will we know which schemes are currently at the design phase and which are coming up or have had a decision to deliver? I am not clear about that. I appreciate that they will not be part of a five-year planning process, but will they be visible?

Jo Johnson: That is something we are giving some thought to at the moment. We want to deliver on the strategic vision for rail. That sets out our priorities for investment in the railway. The level of transparency will be consistent with the strategic vision set out by the Secretary of State.

Q449 **Chair:** If I was running a business that focused on signalling—perhaps not electrification; that is not a good example—or building bridges or something like that, I would want to know what the Department's plans are. Does it have major plans for signalling? Is it bringing forward lots of schemes, and designing and developing them? If that is not published, I do not know how businesses would know what was likely and what work was likely to come forward.

Brian Etheridge: Both the Department and Network Rail have those discussions with suppliers all the time. Network Rail has a process of entering very quickly into a project, into an alliance arrangement with certain contractors. I would find it surprising if the key contractors who work principally with Network Rail, and with ourselves to a lesser extent, did not have visibility of what was coming forward in the pipeline.

As we sit here, Ministers have yet to make a decision about exactly what is in CP6. That might be the time for Ministers to consider whether it is of value to issue the overall pipeline. What we are very nervous about is creating the same dynamic that was created in CP5. There is almost—I am choosing my words carefully—a stampede to get your scheme recognised and published very early on, as if that is a passport to absolute delivery. It is almost like having a big hopper. There are clearly lots of schemes out there. As we work them through in detail, only a smaller number will survive to absolute delivery. You can see the challenge.

Q450 **Chair:** I completely understand that. You have been very clear that there are gateways, with this many schemes in development but only that many schemes that go on to be designed in detail, and this many schemes delivered. Shouldn't Parliament know that information? Shouldn't the public know that information?

Brian Etheridge: Absolutely. We will look at that. The moral hazard, as I am trying to describe, is returning to CP5, where there was an assumption that, because you were in the earlier stages of that pipeline, when it fell out, as we have already said, when we re-examined the business case—

Jo Johnson: There was disappointment.

Brian Etheridge: When new technology comes along or when circumstances change, which is not at all unusual over the timescales we



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are talking about, it looks like a cancellation at that point, as opposed to something that just does not survive the business case appraisal process.

Q451 **Chair:** Having set out the pipeline, it is clear that having something in development does not necessarily mean that it will be delivered. Surely people can understand that.

Brian Etheridge: You might understand that, Chair, but I am not sure that is the way people will see it. One of the mistakes of CP5 was that there was almost a flurry to get on to the first step of the ladder and then to continue to argue for evermore.

Q452 **Chair:** I have two further questions. One of the great drives is for greater devolution within Network Rail and the importance of the route managers in bringing forward some of the ideas for schemes that might get into the pipeline. Isn't there a bit of inconsistency? On the one hand, we have a devolution agenda—devolution within Network Rail and devolution to sub-national transport bodies such as Transport for the North and Midlands Connect—yet at the same time, all those decisions about going through gateways seem to be centralised in DfT. How is that consistent?

Jo Johnson: We think that route devolution within Network Rail will be a really positive driver for efficiency within Network Rail. We expect promoters of schemes entering and progressing through the pipeline to have given serious thought to how their new scheme will affect the rest of the network, and to work closely with Network Rail as the operator of the system. To that extent, they will be joined up. It would be difficult for Government to support any scheme going through the pipeline that had a negative impact on the rest of the network. To that extent, they will be working together.

Q453 **Chair:** But it sounds as though all decisions around the pipeline gateways will be centrally made in DfT. Is that right?

Jo Johnson: I would have thought so.

Brian Etheridge: I think the pipeline will be a much better pipeline by virtue of devolution in Network Rail and the involvement of sub-regional transport bodies. It will be a better-informed pipeline, because they are probably better equipped than we are in the centre to decide the relative priorities for their areas.

It has to be the case, as the Minister says, for probably two reasons. One is that we have to stand back and work out the overall impact on the network of the individual schemes. There has to be someone who maintains the integrity of the appraisal process. We will be better informed. We will be talking with those people all the time. Ultimately, there is only a certain amount of work you can do on the network at any one time. These things have to be controlled centrally, and that is the safest way forward.

