HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: Rail Franchising, HC 1793

Monday 10 December 2018

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Watch the meeting

Members present: Meg Hillier (Chair); Douglas Chapman; Sir Geoffrey Clifton-Brown; Nigel Mills; Bridget Phillipson.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Lee-Anne Murray, Director, NAO, and Catherine Fairhurst-Jones, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1–130

Witnesses

I: Bernadette Kelly, Permanent Secretary, Department for Transport, Polly Payne, Director General, Rail Group at DFT, and Andrew Haines, Chief Executive, Network Rail.

Examination of witnesses

Witnesses: Bernadette Kelly, Polly Payne and Andrew Haines.

Q1 **Chair:** Welcome to the Public Accounts Committee on Monday 10 December 2018. We are here today to do a bit of a catch-up on a number of major rail initiatives in a period of time in which we have seen overruns on maintenance, major projects curtailed or cancelled, large cost overruns and a lot of strike action. There is a lot that the Department has had to get its teeth into, and we want to get that into today. I am pleased to welcome our witnesses. Before I do that, I would like to welcome our first-time visitor—our Alternate Treasury Officer of Accounts, Catherine Fairhurst-Jones. Welcome to your first Committee sitting.

Among our witnesses are also some first-timers. From my left to right is Andrew Haines, the new chief executive of Network Rail—welcome to you, Mr Haines—Bernadette Kelly, who is more of a regular attender and is the permanent secretary at the Department for Transport; and Polly Payne, a first-time witness in front of us, who is the director general of the rail group at the Department for Transport. It is your first time in front of the Committee, isn't it?

Polly Payne: It is.

Chair: Welcome to you all. As I say, we have got a lot to get through. We are hoping to finish in an hour and a half, so I urge you to keep your answers short and sharp, and our questions will be similarly brief.

The first thing I need to raise, of course, is Crossrail. We have heard today that there is another £1 billion bailout, as problems are mounting. Can you be clear to us, Ms Kelly, about who is going to be paying back the money that is being given to Crossrail? Who is paying for it—Londoners or the wider general taxpayer?

Bernadette Kelly: The answer to that is principally Londoners. I will just expand on the funding deal that we have announced today. It comprises a £1.3 billion loan from my Department to the GLA, £100 million taken from the GLA's own reserves, and a provision for a contingency, which will be provided as a loan through my Department to TfL, of up to £750 million. That is the funding package. The expectation and the commitment is that London will repay all that money. It will use business rate supplements and mayoral CIL as appropriate as a funding source to repay it.

Q2 **Chair:** Can you tell us the period of the loan facility and the interest rate?

Bernadette Kelly: We are still concluding some of the final legally binding details of the loan. We are looking at a repayment period of up to 10 years for the £1.3 billion and a slightly shorter period for the first tranche of the £750 million contingency. As I say, we are still working through some of the fine detail of some of those details, but the clear intent in the way it has been structured is to ensure that London is paying these additional costs and is doing so within a reasonable timeframe.

Q3 **Chair:** Okay. You say that Londoners pay, but this was a jointly sponsored project between the Department and Transport for London. Why does all the cost fall on Londoners?

Bernadette Kelly: It has always been accepted that London is the principal beneficiary of this project. Obviously, it is about boosting—

Q4 **Chair:** Let's be clear—it does run from Shenfield to beyond Maidenhead, so it does go outside London.

Bernadette Kelly: It does, and of course HMG has provided a very significant slug of the funding—more than £5 billion—for the project. We have put in a substantial amount of funding directly from HMG—from the taxpayer. When these cost overruns started to emerge, as they did early this year, we concluded early on, with the Mayor's full agreement, that it was appropriate for them to be funded by the Mayor and London.

Q5 **Chair:** But it was a jointly sponsored project, Ms Kelly. We heard, the last time we discussed this, that you had called in the head of Crossrail to question him about these issues. It seemed that you had little power to challenge. The way you described it was that you called him in, had a chat to see whether he was aware of the issues, and then sent him off to sort it out. Similarly, there were some discussions going on within

Crossrail and Transport for London. As a joint sponsor, do you not think that the Government has some responsibility for the cost overruns as well?

Bernadette Kelly: I absolutely think that, as joint sponsor, we have some responsibility to ensure that this project is delivered successfully and as efficiently as possible.

Q6 **Chair:** That is about the delivery. We are talking about the cost of it.

Bernadette Kelly: As I say, we were clear from the start, when these further cost pressures began to emerge, that, given the contribution that the taxpayer and HMG had already made, it was appropriate for London to bear the main responsibility for these cost overruns. I think this is the right outcome. It is not one that the Mayor has substantially disagreed with.

Q7 **Chair:** But these cost overruns have gone up substantially. Earlier in the summer we were talking about £350 million. You have outlined £2 billion. How much more do you expect London passengers and fare payers to bear?

Bernadette Kelly: Remember, we expect this loan to be repaid through mechanisms such as the business rates supplement and mayoral CIL. Those are the mechanisms that the Mayor expects to use to make it possible for the GLA to repay the loan. That is how the funding will be found. It is obviously an attempt to ensure that the economic beneficiaries of Crossrail contribute now to the cost overruns that we have seen. From the taxpayer's point of view, that seems a wholly reasonable outcome for us to have sought to negotiate with the Mayor and the GLA.

Q8 **Chair:** We will go into this much more in 2019 when the National Audit Office has looked at all the detail. You talked about certain details being tied down. When will we know the finer details?

Bernadette Kelly: The final legally binding agreement with TfL will be fixed by 19 December. As I say, there are some points about how exactly the flows of money are to be managed.

Q9 **Chair:** So we will know then the interest rate the Government are charging.

Bernadette Kelly: I can probably indicate now what the interest rate is—I am not aware that it is commercially sensitive. As far as the £1.3 billion is concerned, that will be a gilt plus 80 base points.

Q10 **Chair:** Do you know what that is in language that we might all understand? I don't know the gilt rate off the top of my head.

Bernadette Kelly: If you're asking me to give you another number or percentage, I am afraid I do not have that to hand, but I am sure we could clarify it.

Q11 **Chair:** To go back to the role of the Department, it was the Department that appointed Terry Morgan to chair HS2—another area of concern for the Committee—but that was after it was clear there were problems at Crossrail. Why did the Department appoint the man who has been chairing Crossrail with these cost overruns to also chair HS2?

Bernadette Kelly: At the point at which we made the appointment of Sir Terry Morgan to HS2 I do not think we had a full appreciation of the challenges that Crossrail was facing.

Q12 **Chair:** Can I just be clear? Am I right—you might need to correct me—to say that Terry Morgan was appointed chair of HS2 in August?

Bernadette Kelly: I think he will have taken it up in the summer, but he will have been appointed before that. Again, I am sorry, I do not have the exact date at which we announced his appointment. It was a good deal earlier. At the point at which Sir Terry was appointed and we ran that competition and appointments process, there were some signs of some modest cost overruns emerging. Through the sponsor board arrangement, we and TfL were challenging the Crossrail board and Crossrail executive to give us a very clear sense of what those cost pressures were, but at that point we were talking about a much smaller number—really quite modest cost pressures at that point. It was clear at this point that the board of Crossrail, including Sir Terry himself and the executive team, were maintaining very firmly that the schedule and the December opening of the central section would be met. That remained true until some time after we had appointed Sir Terry.

Q13 **Chair:** When it became apparent there were serious problems and delays, he was just taking up the reins at HS2. He has now been asked to resign, but he wasn't then. Why the delay in asking him to resign? If it was a determination of the Department that he should resign, what changed between the cost overruns emerged in the summer and the last week?

Bernadette Kelly: Sir Terry has been acting as chairman for about four months at HS2. As I say, we announced his appointment sometime before that earlier in the year. What has happened since the cost and schedule pressures have come to light is that, first, it became clear that Sir Terry's position at Crossrail Ltd was no longer tenable. He had lost the confidence of the Mayor, and Terry concluded on that basis that he should resign. We and Sir Terry have been considering his position on HS2 in the weeks since then. Ultimately, he has decided and we have agreed that the most important thing now is to maintain confidence in the delivery of HS2, and therefore Sir Terry has offered his resignation and we have accepted it.

Q14 **Chair:** He put it slightly differently on the "Today" programme the other day. He said he thought he was going to get sacked, but he was still in post and had not heard it yet.

Bernadette Kelly: We do have a resignation letter from Sir Terry.

Q15 **Chair:** Right, okay. It was quite clear that the Secretary of State wanted him to go, but not early on; only in the last week or so.

Bernadette Kelly: These are delicate conversations. We have been properly reflecting, as you would expect, on what the right course of action to take is in relation to the leadership of HS2, and Sir Terry has been reflecting on his position. The conclusion that we both eventually reached is that he should go.

Q16 **Chair:** What was his pay for each of those roles?

Bernadette Kelly: My Department is not closely involved in remuneration at Crossrail Ltd—that is done principally through Transport for London—but I believe that he was being paid £250,000 there as chair. I may need to correct this, so please bear with me, but I believe that the remuneration that we agreed for him as chair of HS2 Ltd was £200,000 for an assumed two and a half days commitment per week. I will correct those figures if they are wrong. I am trying to make sure that I have got them right. They are certainly in that order.

