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Overview of the English rail system

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Contents

Summary

The rail system in England has suffered from a lack of strategic direction and accountability for many years. The delivery of services has not been focused sufficiently on the needs of passengers, and the system has struggled to improve service reliability, quality and flexibility. The rail system has become increasingly costly for the taxpayer. In 2019–20, the net cost of the system to the taxpayer was £5.1 billion; a 99.7% increase in real terms from 2015–16 to 2019–20. Since March 2020, an estimated £8.5 billion of additional government financial support has also been provided to the system in response to the COVID-19 pandemic. Despite the significant cost to the taxpayer, the pandemic presents a highly unusual operating environment, from which lessons should be learned and implemented to improve the system in future.

The Government needs to make tough choices and determine priorities about the future of rail. Government intends to move from the previous failed franchise system to new arrangements expected to result from the Williams-Shapps Plan for Rail (the Rail White Paper). At the same time, government must address the impact of COVID-19 on the system and put in place measures to ensure a net zero railway in accordance with its previous commitments. The Department and Network Rail must ensure that rail delivers better services for passengers in a way that meets new travel demands. At the same time the high-cost fixed assets required to run these services need to be maintained, while keeping ticket prices affordable to encourage people to travel by rail. While the Department is aware of the need for improvement across a range of areas we are concerned that the Department has neither the necessary urgency nor appreciates the scale of the challenge ahead. Now is the time to make radical, effective reform in the rail system and aspirations and intentions need to be turned into concrete actions that deliver meaningful change.

Introduction

The rail system in England involves public bodies (including Network Rail), passenger operators under government contract, and private sector bodies. It is regulated by the Office of Rail and Road. The Department for Transport (the Department) is responsible for setting the strategic direction for the rail system in England. The arrangements between all those involved in delivering rail services involve complex cash flows and accountabilities. The total expenditure of the rail system in 2019–20 was £17.4 billion, made up of £9.5 billion spent on operating rail passenger services, £7.1 billion spent on operating infrastructure and £0.9 billion spent on operating freight services and High Speed 1 (figures do not sum due to rounding). In 2019–20, total rail sector income was £17.1 billion, of which £5.1 billion was government funding. The remaining £12.0 billion was earned income, the majority (80%) of which was earned through passenger fares.

The disruption to national rail services following the May 2018 timetable change, and the collapse of the East Coast Rail Franchise in the same month, led the Government to announce the Williams review to examine substantial concerns from across the industry around the rail system's structural organisation and the delivery of rail services. Those concerns included long-standing issues that have been prevalent in the rail system including: poor passenger service performance, reliability and value for money; fragmentation between bodies in the system and the lack of clear accountability; concerns around cost pressures and financial sustainability; and the ability of the system to respond flexibly to future challenges and opportunities.

To add to these challenges, passenger demand has not continued to increase in the way anticipated by the Department and train operators (plateauing at around 1.35 billion journeys per year since 2015–16). This has contributed to problems with the financial sustainability of those franchises whose finances are dependent on continuing to maintain revenues at levels previously anticipated. In addition, during the COVID-19 pandemic the government told the public to stay at home if they could, and without passenger fare income, government stepped in to pay rail operators to keep services running. In doing so, it took on all risks associated with running the railway. The Department now faces an extremely challenging and uncertain environment in which to implement its proposed reforms.

Conclusions and recommendations

1. **The Department lacks a convincing and timely plan for encouraging passengers back to the railway as part of COVID-19 recovery, and risks an increase in car use.** The Department and Network Rail have some plans to encourage people back to rail travel, including increasing the capacity of services and the information available to passengers. However, these plans do not reflect the urgency required to avoid an increase in car use as people begin to travel again, which would undermine the decarbonisation of transport required to meet net zero commitments. Even before the pandemic, passenger demand had plateaued, reflecting a change in travel patterns. Long-standing barriers to rail travel remain unaddressed by the Department. For example, fare reform to reduce the complexity and cost of rail travel and encourage use is long overdue. In addition, it remains unclear how the Department will better integrate rail travel with other modes of public transport, which would improve utility of the whole public transport network and incentivise use. The Department's own data shows that people are returning to cars faster than to other modes of transport. Without targeted and timely intervention, the opportunity to reinvigorate use of public transport and prevent a car-led recovery will be missed.