Q454 **Chair:** We know that in CP6 most of the £48 billion is for maintenance



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and renewals, and we understand that £9 billion is for enhancements. On the funding for the pipeline, how much is the Department expecting to bring forward in Government funding for enhancements in the next five years?

Jo Johnson: Of the £9 billion?

Q455 **Chair:** No. We know that £9 billion is set out in the CP6 statement of funds available. You have talked about a pipeline, and said that decisions will be made on delivery, on when seems the appropriate time and on when a business case has been proven. There is still a big question about how much money you are going to make available to fund some of the things that are coming through the pipeline.

Jo Johnson: We have not set out the allocation yet. We have not broken it down; we will be doing so in the coming months.

Q456 **Chair:** Will that be published—how much money the Department is expecting to spend on the pipeline of enhancements?

Jo Johnson: I cannot say at this point.

Q457 **Chair:** We do not know whether there will be any more than the £9 billion that has already been set out.

Jo Johnson: I cannot give you any detail as to the level of breakdown of the £9 billion at this point. We have not broken it down yet, and I cannot say what level of detail we will publish.

Q458 **Chair:** Is that £9 billion the entirety of what you are expecting to spend on enhancements, or might there be more than that?

Jo Johnson: I think it is a tiny bit more than that, more like £10 billion, isn't it?

Brian Etheridge: We are expecting to set money aside. The Minister is absolutely right: Ministers have not made decisions yet, and we have yet to put final proposals to them. We are expecting to put aside some sums for the development of schemes throughout CP6, exactly as you say—to pump-prime the pipeline.

Q459 **Chair:** From the £9 billion.

Brian Etheridge: No, from the overall £47.9 billion.

Q460 **Chair:** Okay. But there is not some extra funding outside the £48 billion that has been set out.

Brian Etheridge: No. At the moment, as it says on the tin, that is the statement of funds available.

Q461 **Daniel Zeichner:** I have a similar line of questioning. We have been talking about the relationship between the Department and Network Rail in terms of the pipeline enhancements. Given that Network Rail is moving to a devolved structure, with eight devolved areas, will you be working



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with one pipeline or eight pipelines?

Brian Etheridge: We need to break it down into the different jobs that Network Rail does. Operations, maintenance and renewals are still within the regulatory framework. They are part of the draft business plans that Network Rail has put forward. The regulator will make a decision about whether the amount of money that Government are putting aside for that element of Network Rail's job is sufficient going forward.

The pipeline is more oriented towards enhancements; they are not operations, maintenance and renewals, but the bigger interventions we make on the railway, which deliver a different kind of improvement. That bit is being retained by the Department for a long-term view about what is needed.

Q462 **Daniel Zeichner:** What I am getting at is whether you will be dealing with Network Rail as one entity, or with its new structures, which it sees as almost separate operations.

Brian Etheridge: Both of those things, depending on which part of the jobs Network Rail does, we are looking at. In respect of OMR, which is principally things carried out on a route-by-route basis, we will be looking at the individual routes as businesses. For the overall enhancements, we will be looking at Network Rail and the system operator, but working with the routes at the same time.

Q463 **Daniel Zeichner:** The kinds of projects that will be coming forward will be coming from within those devolved structures, won't they?

Brian Etheridge: No. The projects for enhancements that come forward will be part of the long-term planning process, with Network Rail in the centre taking advice from its routes, and from its consultation with other people, as well as looking at the route studies that Network Rail does from time to time. All of those begin to feed the bottom of the pipeline, to determine the kind of schemes with the best benefit that we might take forward.

If your question is whether I see a disadvantage, in terms of enhancements, to the devolution, I would say that the pipeline will be better informed, because the quality of schemes coming forward at the beginning of the pipeline will be better informed by people locally.

Q464 **Daniel Zeichner:** I still think there is a tension.

I have a further question, which is on the overall judgments about how you balance these projects, with things like Crossrail 1 finishing and Crossrail 2 still being at development stage. The skills that are available will not be around forever. How are you going to balance that? If you do not move quickly, some of those skills are lost, aren't they?