Q17 **Chair:** Can you tell me how many meetings of the Crossrail board he attended in the last six months, and how many meetings of HS2 he attended?

Bernadette Kelly: I know that he stood aside from some meetings of the Crossrail Ltd board.

Q18 **Chair:** For what reason?

Bernadette Kelly: Because it was clear that he no longer commanded the confidence of the sponsors.

Q19 **Chair:** But he was still getting the money. He was still getting paid.

Bernadette Kelly: As I said, he has now stepped down formally. In truth, I think Sir Terry himself was prepared to resign formally earlier in this process if that would be helpful. What was going on, of course, was that Transport for London and the Mayor, with our support as joint sponsor, were keen to ensure that we had a clear succession plan at Crossrail Ltd at a very important time.

Q20 **Chair:** When do you think that Crossrail will now be delivered for Londoners and the wider parts from Shenfield to Maidenhead and beyond?

Bernadette Kelly: The really vital milestone now, which we have asked Mark Wild, the new CEO, to give us a schedule for, is delivery of the central section—phase 3 of this project. That was the section that was due to open, as you know, this month. We expect Mark to come back to us in January with a proper revised schedule that he is confident can be delivered, and which his board is prepared to endorse and support.

Q21 **Chair:** So the simple answer is that you do not know at this point.

Bernadette Kelly: I cannot give you a date, and it would be wrong of me to give you a date in advance of the CEO and the board proposing a date.

Q22 **Chair:** Is it likely that it will go beyond December 2019?

Bernadette Kelly: Obviously I very much hope not, but I cannot give that commitment to the Committee until the CEO and the Crossrail Ltd board have decided what they believe is now deliverable. I should say that Mr Wild has been in position for only a matter of weeks. It is very important that he, as CEO, has absolute confidence that he is committed to a schedule that he believes can be delivered.

Chair: As we approach Christmas, perhaps we have more faith in Santa to bring gifts than in Crossrail 2 to open this year or next, by the sounds of it.

Q23 **Sir Geoffrey Clifton-Brown:** Good afternoon, Ms Kelly. Your Under-Secretary answered a written parliamentary question on 10 December which showed that the total bail-out of Crossrail is now £2 billion on a £17.6 billion project. That is a very significant cost overrun. Do you really have confidence that you have finally got to the bottom of what the total cost of the project will be?

Bernadette Kelly: First, I agree that it is a significant cost overrun. We are deeply disappointed and frustrated by that. The way that we have constructed this financing package is to give as much certainty as we reasonably can at this point in terms of it being sufficient to cover the remaining costs of the project.

We have had KPMG carry out an independent review of what they think the additional costs are going to be for this project. As the written ministerial statement makes clear, they have indicated that those costs could be between £1.6 billion and £2 billion. That figure estimate from KPMG includes the additional £300 million that we announced via written ministerial statement on 24 July. The £1.3 billion loan, plus the £100 million from the GLA, plus the contingency of up to £750 million, was intended to provide sufficient confidence and headroom now to cover the remaining capital costs of this project. Given the experience of the past months, I am wary of signing in blood that I can be 100% confident about this, but I do believe that what we have now constructed is a proposition that should enable this project to be delivered to its conclusion.

Q24 **Sir Geoffrey Clifton-Brown:** Given your answer to the Chairman—that you cannot be certain when this line is going to be open—how can you be certain that you have actually estimated the total costs?

Bernadette Kelly: You are correct that until we have that delivery schedule also nailed down, including not just the central section but phases 4 and 5, we cannot be 100% confident. There is, as I say, a degree of headroom in the way the contingency has been constructed, to factor in that uncertainly. I would hope that we will be able to get more certainty around those numbers as soon as we have that phase delivery schedule from the CEO and from the Crossrail Ltd board.

Q25 **Chair:** While on the subject of numbers, the Comptroller and Auditor General has a question.

Amyas Morse: Do you actually know that it is doable?

Bernadette Kelly: We believe it is. Mark Wild, the new CEO, is very much conscious that this is now an extremely complex project to complete. He is absolutely not underestimating the challenges, but I know that he believes that this project can be delivered; he is optimistic and positive about the prospects for success. That is also the view of Tony Meggs, who has been very clear. He has now taken on the role of chair, and he has enormous experience in the delivery of big, complex projects. In a conversation with the Secretary of State only this morning, he said that one of the pieces of advice he gives to students in the Infrastructure and Projects Authority training programme is to never take on a project that you do not believe can be delivered. Obviously he is following his own advice. He believes that this can be delivered, and the CEO believes it can be delivered.

Q26 **Chair:** The Comptroller might want to come back before I pass to Ms Phillipson. Ms Kelly, you could argue that at this point not to do it would mean that we have had an awful lot of money spent and nearly £20 billion committed to the project, and it is the point of no return.

Bernadette Kelly: It is absolutely a point of no return. In time this project will be an enormous success and a real asset to London. This past six months have unquestionably been the darkest period for this project, but we do believe it will be delivered. It is deeply disappointing, as I have said, that it is not being delivered exactly on budget and schedule as we hoped.

Q27 **Chair:** Quite substantially over budget and substantially behind schedule.

Bernadette Kelly: Yes, substantially over budget and behind schedule, but we do believe it will be delivered and that when it is delivered it will be a very successful contribution to the London economy.

Q28 **Chair:** Sir Amyas?

Amyas Morse: Does it depend on world-beating new technology?

Bernadette Kelly: I don't think it does, no. There are some complexities around the signalling systems. There are different signalling systems along the line, as I am sure that you are aware, but none of that is very innovative new technologyand I don't believe that there is any reason why, in principle, that technology challenge cannot be met. I am looking at my colleagues on either side of me to see if—

Chair: They don't disagree with you. There you go—you are the queen of the transport team today, clearly.

Q29 **Bridget Phillipson:** On some of the wider issues around franchising and the passenger experience, Ms Kelly, what happens differently now so that Network Rail and franchise operators are incentivised to work together better and to deliver a better service to passengers? What has changed?

Bernadette Kelly: One of the things that has changed—I will invite both my colleagues to comment on this, because obviously they both have direct experience—

Chair: I will cut in to say that if they agree with you, they can just say that.

Bernadette Kelly: There are probably two bits to that question. One is how we let franchises and how we ensure that Network Rail is fully involved in that process, such that they can be confident that the passenger benefits being secured through the franchise can be delivered. I would say that we have had a deep level of involvement from Network Rail in how we let our franchises. We now have a member of the Network Rail team embedded in our franchise team, so that we can be confident that Network Rail is fully involved in all stages of the specification and letting of a new franchise contract.

There are different things going on in different parts of the railway to ensure that there is closer co-operation between Network Rail and franchise operators in delivering a really good service for passengers. The the devolution of routes within Network Rail is a critical part of that improved and integrated working. Mr Haines will say a few words about that.

Andrew Haines: At the risk of incurring the wrath of the Chair, I do agree. I think over the last three and a half years there has been a significant deepening of that engagement in the pre-franchise letting process and that is pretty fundamental, because if there is misalignment between what the infrastructure can do and what the bid promises then you set off on a collision course. We are now much more closely involved in very detailed scrutiny of the operating elements of the very latest franchises, which are yet to be awarded, and we are actively involved in what the post-franchise award relationship can look like.

Q30 **Bridget Phillipson:** And post-franchise, what happens now day to day? What changes have been made so that Network Rail works more closely with the franchise operators to make sure some of these problems do not happen?

Andrew Haines: That is on a franchise-by-franchise basis, because the Department actually procures different types of relationships. For example, one of the things in the invitation to tender for the two latest that are under review is quite deep alliances, hence the matching of the Network Rail activity geographically to the operator, and then joint working, joint performance heads, joint control centres, and much closer planning of the timetable.

Q31 **Chair:** You talk about joint performance heads, and I think we know generally what you mean. Do you have some specific examples of what that means that would illustrate it clearly to a passenger?

Andrew Haines: In real time, if there is a disruption to trains, it means rather than have an argument between Network Rail and the train operator on what should happen next, have a single point of control that says, "Right, we will do this in the interest of passengers," for example.

Q32 **Bridget Phillipson:** And that is for new franchises or for existing franchises?

Andrew Haines: It is a contractual requirement for new franchises now. In some cases it works without that contractual arrangement already; but what the Department is doing is procuring that. I think in the evaluation process they are judging whether or not the bidders are likely to be able to do that in the spirit as well as the letter. That is quite a key element.

Q33 **Bridget Phillipson:** I am sure we all welcome that, but I would also be keen to hear what can be done now, notwithstanding the contractual obligations. It is great if we are going to do things better in the future, but what are we doing now to resolve some of these difficulties?

Polly Payne: As concrete examples, for instance at Victoria station we have Team Victoria, where you have all the staff—whether they are the train operating company staff or the Network Rail staff—wearing the same uniforms, responsible, giving the same information. We are also doing that at London Bridge and a number of other stations; so it is that very concrete working together that is one of the things we are doing to help make a difference.