   Recommendation: ***The Department should write to the Committee by December setting out the actions it is taking to encourage passengers back to the railway. This should include:***

   - ***a plan for rail fare reform and flexible ticketing post-pandemic;***
   - ***the steps it is taking to integrate across public transport to provide a joined-up transport system for passengers; and***
   - ***how Network Rail is actively managing rail timetables and services to respond to emerging demand patterns.***

2. **In recent years, we have identified serious failings in the rail system, and the Department must now overcome significant long-standing issues to bring about complex reform.** We have previously reported on the problems inherent in the rail system, such as: poor performance and reliability of the network; the lack of accountability and Departmental oversight and the Department's poor management of franchises. The COVID-19 pandemic has brought additional challenges, not least the collapse in passenger demand and associated revenues, and significant financial cost to government and the taxpayer. The Department acknowledges that the rail system faces a complex and deep-rooted set of issues and that collaboration between all bodies in the system will be required to make changes across the sector. The COVID-19 pandemic has added to the urgency of these reforms. The publication of the much-delayed Rail white paper is the Department's first step towards much needed reform. Such a large, "once-in-a-generation" reform programme carries significant risks. The implementation and execution of reform will be a complex task relying on multiple actors and organisations. The Department needs to guard against over-optimism in relation to its capacity and ability to deliver this change.

Recommendation: ***By December, the Department should write to the Committee setting out clear roles and responsibilities between bodies in the rail system for the delivery of reforms, and a timetable for implementing the system-wide reforms proposed in the Rail white paper.***

3. **Published information from the Department and the Office of Rail and Road on whole-system costs and revenues is not sufficient to inform proper oversight of the rail system, given the extent of taxpayer exposure.** The arrangements for delivering rail services in England involve complex financial flows and contractual obligations between a range of private and public sector bodies. The lack of a complete set of public data makes it difficult for Parliament and taxpayers to understand the overall financial position of the system, and the impact of government's choices. In addition, the taxpayer has borne the brunt of the financial burden of supporting the rail system through the COVID-19 pandemic. Until recovery is more certain, the Department has said that financial risk will remain with government and the taxpayer. Given this, the Department must improve transparency over the costs across the whole industry and use whole-system financial and management information to oversee its financial contributions and ensure value for money. On operator contracts specifically, through its proposed quarterly monitoring, the Department now has an opportunity to develop its reporting to inform its oversight and improve the transparency of decisions made in passenger operations.

Recommendation: ***The Department should write to the Committee by December setting out its plans to improve transparency. As a minimum these should include:***

- ***the regular publication of 'whole-system' financial data, further developed to assist meaningful oversight; and***
- ***regular reporting to Parliament on the progress and implementation of the Rail white paper.***

4. **It is not yet clear that the interim National Rail contracts fairly distribute risks between government and operators, or provide incentives for operators to deliver efficient, high-quality, and value-for-money passenger services.** In previous reports the Committee highlighted failings in the Department's previous commercial model of rail franchising. The COVID-19 pandemic brought an end to this approach and transferred all revenue and cost risk from operators to the government through two rounds of emergency measures which overlaid franchise agreements. These arrangements directly expose the taxpayer to operators' income and expenditure positions and led to significant financial support to operators during 2020–21. The Department is now putting in place interim National Rail contracts as a bridge between emergency measures brought in in response to the COVID-19 pandemic and implementing long-term reforms to service delivery set out in the Rail white paper. It will be vital to put in place contracts which reduce taxpayer risk exposure, alongside providing the necessary resilience, and meaningfully incentivising operators to grow revenue, reduce cost and harness commercial expertise. However, the Department has not set out in sufficient detail the exact nature of these contracts, nor how it will use them to incentivise improved performance. In addition, we are concerned that the majority of cost risk

and revenue risk will remain with government under these contracts, leaving the taxpayer exposed to fund a currently unquantified bill. The Department will also require significant resource to manage and oversee these new contracts.