Brian Etheridge: I accept the point. I am not sure what your principal criterion is for moving forward. Looking forward, we would like, if



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possible, to make sure that there is that kind of balance. I am not sure that Crossrail is a good example, because those are meta-schemes.

One of the gateways in the pipeline is for Network Rail to give us some idea about the deliverability of those things, according to the availability of skills in the supply chain. In future, when we develop the overall business plan for enhancements, we will look at factors such as capability within the pipeline and skills moving from one project to another, rather than the way we think about a big project at the moment. There is a temptation to think that there is a big on-button that you immediately press, without thinking about your future order book and the long-term view of the pipeline coming forward.

That is one of the advantages we see of a future pipeline: we should be able to balance what is deliverable with the overall impact on the network and the availability of skills. When key resources are quite limited for some of the supply chain, we are not putting on an unthought-about burden, as we may well have done in CP5, just because we pressed the big on-button and assumed that everything would fall into place.

Chair: We would like to look a bit further at Network Rail route devolution and the system operator role.

Q465 **Huw Merriman:** The RMT leader, in evidence to us, described route devolution and bringing Network Rail more towards the regions as a “halfway house to privatisation.” I do not think he meant that with any relish, but perhaps I could be a little more enthusiastic about the connection with the private sector. Do you believe that this is an opportunity to give train operators a greater say in the work that Network Rail are completing, when they complete it on their customers’ line?

Jo Johnson: Route devolution will make Network Rail much more responsive to train operating companies and passengers, and make it much more outward focused. That is one of the principal benefits. Another principal benefit is that internal competition and benchmarking will become easier within Network Rail, and, hopefully, a driver of greater efficiency and therefore lower costs to the train operating companies and, ultimately, passengers.

Q466 **Huw Merriman:** What about the RMT’s point that it is just a march towards privatisation?

Jo Johnson: No, I do not recognise that at all; it is not one of the objectives. We want the system operator to play an important role in ensuring that the rail network operates as a cohesive whole. That is its role, to help with the timetabling of the system and to help with what Brian described as the 30-year long-term planning. The crucial function of the system operator is getting those sorts of system benefits going, with really coherent planning for the long term, and a timetable that works.

Q467 **Huw Merriman:** You talked about the record amounts of money that the Government are putting in to invest in the railway. Does that cause



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pressure to a certain extent, with Network Rail being required to do a lot to invest that money? Will train operators far too easily put their hands up and say the works can be done at a particular time just because they want the works done and do not want to miss the opportunity, rather than being the guardian of the passenger and saying that it is not convenient at that time and they want the works delivered at another time or in another way?

Jo Johnson: There are always complex negotiations between Network Rail and train operating companies about securing access to the tracks to do works. There is a big cost implication and implications for passenger experience. The optimal mix varies on a case-by-case basis; there is always a trade-off between speed of delivery of the project and passenger disruption, and it varies case by case.

Brian Etheridge: One of our gateways before delivery in future will be that the possession strategy will be set out before we agree to start the delivery, not something that we agree as delivery progresses, for reasons similar to those we discussed. We are thinking about a long-term series of sensible interventions rather than major projects with a big on-button, and off they go. It will be decided up front as part of the decision-making process.

Q468 **Huw Merriman:** Is this where the system operator will come into play? There is a danger, as we have seen, when certain works have taken place and assets have been taken over by Network Rail, and it has not gone as well as it could have done. The difficulty is that the blame tends to go towards the train operator rather than Network Rail. Is this a move towards getting Network Rail to take more responsibility? Does the system operator need to be given more of a role where it is itself under more scrutinised review, now that these changes are coming in?

Brian Etheridge: We would expect the system operator to do exactly that—to give us advice about the impact of the works we are doing on the railway, and about the viability of the schemes. One of the other seductions in the railway is that infrastructure automatically leads to improved passenger services, but timetabling, planning on the network and getting things in the right place at the right time are hugely complex, so we would expect the system operator to play a role in that.