Q34 **Bridget Phillipson:** They are good examples to hear, but in the broader sense, on the big franchises, what would be the situation at the moment? What about day-to-day working? Say a problem arises of the kind you have just outlined. You have described what would happen in future, but what would happen now?

Andrew Haines: In some places it happens now, and it happens by good will; or it happens because it is already an alliancing arrangement. What the Department is doing is making sure that is enshrined in future franchises, so if I give the example of the south-east of England, currently, there is no formal alliance, but we have some of that joint control arrangement. The Victoria station example that Ms Payne alluded to is one of those examples. It is done now on good will; what the Department is doing is formalising that best practice. I could give lots of examples. I am happy to write if that would be helpful.

Q35 **Bridget Phillipson:** On a wider issue about passenger experience—the experience of passengers with disabilities or those with additional support needs when travelling—could you set out for me the situation now for a passenger with disabilities who requires additional support when travelling, and what should be the situation? How could that work more effectively?

Polly Payne: This is obviously a very important issue. It is something we have been working on for some time. We know that just showing that we are making progress is not good enough; we want to continue making progress. In 2006, 50% of passenger journeys were via stations with step-free access to and between all platforms, which is obviously really important. That is now 75%, so it is absolutely not there yet, but it is a big improvement. Similarly, in 2017—not that long ago— 75% of trains were built or refurbished with the latest accessibility requirements in them; the figure now is 87% and constantly going up. Also, as you know, we have procured a huge number of new trains, including all trains in both Northern and TPE, where there have been some particular problems and you have some very old trains, like the Pacers, going to be replaced by 2020. Those are very practical steps.

There is also a new app, so it is easier to get help, to order that help and for that help to be more effectively delivered. That was launched this September, so that is another step forward. We also have the rail ombudsman, which was launched a matter of weeks ago. Hopefully, if there are any problems, that will help them to be rectified quickly and effectively.

Q36 **Bridget Phillipson:** Will you talk me through who is responsible for providing the person-to-person travel support? From the point at which a disabled passenger arrives at a station, how are they supported on to a train? How are they supported when they arrive at the other end of their journey? Does that work well? How might it work better?

Polly Payne: That depends on the particular service and time of day. Sometimes it is platform staff; sometimes it is on-board staff—it varies. It is very important to have a high number of staff there to help.

Q37 **Bridget Phillipson:** You will be aware that frequently the help for passengers with disabilities just doesn't materialise. They pre-book—although I am not convinced that they should necessarily be required to give the kind of notice that is required, as opposed to an able-bodied passenger—and then they are left stranded on the train, because no one arrives to help them disembark.

Polly Payne: We absolutely hope that does not happen, and we hope that when that help is booked, it will emerge.

Bernadette Kelly: We published an inclusive transport strategy earlier this year, covering all modes but obviously with a focus on rail because that is an area we know is a particular challenge. That included additional funding to make stations accessible, but this is also about challenging the industry, to make sure that it is consistently training and providing the services for people with disabilities which the public expect.

Q38 **Bridget Phillipson:** Is there any kind of monitoring of how franchise operators are discharging their responsibilities? Are figures kept about the numbers of times that passengers are not given the support that they need to travel, or whether they are having to wait for 30 minutes when they arrive at a destination for someone to appear?

Polly Payne: We monitor the number of complaints, which is not quite the same thing. There is also the disabled person's protection policy, and we monitor compliance with that—the ORR does—

Chair: The ORR is the Office of Rail and Road, the regulator—just to make that clear.

Polly Payne: Yes. The ORR is reviewing that, and we are supporting it so if anything that will be strengthened.

Q39 **Bridget Phillipson:** I accept what you say, but there is a need for urgency. If you have made those arrangements—whether you should have to make them is a separate matter—but you cannot travel with any certainty that when you arrive you will get the support that you need, that must be incredibly challenging.

Polly Payne: I could not agree more.

Bernadette Kelly: We very much agree with the point that you are making. It is clearly not acceptable that the service expected is not provided. Obviously, what we want to do is to see train operators increasingly providing better services, so that people with disabilities can travel as freely as possible.

Q40 **Bridget Phillipson:** On the concrete point of what the Department will seek to do to make that a reality, I accept the intention, but what will happen to make that change?

Bernadette Kelly: We have talked about some of the things that will happen—partly through the funding for the infrastructure at stations, so that they are accessible, and then through ensuring that the train operators consistently provide the level of service that they are committed to providing, and improving those services. The regulator, the Office of Rail and Road, will hold them to those commitments and drive them to do better.

This is an area in which I would want to see the industry showing leadership, just as you would expect any industry to want to do. Quite apart from what the Department might or might not require the train operators to do, this is an area where I expect the train operators to provide better and better services, and really turn their minds to how they can better serve passengers with disabilities.

Andrew Haines: Network Rail has a role to play as well. We run the managed stations, the very large stations, such as Euston—8% of all passenger requests for assistance come from Euston station alone. The chair, Sir Peter Hendy, and I are absolutely committed to showing the leadership that Ms Kelly talks about. In the last couple of weeks we have set the team some goals of being a world-class location for accessibility. The current level of service is not acceptable. I would not want my friends and relations to have the unpredictability that is currently there. We are not at all happy with it.

Q41 **Bridget Phillipson:** Ms Kelly, are there any penalties—financial or otherwise—when operators fail to meet their responsibilities to passengers with disabilities? Is there anything contractually or otherwise?

Bernadette Kelly: I might need to provide clarification. I am sure there are penalties that the ORR can impose if train operators are not found to meet the conditions of their licences. There certainly will be penalties through that route. Clearly, we have a whole host of contractual levers that we can use where contracted levels of services are not provided by train operators.

Polly Payne: As well as the monitoring of the aggregate, in individual circumstances where the service falls to unacceptable levels, the ombudsman can make sure that appropriate action is taken and there is compensation.

Q42 **Bridget Phillipson:** I accept that that might happen on a case-by-case basis, but without the urgency that comes with a penalty or some kind of charging, you wonder whether operators will get their act together. Is that something you could consider?

Bernadette Kelly: Yes, understood.

Q43 **Douglas Chapman:** On the relationship between Network Rail and the franchise companies, a lot of my constituents would be critical of ScotRail, but it is one of the best performing train companies in the UK. The real issue behind that when you look under the surface is that two-thirds of the delays in Scotland are the responsibility of Network Rail. I know what you are saying about the relationship being stronger, but if Network Rail's responsibilities were devolved to Scotland we could have a much more joined-up approach. Do any of you think that would be a good idea, given your train customers are suffering through the lack of that joined-up thinking?

Andrew Haines: The first thing to say is that customers in Scotland have had a particular torrid time—I am sorry for that—in the last six months in particular. The effect of the hot weather was particularly acute in Scotland; some of the hottest days we saw on the network were in Glasgow. Ironically, the head of ScotRail is the head of Scotland Network Rail already. We already have that joined-up alliance. There is already very close working. I am satisfied that we have recovery plans to improve the situation in Scotland. The historical performance levels in Scotland have been much better than they are currently. We have been focused on getting back to the high levels of performance that people in Scotland have got used to expecting, quite rightly.

Douglas Chapman: Two-thirds of the train services having issues is quite a high number.

Andrew Haines: It is an unusually high number.

Douglas Chapman: There is something that is not clicking together in terms of getting the best possible customer service that we can achieve.

Andrew Haines: It is not acceptable.

Bernadette Kelly: To the wider point, it is not unique to Scotland. This is why we expect the funding settlement for CP6 of £47.9 billion to be more heavily focused on the maintenance and renewal of the track, because we and Network Rail recognises that if we are to run reliable services and a standard of service that passengers want, we need the infrastructure to operate as effectively and efficiently as it can.

Q44 **Chair:** What Douglas Chapman outlined is outrageous—two-thirds of delays are down to Network Rail. You are new in the job, Mr Haines: what will be different? You talk about intentions and that you want to do things well, and everything will be better in the future. What will you do in practice to stop Scottish passengers suffering as Mr Chapman outlined?

Andrew Haines: As Ms Kelly identified, there is a significant increase in maintenance and renewal expenditure in CP6, so that the life of the asset is renewed much more quickly. We have several hundred additional staff so we can respond to incidents more quickly. The control management teams that manage the train service disruption around an infrastructure failure are being strengthened. We have more measures to reduce the effect of things like suicides and trespass, which are in that two-thirds figure. They are not all things that Network Rail can directly prevent, but they are things that we contractually have management responsibility for. They are very comprehensive plans. I have reviewed them personally. We have had independent experts come in and look at what is happening in Scotland and recommend a 30-point programme, which has been implemented and is being tracked with Transport Scotland. There is relentless attention every day—in fact, at the weekend I was talking to the head of Scotland's Network Rail infrastructure about Network Rail performance in Scotland.

Q45 **Douglas Chapman:** May I ask a question about Crossrail? Will any of the additional funding or lending that takes place be related to Barnett consequentials and the block grant for Scotland?

Bernadette Kelly: Not that I am aware. We have had no such discussions.

Q46 **Douglas Chapman:** So we have a £16 billion project that is suddenly becoming an £18 billion project and there is no—

Bernadette Kelly: But that increase is being paid for ultimately by London.

Douglas Chapman: I appreciate that, but there is an element of lending within that as well. I would love a £16 billion rail project to come to Scotland, as other MPs across the country would love one to come to Wales, the north-east and so on. From our point of view, that level of investment is not coming through as much as it should. We are already starting the debate about Crossrail 2, yet we are finding it very difficult to deliver on Crossrail 1—it is over budget and behind schedule.

Q47 **Chair:** So no Barnett consequentials?

Bernadette Kelly: Not as far as I am aware.

Q48 **Douglas Chapman:** Where do the rest of the regions and nations of the UK fit into that plan?

Chair: We might want to pick up the point about Barnett consequentials with the Treasury. Clearly, Ms Kelly has said it is not on her radar.

Andrew Haines: I cannot comment on the Barnett consequentials, but the electrification of the Stirling/Dunblane/Alloa line went live yesterday.

That is a major electrification piece. Thirty-one new class 385 trains have been introduced. High-speed trains have been refurbished on north of Scotland routes. There is very significant investment currently taking place in Scotland's railways.

Douglas Chapman: We're immensely grateful.

Q49 **Chair:** Mr Haines, you were talking earlier about your plans to improve things in Scotland. Do you have any targets for how you are going to reduce disruption as a result of Network Rail's activities?

Andrew Haines: We have very detailed targets in terms of individual issues. At the risk of being very transparent, the industry has failed to meet its targets every year for the last seven years, so I have been very cautious about putting too much store by them until I have really understood the detail of the levers and the outputs. The last thing we want to do at this stage is give spurious targets to the public that we yet again fail to deliver.

Q50 **Chair:** That is a very thoughtful approach, and I think we are quite heartened to hear that from a person who is new in the job, but when will there be clarity about what passengers in Scotland, for example, can expect?

Andrew Haines: I very much hope that by the end of March—the start of the new financial year—we will have presented some of our improvement plans to the rail regulator and we will have validated those with some of the train operators as well. By then, I think we have to give people clarity.

Q51 **Chair:** So springtime, and they will do their evaluation, so by autumn next year or so we will know—

Andrew Haines: I would hope well before that.

Q52 **Chair:** Okay. A lot of control period 6 involves significant increases in asset maintenance, which Ms Kelly touched on. That presumably means you will need increased access to the railway up and down the country.

Andrew Haines: Indeed.

Q53 **Chair:** How much disruption can passengers expect from that? Will they see pain before gain? At the moment they have been seeing pain, but a lot of passengers—I think Ms Phillipson is going to come on to this—might not feel they have seen the gain.

Andrew Haines: It is a harsh reality that if you want to renew or enhance the maintenance of existing railway, it is very hard to do that safely without disturbing trains.

Q54 **Chair:** We know that. What sort of level of disruption will passengers experience?

Andrew Haines: It will vary hugely. If you are a traveller on the Great Western route, for example, where most of the work is coming to an end, once Crossrail is completed the disruption will be considerably less than you have experienced in the past 10 years, dare I say it. The same applies in Scotland to the Stirling route. What happens is it is redistributed—

Q55 **Chair:** How are you going to make sure passengers are aware of that? This is the transparency issue, really. You talked about being transparent. You say you are the new man in the job who wants to be open about it, so how are you going to communicate so that passengers know?

Andrew Haines: The first thing passengers seem to want is confidence well ahead. We have to get back to giving people what is called the T minus 12 notification, so they can book with confidence at least three months ahead, and we will be on track to do that by springtime. By April or May, there should be clear notification—

Chair: You are making clear commitments to the Committee. We like that, and we will be having you in again to make sure that you have held to them, I am sure. Ms Kelly's team is no doubt noting all of these down.

Andrew Haines: It is a very significant commitment that we have to withstand. I cannot promise less disruption, but what I can promise is clear notification, and that we are working at a very detailed level to look at how we get the best out of the time we take. We have new technology; we have new operating practices that look to say, "If we have a four-hour window between trains currently, and are only able to use three of them because of the technological issues with taking a track possession, if we can get three and a half instead, that is a very significant increase." We have a detail team working on that, and I am confident that we will make improvements in that territory to get more out of the existing portfolio, but it will mean more disruption.

Chair: It is helpful to hear that, and I think that brings us neatly on to Ms Phillipson again.

Q56 **Bridget Phillipson:** Passengers have been through a lot in recent months, and again this weekend, we had industrial action affecting the Northern franchise. I wondered what assessment the Department has made of that, and if anything can be done to try to bring it to a conclusion.

Bernadette Kelly: The Department for Transport and Transport for the North have been encouraging Northern and the RMT to take the dispute to ACAS, in order for it to be resolved. I do not know whether Ms Payne would like to add to that.

Polly Payne: That is absolutely right. We are very disappointed by the level of strikes and the impact they have been having on people, especially in the run-up to Christmas. The dispute is, as you will know, about control of the doors, and we have been very clear that there are a number of places on the network—and have been for a very long time—where driver control of the doors has been safe. That has been a safe system for a number of years and in a number of places, so we very much hope we can make progress to resolve this dispute.

Q57 **Bridget Phillipson:** Are any further active steps being taken by the Department on this, or is it just a question of continuing to urge the parties to move to ACAS?

Polly Payne: It is ultimately an issue for the unions and for the train operating companies to resolve. The Department has been clear that should a change to the franchise agreement be needed to allow the second person on the trains, we will stand behind the financing. That is probably the best thing we can do to help bring this dispute to a resolution.

Q58 **Bridget Phillipson:** Are we going to better consider in future how to minimise the risk of industrial action when franchise changes arise? Is that something the Department is working on?

Polly Payne: The Department has learned its lessons, and always looks at the risks to implementing the changes that we put into franchises, including modernisation. It is worth saying that it is important to have that modernisation to lead to greater efficiency, but we absolutely look closely at those risks. Indeed, as part of the franchise process, we ask bidders to analyse the risks, and we then look at their analysis of risks and what measures they will put in to reduce those risks. That is an important part of our franchising process.

Q59 **Sir Geoffrey Clifton-Brown:** London Overground is run on a concession. Its concession is to run a service for a fixed price, with no financial risk, whereas most of your railways now are run on franchises; that is to say, they have the ability to vary ticket prices within guidelines, and they take all the financial risks. Has your Department given any consideration to moving from franchising to concessions in any areas?

Bernadette Kelly: First, the main answer to your question is that these are exactly the sorts of issues that we want Keith Williams to look at in his review of the structure of the industry. One of the things we have asked him to look at is commercial models going forward: what are the commercial models for operating train services that will be most efficient and most effective in serving the needs of future passengers? Clearly, we are open to ideas about how we should develop the franchising model in response to any ideas that he might present to us.

It is the case, of course, that not all of our franchises operate now in exactly the way you have described. GTR, for example, is obviously a contract where revenue risk is borne by the Department, so there are variations now in how we run our train services, including around HS1. We have a different range of models in play, although you are right that the core model is a franchise much as you describe, where we expect the operator to take some or all revenue risk. As I say, these are questions for Keith Williams's review in terms of how we develop the model going forward.

Q60 **Sir Geoffrey Clifton-Brown:** Can I take you to a franchise, Govia Thameslink, that has caused your Department a few problems? Between July 2015 and March 2017, a staggering 146,000 trains were cancelled. That was more than any other franchise. Can you give the Committee an update as to where we are with cancellations and delays on Govia Thameslink?

Bernadette Kelly: Sorry, for 2016 to 2017?

Sir Geoffrey Clifton-Brown: July 2015 to March 2017.

Bernadette Kelly: Okay, so that obviously covers the period of very significant industrial action on Southern. I will ask Ms Payne to give a bit more detail, because I know she has much of that. The headline, though, is that performance on GTR is now very much better and very much more stable than it has been at any point in recent years. Today, new timetabling changes have been introduced without, we believe, any significant disruption other than the sorts of things that tend to happen on a busy railway in the normal course of events. I think 180 new services were folded in today on GTR, so we are really seeing progress.

That said, there have been times in the past when performance has fallen short on GTR. That is why in relation to the period you describe we imposed a £13.4 million passenger benefits requirement on GTR. Since then, we have required GTR to pay compensation in the order of £15 million following the May timetabling problems. We have recently announced a further £15 million passenger benefits fund and a profit cap on the franchise. We have taken quite significant steps to challenge and deal with poor performance. As I say, the good news is that we are now seeing better and more stable performance on the franchise.

Polly Payne: The most recent performance figures are that since P5, which is the period starting 22 July, PPM has been higher than it has been in any of the last four years, and in each month since then. It has been consistently over 80%. That is not perfect, but it is significantly better than it has been for the last four years, and we hope to see those performance figures continue to increase under the new management at GTR.

Q61 **Sir Geoffrey Clifton-Brown:** Can you tell me what you think a satisfactory performance would be? Have you set them a target of where they ought to get to?

Polly Payne: Yes, they do have performance figures. I do not have those in front of me, but percentage-wise they are in the 80s.

Q62 **Chair:** The 80s?

Polly Payne: Between 80% and 90%.