What we look for from the system operator is something independent from Network Rail. That does not mean that it has to be separate from Network Rail; I am sure there are ways they can overcome that problem. It should be responsive to its customers and open and transparent. As long as we can see those things coming from the system operator, and as long as there is free and independent advice to the Department about the impacts, as I discussed, that is exactly the kind of thing that we are looking for from the system operator going forward.

Q469 **Huw Merriman:** As the Network Rail regions work more closely with train operators, to a certain extent it should be seamless; they should



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work very closely together. At the moment, the Office of Rail and Road regulates the performance of Network Rail but does not regulate the performance of the train operator. It has always struck me as slightly odd that there is not the same regulatory approach. Does the joining together give more justification for the ORR to start to regulate train operators' performance and monitor the arbitration behind the contracts, or is there still a case for them to be completely separate?

Brian Etheridge: The difference is that, in effect, Network Rail is still a monopoly, so you can understand why there is an independent economic regulator of what it does. The relationship with the train operating companies is slightly different; they win their franchises in open competition and then become part of the contract with the Department. There is a slight difference of role in the relationship, if you understand what I mean.

Q470 **Huw Merriman:** I do. I will try not to drift off on a tangent, but I think this is still relevant, because, if we are talking about the benefits of bringing the two together, to me it makes less sense to regulate them separately. A very good example would be the franchise agreement that the Department for Transport had in place with GTR and Southern. Because no regulator was in play, it almost became a legal process, or at least a process between the two parties that would ultimately have ended up in court, as with any other contractual disagreement, if, for example, we could not work out what the force majeure clause meant. In a situation where a regulator could perhaps play a role, would it not be possible for that regulator to intervene, give guidance and make determinations? That is currently not there, because they are just two contracting parties trying to work their way through matters such as the one I have just described.

Brian Etheridge: It is very difficult to work out how that might work in practice. I see a disconnect in my own mind between a train operating company that has won a franchise, and is operating under a contract with Government, and some third-party regulator. The franchising system would have to be different to make the role of the regulator make sense, for me.

Q471 **Huw Merriman:** The reason why I say that is that most of the other regulators, such as Ofwat, are still regulating entities that are private, rather than nationalised.

Brian Etheridge: I understand what you mean, but, whether it is power or water, those companies still principally provide that service. For the Network Rail part of it, there is no other party involved that needs regulation.

Huw Merriman: I shall hold it there, because I am disappearing into a different subject matter to a certain extent.

Q472 **Chair:** In relation to the system operator and its enhanced and increasingly important role, is there a case for the effectiveness of the



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system operator to be reviewed? If so, when, and who would undertake it?

Jo Johnson: The system operator itself will be regulated by the ORR, so it will be subject to regulatory supervision, separate from the rest of Network Rail.

Q473 **Chair:** Do you think that is sufficient?

Jo Johnson: It will have its own, separate regulatory oversight.

Q474 **Chair:** Given its important role and, increasingly, the potential for there to be a number of different infrastructure managers, you do not think there is a case for its effectiveness to be reviewed specifically, rather than being regulated.

Jo Johnson: I anticipate that the ORR would be doing that in the process of performing its regulatory functions.

Chair: We would like to turn to look at the increased role that is foreseen for third-party funding and financing.

Q475 **Daniel Zeichner:** I am very pleased to hear the Minister confirm that there is no privatisation of Network Rail. That is very welcome. Obviously, the Government are looking to bring in third parties, and we had the Hansford review last year. How confident are you that the Department, Network Rail and the ORR have made investment as attractive as possible for others to come to the table?

Jo Johnson: We want more ideas to come to us. We recognise that Government do not have a monopoly on good ideas, which is why we have opened a window, with effect from 31 May, for a two-month period for the private sector, private promoters, local authorities and combined authorities to put together schemes that have not been generated by our long-term planning process, which sits within Network Rail's system operator function. There may be good schemes out there—we are sure there are—and we want to use the window we have created to flush them out, alert us to them and enable us to give a steer as to the kinds of things we will be looking for in terms of an eventual business case that might be suitable for us.

Q476 **Daniel Zeichner:** The process seems to imply that people come forward with schemes and then go to a competition. Is it an attractive prospect for people to have to go through that, once they have come up with an idea originally? If they come up with a scheme, why can't they just go ahead with it?