Q63 **Chair:** Is that for reliability?

Polly Payne: PPM figures, yes. We can send you a detailed note.

Q64 **Sir Geoffrey Clifton-Brown:** May I probe some of the actions that the Department has taken, Ms Kelly, in relation to the poor performance? Our Report said: "It is unacceptable that the Department agreed to disregard the terms of its contract and settle the level of fines Govia Thameslink will pay for future poor performance before knowing whether Govia

Thameslink was performing well or not." Some of the actions that you are taking that you described just now—is that the end of the matter for that period, or is the matter not yet settled?

Bernadette Kelly: First and foremost, we disagreed with that particular conclusion of the Committee. I respect the Committee's insight, but I do not think it is accurate that we have disregarded the terms of our contract with GTR. In fact, we have been using the levers in our contract to drive better performance through the franchise but also to ensure that where performance falls short, the company is required to make amends for that. The £13.4 million settlement was in relation to a period. We were always clear that if there were future failures of performance, we would take further steps. We had not in any sense put aside our right to do that, and I think that has been very much evidenced by the fact that we have taken further steps to require the company to pay compensation to passengers and to put together a further passenger benefits package.

Q65 **Sir Geoffrey Clifton-Brown:** There are two aspects to that. There was the poor performance, which we have already discussed, and there were also the problems with the May timetable. What action have you taken in that respect?

Bernadette Kelly: That is the £15 million compensation that GTR are paying to passengers who suffered unacceptable disruption, the £15 million passenger benefits package that has now been announced, and a profit cap for the remainder of this franchise. I will ask Ms Payne to elaborate on that, if that would be helpful.

Polly Payne: It is worth saying first, to put those sums of money into context, that so far in this franchise GTR have not made a profit; indeed, up until September '17 they had made an overall loss of more than £5 million. So those are really significant numbers, the £15 million paid to passengers in special compensation—in addition to delay repay—and then a further £15 million to be spent on passenger benefits, in addition to the £13.4 million they had already paid for the previous poor performance.

It is also worth saying that the passenger experience benchmarks have not been changed and that GTR will continue to be held accountable against them. If there are failings in the future, they will be held accountable. Should they fall short of those benchmarks—and we very much hope they won't—more action will be taken.

Bernadette Kelly: It is worth saying that, on a practical level, Stephen Glaister's report made it clear that GTR had not prepared its driver training programme sufficiently and did not deal adequately with the immediate disruption in terms of information for passengers. Equally, it also made it clear that some of the issues that arose on that franchise in the immediate aftermath of May were not entirely the fault of GTR alone. We have taken that into account obviously in considering what is an appropriate set of actions to take against the franchise. I should say that, under new management, they have very, very significantly stepped up their driver training programme and their customer information arrangements, and that has been a direct response to the failings of May.

Polly Payne: On the particular failing that the Glaister report identified, in passenger information, it is worth saying that the ORR have an investigation into that problem and they will be reporting on it, we expect, in January.

Q66 **Sir Geoffrey Clifton-Brown:** So what level of profit does the profit cap on GTR permit?

Polly Payne: We see that as a commercial and confidential arrangement. You will obviously see the level of profit when the time comes and the profit has been made, but at the moment that is a commercial issue.

Q67 **Sir Geoffrey Clifton-Brown:** I take what you say at face value, but I cannot quite see why that is commercial in confidence. If they are so incompetent that they breach the cap, surely the public have a right to know what it is.

Polly Payne: The profit is not about breaching. We are capping the amount of profit they can make. There are different caps. There are the performance and passenger satisfaction targets that they can miss, and those will be published. There is then a cap on the amount of profit they are able to make on this particular contract, and that is the commercial confidential information.

Q68 **Sir Geoffrey Clifton-Brown:** I have one further question on this. We remember seeing pictures of the poor old passengers queuing around the block to get tickets. Can you tell us a bit more about the passenger benefit fund? How will it work? Will you have to claim a disbenefit? How will the money be distributed?

Polly Payne: There is the special compensation, which was to pay individual passengers who were particularly affected, and that was up to a month's free travel for a season ticket holder—

Q69 **Chair:** But that is not the same thing.

Polly Payne: Then there is the £15 million that is for passenger benefit, which is not to compensate individual passengers for the detriment they have been subject to. It is investment in things that will improve future performance for passengers, and we will decide what it is spent on, in conjunction with passenger groups. If you look back to the £13.4 million passenger benefit, which was a similar fund, that was spent on things like an extra 50 on-board supervisors to help passengers. It was spent on things such as KeyGo, which is a particular bit of smart ticketing to help passengers always get the lowest fare. It will be on initiatives like that, to help passengers generally.

Q70 **Chair:** You talk about 50 extra on-board supervisors, yet this is on a franchise where the Department pushed for driver-only operated trains and was therefore partly responsible for some of the industrial action. We felt, as a Committee, that it walked into it without fully understanding it—

or arguably provoked it, if you want to be provocative. There are 50 on-board supervisors. What is the difference between them and having guards on the train?

Polly Payne: It just increases the level of support that passengers have on the train. It is just adding to—

Q71 **Chair:** But one of the bases of the franchise was that they were driver-only operated, and yet this extra funding that came in has paid for extra people on the train to do partly what the guards would have done if they had been there.

Bernadette Kelly: What we are clear about through the dispute on Southern is that the key thing was the conversion of traditional guards, in a safety-critical role, to the role of on-board supervisors. It is not about driver-only; it is about driver-controlled—the operation of the doors. We expect there to be a second person on trains, and we now expect those second persons to be acting as on-board supervisors.

Q72 **Chair:** So these might be additional to the second person.

Bernadette Kelly: They would be. Well, there would be—

Chair: They might be occasionally.

Q73 **Sir Geoffrey Clifton-Brown:** Just sticking with GTR for a minute, our Report HC 528 on Thameslink says that there were "concerns from Network Rail and Govia Thameslink that the network could not support the proposed timetables reliably." They reported this to your Department. Clearly, there was a problem before this franchise was even let. Why didn't you take account of that?

Bernadette Kelly: I think this probably goes back to some of the points we discussed a little earlier in this hearing. What we have been seeking to do in our franchising is to make sure Network Rail are fully embedded in the process from the outset, so there can be confidence, bidders bid for the train services, and the contract can be delivered.

There has always been much Network Rail engagement in that. Network Rail have always been involved in setting the original specification. They have always been involved in talking to bidders and ensuring they are doing the due diligence and are bidding services that can be delivered by the infrastructure. We are strengthening that to ensure that Network Rail are fully involved.

What we are seeing in some parts of the Network—I may ask Mr Haines to comment—is that, in some areas, there was not as full an appreciation of some of the challenges around some of the underlying infrastructure as we have seen. That is one of the challenges that some of our franchise operators have dealt with.

Q74 **Sir Geoffrey Clifton-Brown:** Can I briefly cut across you? I am being told by the Chair that we are in time difficulties. You let a franchise when it was clear to both Network Rail and GTR that you were heading for problems before it even started, because the infrastructure just wasn't there. I understand now that you are embedding each other, and Network Rail is going to discuss with franchise bidders and all this stuff that you have been talking about, but on this particular one you let the franchise when you knew that there were going to be problems.

Bernadette Kelly: First, I don't recognise your description of knowingly letting a franchise that we didn't think could be delivered. That is not something that we would do. I will ask Mr Haines to come in.

Q75 **Chair:** I think it was clear that it was going to be incredibly challenging.

Bernadette Kelly: There are two things. First, the franchise was designed to deliver the Thameslink increase in capacity, which is enormously challenging. We are now recognising and dealing with that challenge in a sensible way.

Q76 **Chair:** If I can just put Sir Geoffrey's point in a different way to you, Ms Kelly, what have you learned from the Govia Thameslink franchise, and what would you do differently? You have added on every possible complication to this franchise.

Bernadette Kelly: One of the things we have learned—this was the big learning point from the timetabling issues in May—is that we cannot introduce change at a rate that is more accelerated than the industry's capability to deliver that change.

Chair: That is pretty basic.

Bernadette Kelly: Basically, we tried to bring in too many new services all at once, at a time when the industry wasn't fully prepared to deliver it in May. I know that Mr Haines has been thinking about this a great deal, because he is now leading on the timetabling process.

Andrew Haines: I was not part of the industry at the time so I might not get this entirely correct, but part of what the Department did in procuring the franchise was to get a partner that could work through the practicalities. The reality of trying to run 24 trains an hour through the central section meant that you needed an operator on board to work that through. It is not unreasonable to suggest that some of these things were only ever going to surface when you got into a level of detail that would not have happened at the time when you let the franchise. That is why it was let in the way it was, without the revenue risk, recognising that there would be iteration and there would be a transition. It is a complexity that had not been undertaken previously in this country.

Q77 **Sir Geoffrey Clifton-Brown:** Nobody is denying the complexity. It is a highly complex operation—nobody is denying that. Even so, surely your predecessors could perfectly well have seen that there were going to be problems before this franchise was even let?

Polly Payne: Can I just make two points? When we let franchises, we have to take a seven-year-plus view of what the future is going to look like, and we have to have our best view at the time the franchise is let, but the franchises are not set in stone, so we have a number of change mechanisms within the franchises to deal with change as it happens. For instance, when we decided to re-phase the numbers of trains going through the Thameslink core, we were able to take that change through the franchise. The franchise did not stop us moving to what we thought the best phasing was. That is quite an important thing to remember: the franchises are the best view at the time they are let, but they have in-built flexibilities and change mechanisms so that we can cope with real-world change, as you would expect them to.

Q78 **Sir Geoffrey Clifton-Brown:** Going back just for a second to the profit cap, this is really an issue of transparency, isn't it? I cannot quite see why, once a franchise is let, there is this shield of commercial-in-confidence. Before it was let, in the bidding process, yes, but after it was let, why can't you be transparent and say, "If they make a certain level of profit, the cap will come in"?

Chair: Especially because Ms Payne highlighted that the cap was one of the ways that you were showing control over this franchise. You offer it up as a sign of that and then you will not share with us what the profit cap is, so we really have no idea except general trust in you. Forgive us if we are sceptical.

Polly Payne: I am not sure about the detailed reasons, but we can do you a note.

Q79 **Sir Geoffrey Clifton-Brown:** Can you do us a note? That is really kind.

Polly Payne: Yes, absolutely, and investigate whether—

Bernadette Kelly: We will do you a note, and if we can be more explicit without causing a problem commercially, then we will be so.

Q80 **Chair:** I am not sure there are a lot of people rushing to take on this franchise who you will put off if you talk frankly. A lot of passengers have a real concern about it, and I think they deserve to know.

Bernadette Kelly: Yes.

Q81 **Sir Geoffrey Clifton-Brown:** Can we get to the May timetabling, as you knew we would? How did you get to the position where responsibility for something as risky as this major timetable change was not clear?

Bernadette Kelly: There were a lot of different responsibilities that people had. I will ask Mr Haines to describe it, because I think he has a clear view about this being something that the industry had ultimate responsibility for.

Andrew Haines: There have been more than 40 timetable changes since the privatisation structure has taken place, and probably 37 or 38 of those have passed with very little comment, because there are clear procedures and processes and clear accountabilities for Network Rail and the individual operators. Unfortunately for passengers, the May '18 timetable is a consequence of the relevant industry players underestimating the consequences of doing so much change and, in particular, then embracing the late notification of that change. Those are the underpinning reasons. It is not about any individual's accountability; there was collective failure by the individual components of the industry to recognise the consequences of doing this change and doing it with late alterations. I am happy to elaborate on that if it would be helpful.

Q82 **Sir Geoffrey Clifton-Brown:** Indeed. Take the north-west electrification project, which was a very late change. Was it sensible therefore to go ahead with the Northern timetable changes, knowing that you had made that cancellation?

Andrew Haines: Unfortunately, by the time the decision was taken that the infrastructure could not be delivered credibly without so much disruption, there was no easy choice left. Northern did not have the choice of just rolling over its timetable, because all the other operators that were affected by Northern had already developed their detailed timetables. There was no fall back of just staying as we were, because of all the work that had been done for everybody else. It was one of those dreadful situations where, if you don't take the decision soon enough, all the options are highly unpalatable. The option of continuing with the electrification timetable clearly wasn't going to work, because the electric trains were not there, so what passengers were left with was an unfortunate least worst option in terms of operating the railway, but it caused them a lot of disruption.

Q83 **Sir Geoffrey Clifton-Brown:** Ms Kelly, you have a new CEO of Network Rail sitting beside you. How will you hold him up to the task of making sure that Network Rail does not precipitate some of these difficulties for passengers in the future?

Bernadette Kelly: I think Mr Haines will hold Network Rail up to that task; I have absolutely no doubt about that. I think that one of the reasons the industry has successfully de-risked this timetable change that has happened today is the leadership and the action that Mr Haynes has taken to ensure that this timetabling process is now running in a way that does not result in unacceptable disruption for passengers.

Q84 **Chair:** I do not want to diminish Mr Haines's achievements, but it is a pretty basic thing to have a timetable running right. Ms Kelly, you are presenting it—very cleverly, I think—as a huge and stonking success for Network Rail, whereas getting back to normal is what I would call it.

Bernadette Kelly: It is, but there is still a lot to do—

Q85 **Chair:** It is nothing against you, Mr Haines, that you are the new man in the room, but—

Andrew Haines: No, I am not taking that. I am simply going to say that, while I appreciate the comments, the important thing here is that we want to deliver ambitious change for passengers. The industry has to restore confidence in passengers that they can benefit from the very significant investment that the taxpayer is putting into the railway. And in the timetable coming up in May 2019, we are seeing even more changes than were due last May, and significant changes in December 2019. That is why it is so important that we take responsibility for our actions now and demonstrate that we can deliver them reliably and confidently to passengers.

Bernadette Kelly: The steps that Mr Haines has taken to put in place an industry-wide programme management office, to really drive this process and ensure that it is done in a more collaborative and joined-up way across the industry, have been vital. I know that he is also taking steps to ensure that the system operator is fully able to perform and is resourced to deliver the changes.

Mr Haines is quite right. We have de-risked December; we have done a modest number of changes. May 2019 will potentially be another challenge and what we need to see happen this time is all of the industry carrying out their responsibilities in such a way that that will be successful—

Q86 **Chair:** You are talking about this like it's all great now and that it was just a blip. Can you tell me when there was ever a timetabling problem as bad as what happened in May this year? Mr Haines has been in the industry a long time before—

Andrew Haines: There was a very poor one with the CrossCountry timetable in the late 1990s, but—

Q87 **Chair:** The late 1990s? We had a new Labour Government then. That is a long time ago.

Andrew Haines: Indeed. That is why I say twice in 40 timetable changes.

Q88 **Chair:** Let's be clear: it is not a success that we are getting back to normal.

Bernadette Kelly: No. Actually, the May 2018 timetable change was not a normal timetable change; it was something like 42,000 different timetable changes.

Andrew Haines: Three to four times higher than normal.

Bernadette Kelly: Which is about three to four times higher. That is why in the end I think it was such a challenge and that is why it went wrong. We have come back to a normal level of timetable change in December, but next May and December, in order to deliver the capacity and benefits from Thameslink, we will need a far greater level of change.

Q89 **Sir Geoffrey Clifton-Brown:** To come back to the Chair's question, we should not gloss over this. Millions of passengers were delayed or their journeys were cancelled. Thousands of trains were delayed or cancelled. This was a serious incident. Who was ultimately responsible for it?

Bernadette Kelly: First, we have been very, very clear that we completely agree with your analysis: this was an unacceptable level of disruption for passengers to have experienced.

Chair: We will take that as read.

Bernadette Kelly: As Mr Haines has made clear, the industry was responsible for delivering this timetable change. It failed to do it effectively—

Q90 **Chair:** But, as you have just outlined, this was among the most complicated of changes, so wasn't the Department asleep on the job and unable to challenge the industry hard enough?

Sir Geoffrey Clifton-Brown: And to actually attain more information?

Bernadette Kelly: My Secretary of State is on record as saying that we should have challenged the industry harder still. We did challenge the industry. We put in place an industry readiness board to deal with the Thameslink changes. We put in place an independent insurance panel to challenge that readiness board. And yet the industry continued to maintain until two days before the timetable change that everything was on track.

So I believe that it was principally an industry failure; I don't think Mr Haines would disagree with me on that. But we also recognise that a number of parties had a part to play, and our challenge—our failure, in a sense—was to ensure that the assurance was in place that everything would go smoothly.

Polly Payne: I think the Glaister report, part 1, which was published on 20 September, set out quite clearly where the culpability lay. I think we would agree with that analysis that there is a culpability across a number of players—GTR, Northern, ORR, us and indeed Network Rail—and so does the Transport Select Committee. The blame is quite widespread.

Chair: Very briefly: Mr Haines.

Andrew Haines: Thank you, Chair. I am genuinely concerned about the narrative that says that the way to stop timetable disruption in the future is to have higher levels of political involvement. As you said, we have to get back to a normal arrangement, which is that the industry has to be relied upon. There needs to be a level of assurance and scrutiny, but if you look at the level of assurance that was in place for May, I deeply believe that that was an industry failure, not something that would have been remedied by even more assurance. Given the sorts of experts who were misled, I must say, with the greatest respect, that the Secretary of State and any other Ministers would have been very unlikely to see through the issues that very highly respected individual experts failed to see through. Getting clarity of ownership with the industry players is fundamental to ensuring that this does not happen again.

Q91 **Sir Geoffrey Clifton-Brown:** I hear all the answers that are being given, but these were very serious issues. It does seem to me that the Department is not as on top of getting the information and predicting what might happen as it should be, whether that is in letting and monitoring a franchise operation, in timetabling, or in Network Rail improvements. I am wondering what lessons you have learned and what changes you will adopt in your Department to be able to do precisely that.