Jo Johnson: We would need to look very carefully at impacts on the network as a whole of any scheme. Any addition to the network could potentially have adverse impacts on the timetable or on other services being operated, and could disrupt the rest of the system. There will still be a significant role for the centre, the system operator and the



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Government, in assessing the viability of any scheme, even if it could be 100% privately financed.

Daniel Zeichner: I understand that, but once the scheme has been suggested, why open it up to competition, with others coming forward at that point? Won't that slow the whole process down and make it less attractive to people to come forward with schemes in the first place?

Jo Johnson: In the first instance, we are trying to generate good ideas. We recognise that there may be ideas out there that compare favourably with what will be schemes in our own pipeline, and we want to ensure that they can compete against them fairly. This is an encouraging and exciting opportunity for parts of the country that feel that they have interesting schemes that are worth undertaking but have not had the attention of Government until now. It is a really promising development to see what good ideas local authorities and others have.

Q477 **Daniel Zeichner:** Who will make the decision as to whether proposals are taken forward? Is it Network Rail or you? Who is it?

Jo Johnson: The window is the first step—seeing what universe of schemes is out there and enabling us to have a good look at them, and then giving a steer to the promoters about the kinds of things they would need to demonstrate in order to be credible. At that point, they would go back and develop the strategic outline and the business case planning process, to give their schemes further credibility for us to assess.

Q478 **Daniel Zeichner:** It seems to some of us that the Department is putting a lot of store in this as a way of getting investment in future, when there does not seem to be much scope from the public purse. How much do you expect to be generated by the new, market-led proposal approach during CP6?

Jo Johnson: I am not aware that we have put a specific value on proposals that might come through that pipeline.

Q479 **Daniel Zeichner:** But you must have some idea of what you are hoping for. What would be a good response?

Jo Johnson: The critical thing is that it will be additional. Any investment in our rail network generated through the market-led approach will be additional to the £48 billion that we have made available for CP6.

Brian Etheridge: It follows on a bit from the conversation we had before. Lots of people talk about proposals that they have, whether for electrifying the midland main line, building a station or whatever. This is a way of bringing those together so that we can look at them and see what is out there, as opposed to the slightly ad hoc approach we get from different people at the moment. As the Minister says, when we have seen that, we need a discussion about what needs to be true to enable some of the schemes to go forward.



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There may not be a procurement. If it is something that entirely stands on its own and people are able to get on with it, the Government do not need to intervene, save for making sure that it does not have adverse impacts on the network. Network Rail would have to be part of any discussion where, if necessary, it joins up. If it is not like that, I am afraid that procurement rules mean that, if there is an opportunity—I am presuming that people will come forward because they see some return for their investment—it needs to be open to other people for fairness to all.

Q480 **Daniel Zeichner:** The procurement rules mean that you have that second stage in the process.

Brian Etheridge: It is very much horses for courses. It will not be one size fits all. We could be talking about very significant schemes or something much smaller. Until we have a view, and a picture of what exactly is on the table, it is difficult to determine the best way forward for each of them.

Q481 **Daniel Zeichner:** But you must have some sense from discussions with investors or local authorities as to the kind of scale you might be hoping for.

Brian Etheridge: One area where we are expecting some proposals is on southern access to Heathrow Airport, for example. That is going to be quite a big scheme. At the other end of the scale, there might be a station improvement scheme, where someone can see a wider value to improving a station or, indeed, building a new one. It really will vary from schemes worth several billions of pounds to much smaller ones.

Q482 **Daniel Zeichner:** Mark Carne said to the Committee that he hoped that third parties would add substantially to the £9 billion or £10 billion we are talking about. Hope does not seem enough, really, when we are looking at the future development of our railways. It has to be more than that, doesn't it?

Jo Johnson: We want to put in place an easier process for private finance to invest in the rail network, and the market-led proposal window will be the first stage in doing that. We need to build confidence in people that there is a viable route for private finance, and that it is part of an exciting opening up of the sector.

Q483 **Daniel Zeichner:** What happens if it does not materialise? What is plan B?