Bernadette Kelly: Absolutely. There are a number of lessons that we have learned, and there are some good practical suggestions in the second part of Stephen Glaister's report, which was published last week. For example, it suggests ensuring that where programme boards are in place, they are specifically empowered and required to look at systemic risks, as well as at the particular bits of the system that they are directly responsible for. It also makes a number of sensible suggestions about the role of the system operator and ensuring that there is further work done on the provision of passenger information and so on. I think there are good, practical suggestions in there, including some suggestions that we in the Department will want to think about and act on.

However, I do think that Mr Haines's point is an important one. There is a risk that if Ministers try to run the timetabling process, frankly it will be worse for passengers, not better, because ultimately it is the people with real operational and industry experience who have the ability to know how to do this most effectively.

Chair: I am aware of time, so I will bring Sir Geoffrey in on the roads issues that we identified with you before the session, and then come back to Bridget Phillipson for some further franchising points.

I urge you to be quick in your answers, or we will cut across you. I am sure that you have important things to do; given the cost in your combined time of having you here, I am sure you will be glad if we can get through this business and let you get off to do other things.

Q92 **Sir Geoffrey Clifton-Brown:** Quickly and simply on roads, the 112 enhancement programmes that should have been started—and therefore presumably funded—before RIS2 came into operation will now move into RIS2. Will the funding for them move into RIS2 as well?

Bernadette Kelly: You are referring to the RIS1 optimisation exercise, which I think the NAO has reported on very positively. What we have done, or what Highways England has done, in that process is effectively to smooth the profile of projects. A consequence of that is that the tail of some of those projects will now form part of RIS2. It was always expected that that would happen, because there was a sharp increase in the number of projects planned to start at the end of RIS1 and it was always the case that their completion was going to fall within RIS2.

We have now increased funding in RIS2 for the strategic roads network to £25.3 billion—a substantial uplift in funding over the next period. Of that, we expect about 40% to be the completion of projects that will have started in RIS1. It is the nature of these projects that they will often span more than one control period, because they cannot be developed and delivered within a single road investment strategy control period.

Q93 **Sir Geoffrey Clifton-Brown:** You can see where I am coming from on this. By the time you have the Thames crossing, Stonehenge, and the Oxford to Cambridge link, will there be much money left for anything else?

Bernadette Kelly: As I say, it is a substantial settlement, which we are now working through. It has actually not yet been finalised, but we would expect it to be next year for RIS2. The A303 and lower Thames crossing sit outside the RIS2 funding. Obviously, they were going to be private finance initiatives. As the Chancellor has now announced, we will not be proceeding with them on that basis, but we remain fully committed to those two vital projects.

Q94 **Chair:** Can we just be clear: has the Treasury given you additional funds for those?

Bernadette Kelly: The Treasury has indicated that it fully supports us continuing with those projects.

Q95 **Chair:** They can say that, and then not give you the money, Ms Kelly.

Bernadette Kelly: They have indicated that they are also supportive of the rough profile that we have of spending in RIS2. On that basis, we will expect funding to be provided for those two projects.

Q96 **Chair:** Extra money. You can say that in one sentence, I think, but well done for the diplomatic—

Bernadette Kelly: I am always wary of speaking for the Treasury, but that is my expectation.

Q97 **Chair:** You are putting your bid in: the Treasury needs to give you money, or you will have to take it out of already committed funds, which you cannot do. That is it in simple terms.

Bernadette Kelly: Yes, the Treasury has indicated that it is very supportive of those two projects. We will be finalising the funding through a spending review process. We are carrying on with them in the meantime. A DCO has been submitted on the A303, and we are out to consultation on the lower Thames crossing.

Chair: If the Treasury is listening, which I think it is, they are ready to go.

Q98 **Sir Geoffrey Clifton-Brown:** Taking into account the enhancement projects that have spilled over from RIS1 to RIS2, and taking out those two projects that you hope to be funded separately, how much free money in that £25 billion is available for new projects, as it were?

Bernadette Kelly: I do not have an exact figure in front of me to answer that question.

Q99 **Chair:** Ballpark?

Bernadette Kelly: What we have in the current plan—indeed, some of this will not yet have been nailed down—are rather more strategic interventions in the next RIS period than we have had in the current one.

Q100 **Chair:** When you say rather more strategic interventions, what do you mean by that?

Bernadette Kelly: I am talking about the balance between normal maintenance renewal and slightly larger projects. We almost have a reverse on the roads of where we are on CP6 and the railway. We are doing slightly more of those, and more significant projects.

Q101 **Chair:** So basically new roads or new links rather than over-maintenance?

Bernadette Kelly: We are doing maintenance as well.

Q102 **Chair:** But the balance is more towards—

Bernadette Kelly: Yes, it is the balance within that. I am afraid I cannot give you an exact breakdown of the detail of that. Some of that is being concluded.

Q103 **Sir Geoffrey Clifton-Brown:** When is that likely to be finalised?

Bernadette Kelly: The final RIS2 settlement will be concluded next autumn, but there is quite a lot of information already in the public domain about the pipeline of projects that Highways England is expecting to take forward and the timeframe for those. I would be able to provide some further information.

Q104 **Sir Geoffrey Clifton-Brown:** Is that before or after the spending review?

Bernadette Kelly: That is after the spending review. Well—I have just paused on that. Assuming that a spending review happens and concludes before the summer, the autumn is after the summer.

Q105 **Sir Geoffrey Clifton-Brown:** Well done—you are on the ball. Is RIS2 funded entirely out of the licence fee?

Bernadette Kelly: It is hypothecated vehicle excise duty.

Q106 **Sir Geoffrey Clifton-Brown:** So it is fully funded. There is no other Treasury funding required for that £25 billion.

Bernadette Kelly: The £25.3 billion in RIS2 is currently the agreement that we have with the Treasury. There are still some issues around how the Treasury wants to approach capital spending in the spending review, but that is the figure that we have agreed with the Treasury for the strategic road network.

Q107 **Chair:** How much of that comes from licences? You say you have that figure agreed.

Bernadette Kelly: That is, in a sense, a hypothecation of road taxes.

Q108 **Sir Geoffrey Clifton-Brown:** Yes, but is that enough? The point of the Chair's questions, and my questions, is whether the £25.3 billion is fully hypothecated from the licence fee so there will be no recourse to additional taxpayer funding at all.

Bernadette Kelly: Yes, I believe it comes within the expected total of that particular tax stream and revenue stream for Government. Outside of the £25.3 billion, which is for the strategic road network, there is also, I think, an additional £2.5 billion for major and local roads.

Q109 **Sir Geoffrey Clifton-Brown:** Ms Kelly, I think you have been warned about this question. I have a particular interest in the missing link: the road from the M4 to the M5.

Chair: He's not being rude about the civil service.

Sir Geoffrey Clifton-Brown: We are confident you will announce the preferred route in March and then you will be able to move on to the DCO process.

Bernadette Kelly: It is otherwise known as the A417 Air Balloon.

Sir Geoffrey Clifton-Brown: Correct.

Bernadette Kelly: Thank you. We have said that we will announce the preferred route in spring. We are moving that as quickly as we can. We are well aware of your interest and your wish for us to announce it by March. I don't think we have formally committed that we can do it by then. There is a process of clearance and due diligence that has to be done.

Q110 **Chair:** So spring, but after March.

Bernadette Kelly: Spring could be March.

Q111 **Chair:** Spring is actually March in the real world, but in civil service world it could be March or another month.

Bernadette Kelly: It could be March or it could be another month in the spring, but we are very much aware of your interest in our announcing it by March.

Q112 **Sir Geoffrey Clifton-Brown:** I have been campaigning for this for 17 years. I want some good news soon, please.

Bernadette Kelly: Message received.

Sir Geoffrey Clifton-Brown: Thank you.

Q113 **Chair:** That sounds like nearly a promise, Sir Geoffrey.

Bernadette Kelly: I don't think it is a promise, but I have heard the message.

Chair: Well, you're smiling warmly, so it's looking in the right direction. I'm going to bring back Bridget Phillipson on rail issues.

Q114 **Bridget Phillipson:** Returning again to a separate issue, has a final settlement been reached on Virgin Trains East Coast?

Polly Payne: On Virgin Trains East Coast, as you know, the railway is now LNER and run by the OLR.

Chair: I should say we try not to use initials. LNER is—

Polly Payne: London North Eastern Railway. The final financial settlement I think has been agreed. We have taken all their PCS—parent company support—from them. There were some outstanding possible legal claims, which I think are resolved.

Q115 **Bridget Phillipson:** And no outstanding contractual payments.

Polly Payne: I think not. I can double-check, but my understanding is not.

Chair: So it's all sorted.

Q116 **Bridget Phillipson:** When the franchise was awarded back in 2014, there was a commitment to additional services serving new destinations. I think it was 23 new services, including direct links to places such as Huddersfield, Sunderland and Middlesbrough. Some of that has happened, but do you know whether all of that will be met?

Polly Payne: No. I can find out for you exactly what the commitments were at that time and what the current commitments are.

Q117 **Bridget Phillipson:** To give an example, in response to a parliamentary question in September from Anna Turley, the Member of Parliament for Redcar, the then Minister said that with regards to the service to Middlesbrough, which would be a new service, the plan was to deliver additional services to Middlesbrough when capacity was available to do so. How many of these commitments that were made at the time will happen?

Polly Payne: This was at the time the franchise to Virgin was made?

Bridget Phillipson: Yes. I just wondered whether there were any plans to look at whether those commitments that were made then will still be delivered.

Polly Payne: My understanding is that the intention is for the current operator to deliver all the commitments that were made in the original contract. I don't think we have gone back on those commitments, but I will double-check. We can give you a note if there is any change.

Q118 **Bridget Phillipson:** You will understand that delivering additional services when capacity is available is not a fixed date. There seems to be a rowing back from a date that was set. A number of dates were given as to when we could expect these additional services as part of the then franchise. I would be grateful if you could tell us when and if any or all of those services will happen.

Polly Payne: I am very happy to do that.

Q119 **Bridget Phillipson:** When the new East Coast Partnership appears, will it deliver better value for money and better passenger outcomes?

Polly Payne: Yes. The entire intention behind the East Coast Partnership is a closer working together of track and train—vertical integration. We think that that will deliver greater efficiency and better outcomes both for passengers and for the taxpayer.

Q120 **Bridget Phillipson:** What will the better outcomes for passengers be and what do you think the better outcomes for the taxpayer will be in concrete terms?

Polly Payne: Faster services, better performance, more reliability, and a better functioning railway so that passengers have fewer delays and cancellations.

Q121 **Bridget Phillipson:** When it comes to the trans-Pennine rail upgrade, Ms Kelly, can you tell me what the current situation is and what we can expect by way of upgrade?

Polly Payne: Yes. We have committed that the trans-Pennine route upgrade will be the most significant enhancement project to be taken forward in CP6. I am sure that Mr Haines will be able to say more about that. We have committed to funding this to the tune of £2.9 billion in CP6, and this will be the first phase of that vital upgrade. That is our position on the trans-Pennine route upgrade. I expect detailed decisions on the shape and form of that project to be considered by the Secretary of State shortly.

Polly Payne: It is worth saying that our approach is such that the first beginning works will start in spring 2019—so very shortly.

Q122 **Bridget Phillipson:** You will be aware of the concern expressed by many people, such as Rachael Maskell, one of the York MPs, that what will be on offer might be a further downgrade of what was already a downgrade. How would you respond to that?

Bernadette Kelly: I will ask Mr Haines to say a bit more, as it is a really substantial project. What we have had to do or what we have been seeking to do, and what Network Rail has been seeking to do, is to develop a plan for the upgrade that is deliverable and affordable, and manages the level of disruption that might be experienced during the course of the upgrade. Mr Haines?

Andrew Haines: The nature of the route between Leeds and Manchester, or York and Manchester, is that it is very hilly, so there is lots of tunnelling and very few alternative routes. What we have tried to do is to work out where we can get most benefit for passengers through capacity improvements, because overcrowding is the overwhelming issue facing passengers on that route currently. How do we get the benefits of faster journey times and a cleaner environment, which electrification brings, without causing such disruption that passengers abandon rail? It is a very real challenge. Overwhelming, this is a two-track railway, with very difficult areas where the road networks are not particularly supportive and the alternative rail networks are difficult, so we have tried to come up with a balanced package that delivers as soon as possible for passengers without getting them to abandon the railway in the meantime. If we were to shut the railway for a year, we could do more, but that would be utterly intolerable for the cities at either end and for passengers who want to use it.

Q123 **Bridget Phillipson:** Will the upgrade deliver both the capacity for passengers and the additional freight capacity that is needed along the line?

Bernadette Kelly: We are certainly looking at freight benefits and how we can deliver those. Ms Payne can say more about that.

Polly Payne: We are trying to deliver benefits for all our users. They are constrained by two factors, one of which is affordability: £2.9 billion is a very significant amount of money and, indeed, around a third of our entire CP6 enhancement budget. Also, as Mr Haines said, we have to balance against the disruption to passengers and to freight, as we have to close the line to make improvements. It is about balancing the benefits now, benefits in the future and benefits elsewhere on the network.

Q124 **Bridget Phillipson:** I appreciate that it is a big figure and a large amount of investment. It is just when we hear the figures bandied around when it comes to Crossrail, we want to make sure that the investment that we are making is spread across the country, so that we see some of the economic growth and the freight capacity opening up that we need to see. Do you think that the upgrade will deliver? Will it deliver all the capacity for passengers that is necessary? Is there a way around this issue of having to close it all off for a year if the benefits are to be seen?

Bernadette Kelly: Again, I will ask Mr Haines to comment on some of this. What we have been trying to do with Network Rail and, indeed, with Transport for the North, is to devise a plan that quickly delivers as many of the benefits to passengers as we can, within an affordable cost envelope. We have not, of course, ruled out the possibility of subsequent upgrades in future control periods, but it is a question of how we bring in those changes that will make the most difference, soonest, to passengers in terms of reliability and capacity.

Andrew Haines: We have tried to prioritise capacity, so if there has been any sacrifice, it might have been of a few minutes of journey time improvement. If that takes further electrification or further disruption in terms of line speed improvement—

Q125 **Chair:** You make a great show of saying that passengers are at the centre of what you do. Have you and the Department engaged with passengers to see whether they want that?

Andrew Haines: Yes, there has been a very extensive consultation throughout 2018—a very transparent set of documents. I think that is when the penny dropped that capacity is the overwhelming imperative, and if there has to be a choice between journey time, capacity and the sheer disruption, then maybe the thing that can go in the short to medium-term is a few minutes' reduction in the improvement of journey time—so there won't be an extended journey time, but not getting the full journey time benefit. I think all the feedback we have had from passengers is that that is absolutely the right choice.

Q126 **Chair:** You are embarking on this hugely ambitious and substantial multi-billion pound project and, as Ms Phillipson has said, a lot of our colleagues from seats in the north of England are feeling it is their turn now—and a lot of passengers there too. So what lessons have you learned from Crossrail, Thameslink and Great Western? We could list more of the challenging projects—the ones that have not been so successful.

Andrew Haines: First of all, be very clear about what deliverables you want out of the project before you go very heavily into it. I think that is one of the overwhelming lessons from projects that were designed perhaps eight, nine or 10 years ago. Secondly, you have to work in very close co-operation right from the outset on what the end benefit for passengers is, and how that is delivered. Thirdly, you have to work closely with the supply chain to use new technology, but in a way that is well developed, so we are looking at digital technology to deliver some of the benefits on the trans-Pennine route upgrade. I would say that managing access is going to be so important there that we have already started those ongoing discussions with the operators. We have a much more collaborative approach to the supply chain. I could go on—we have learned dozens of lessons from the Thameslink programme.

Bernadette Kelly: And also from Great Western electrification; so all of the improved programme board oversight, closer working with train operators—all of that will be a feature of the delivery of this project.

Q127 **Chair:** So the message to our colleagues—our friends in the north—is that it is all going to go swimmingly?

Andrew Haines: It is going to be a major challenge to deliver—hopefully you got that. I would give an open invitation to say please come and talk to us about the challenges around this, so that we can sell to constituents and commuters the need to bear with us while we do it. This will be a difficult upgrade, but we are well prepared.

Q128 **Chair:** Can you clarify the timetable?

Andrew Haines: It will continue throughout CP6, so the early work will be starting next year. We will need a development consent order then for parts of the work. We will be four-tracking the track to Stalybridge and Huddersfield—so right the way through to 2024-25.

Q129 **Chair:** I will bring in the Comptroller and Auditor General for nearly the last word.

Amyas Morse: I just wanted to know, when you are planning one of these ambitious upgrades, how you factor in passenger delay and inconvenience. I know you care about it, of course, but how do you actually plan for it? How do you provide for the number of hours? You see so many overrunning works-type announcements. How do you actually plan for what margin you need to provide on completion of work to protect passengers?

Andrew Haines: That is a very good question. For a start, we are financially incentivised to give early notification. There is a mechanism called the schedule 4 mechanism. Network Rail pays less if there is good notice, because it makes it easier for the operator to plan. We then know that passengers find late notice trouble more painful, so we look to de-risk the programme and not run to the end, on that basis. But we then have to balance that with the limited access, about how much you can get in, within a period of five or six hours; so it is very specific to the site—but lots of early preparation.

Bernadette Kelly: I was just going to say, the way this particular project is being planned—I'm afraid I am not close enough to the detail to describe it in very close detail—in sort of chunks, in a way that always means that there are alternative routes available to passengers.

Q130 **Chair:** So although passengers may be delayed, they will still be travelling.

Bernadette Kelly: So there will still be trains. There are chunks to make sure. Part of the reason it is being phased in the way it is, is to ensure there is always an alternative route available, and there will be lots and lots of advance notice of those, and disruptions, as well.

Chair: Certainly, when we write to MPs telling them what we have heard from you today, they will be holding you to account, as other local communities will. Thank you very much for your time and for your patience as we delayed the start of our hearing because of the Prime Minister's announcement in the House of Commons Chamber earlier. Thank you for your indulgence. We will decide how we are going to deal with this, as a Report or letters to you; but we probably won't be writing to you or dealing with that until after Christmas, now. Thank you very much indeed for your time.