Jo Johnson: Plan B is that we carry on with the £48 billion that we have set out, which in itself represents record investment in our railways over the next control period.

Q484 **Daniel Zeichner:** Do you really think that is enough? If that is all that is going to be available for the next period, is it really enough?



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Jo Johnson: It is more than any previous control period. It is a significant investment. For example, we are seeing a 50% to 60% increase in the amount we will be spending on renewals in CP6 over CP5. Those are big numbers.

Q485 **Daniel Zeichner:** We know that the balance has shifted to renewals, and we accept that there are good reasons for that. In terms of enhancements, is that enough, and if the market-led approach does not work, what will you do then?

Jo Johnson: There is a shift in the mix for good reason. The railway has benefited from significant enhancements and major big infrastructure projects—HS2, Crossrail and so on. It is time now to make sure that we are maximising performance and making the railway as highly performing as we can, and as reliable and punctual as we can, so that people feel they are getting value for money from that investment.

Q486 **Daniel Zeichner:** That sounds pretty grim for parts of the country that have not had the investment so far, doesn't it?

Jo Johnson: It is vital that we focus on performance. That is the key reason why we are increasing the proportion of spend on renewals and increasing the amount on renewals. The travelling public want a performing network, and we have to make sure that we do not bite off more than we can chew.

Q487 **Daniel Zeichner:** In my part of the world, we have the Oxford-Cambridge rail link, where the Secretary of State has suggested that there will be this kind of approach. What happens if it does not work?

Jo Johnson: Which kind of approach?

Q488 **Daniel Zeichner:** The market-led approach. If it is not going to be a private railway, is it going to be a public railway?

Jo Johnson: Let's wait and see how the process develops. It is barely in its infancy. We have not even opened the window yet, so let's not consign it to failure at this point. We are optimistic; there is a lot of interest in it. We are holding two open days around the country. One is in Birmingham, I think. Where is the other one?

Brian Etheridge: In London, I think.

Jo Johnson: That is in order to generate ideas.

Q489 **Daniel Zeichner:** All I am looking for is some assurance that, if the new approach does not work, consideration will be given to what we do, because a lot of people need some of these projects to work.

Jo Johnson: Let's consider that at the end of the market-led opportunities process, when we can, hopefully, contemplate the success that we have encountered.

Q490 **Chair:** We have a brand-new pipeline process and a brand-new market-



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led proposals process. Is there a danger that there is a hiatus and we get no enhancements for quite some time? Is that something you are worried about?

Jo Johnson: No. There will be enhancements going into CP6. We envisage work carrying on. Some projects will be carried over from CP5. There will be continuing enhancement work on the Access for All programme, and to develop our freight capacity. As we have already said, there will be funding from the enhancements bit of CP6 towards seed funding of the pipeline, so that we always have a strong pipeline on the go at any one time.

Q491 **Chair:** It seems to me that there is a danger, if some of that £9 billion or £10 billion is carried over for enhancements that should have been delivered in CP5 but are now going to be delivered in CP6. You have just mentioned a couple of things that you consider essential, and there will be some seed funding, but it is quite possible that there will not be that many enhancements if the seed funding just does the development work rather than getting things to the design and deliver phase.

Jo Johnson: We have not yet taken a decision as a Department on how the enhancement budget will be spent in CP6. That is work for the next few months.

Q492 **Chair:** You said that renewals would help with performance, but, of course, performance does not just rely on maintenance and renewals. Enhancement is quite important to performance. The hon. Member for Plymouth, Sutton and Devonport is not here today, but I think he would look at the railway to the south-west and see somewhere such as Dawlish as a very vulnerable piece of railway, where there is potential for the peninsula to be completely cut off. Surely, it will require enhancements to do something about that situation.

Jo Johnson: We recognise the importance of Dawlish. The Secretary of State has even said that it is his No. 1 national rail priority, and we have allocated £15 million towards the development of potential schemes to improve the Dawlish stretch.

Q493 **Chair:** Is that one of the enhancements we should expect to see as part of the pipeline in CP6?

Jo Johnson: We would certainly hope so.

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