Recommendation: ***The Department should set out in its Treasury Minute response the high-level terms of the new National Rail contracts, where revenue and cost risk will lie, and how it is using these to incentive improved performance, beyond the planned performance-based management fees.***

5. **We are disappointed at the lack of progress in agreeing a specific and funded plan for the electrification required to achieve the government's own net zero targets.** Electrification of the network is the key mechanism for delivering rail decarbonisation. It will require a significant level of investment (estimated between £18 billion and £26 billion, 2020 prices) and the Department recognises that a steady long-term plan for electrification is fundamental to achieve net zero commitments efficiently. However, the Department's track record on rail electrification projects reflects in its own words a "feast or famine" approach, which has directly caused boom and bust problems in the supply chain for the SMEs involved in the delivery of these projects and uncertainty for procurement of rolling stock. We reiterate the Transport Committee's call for a long-term plan for rail, including a strategy for decarbonisation and electrification. The Department has promised a long-term plan but lacks urgency in its delivery, and its reliance on the delayed all-mode Transport Decarbonisation Plan is unsatisfactory.

Recommendation: ***In its December letter to the Committee, the Department should set out how it will work with others to deliver the electrification required to meet net zero commitments over the long term, and how it plans to fund a stable programme of investment.***

6. **It is not clear to us how Network Rail expects to achieve the remaining efficiencies planned in Control Period 6.** In Control Period 5 (2014–15 to 2018–19), Network Rail failed to achieve its efficiencies target as agreed with the Office of Rail and Road (ORR). In the first two years of Control Period 6 (2019–20 and 2020–21), Network Rail has made progress and is ahead of its target on efficiencies. A set of indicators developed with the ORR will hopefully improve governance and understanding of the likelihood of efficiencies in Control Period 6 being met. Management data has also improved, and Network Rail better understands differences in efficiencies between its operating regions. However, the scale of the efficiencies challenge is increasing, and Network Rail recognises that there is still a mountain to climb to achieve the £4 billion efficiencies target set for Control Period 6. Network Rail will need to continue to increase savings year on year. However, Network Rail is vague on its plans for efficiencies and seems heavily reliant on achieving remaining efficiency savings in Control Period 6 through infrastructure renewals activities.

Recommendation: ***Network Rail should write to the Committee by December to set out its efficiencies plan for the remainder of Control Period 6, how exactly it plans to achieve the £3 billion of efficiencies remaining, and how the efficiencies process is governed, monitored and incentivised.***

1 Rail system recovery and reform

1. On the basis of a Report by the Comptroller and Auditor General, we took evidence from the Department for Transport (the Department), Network Rail and the Office of Rail and Road on costs in the English rail system.[1] We also received written evidence from a number of stakeholder bodies and private firms.

2. The Department has responsibility for setting the strategic direction for the rail system as whole, a complex mix of public bodies, passenger operators under government contract, and private sector bodies. In 2019–20, the total expenditure of the rail system was £17.4 billion, made up of £9.5 billion spent on operating rail passenger services, £7.1 billion spent on operating infrastructure and £0.9 billion spent on operating freight services and High Speed 1. Total rail sector income was £17.1 billion,[2] of which. £12.0 billion was earned income, the majority (80%) of which was earned through passenger fares. The remaining £5.1 billion was government funding; nearly a third (30%) of the sector's income in 2019–20. Net government funding increased 99.7% in real terms between 2015–16 and 2019–20 from £2.6 billion to £5.1 billion. This reflects increases in expenditure on operating and maintaining rail network infrastructure and the pre-COVID-19 deterioration in the passenger rail market as growth in rail passengers plateaued.[3] In addition, the Department told us that an estimated £8.5 billion of government financial support has been provided to the system in response to the COVID-19 pandemic.[4]

3. Over recent years the Department, and the wider industry, have expressed a number of concerns with the rail system such as: a lack of strategic oversight leading to service disruption and poor passenger experience; confused accountabilities for delivering services and for rail disruption; and failures and long-term financial sustainability of franchises and the franchise market. These challenges have been compounded by passenger demand stalling at around 1.35 billion journeys per year since 2015–16 rather than growing as anticipated by the Department. Substantial reductions in rail usage in 2020–21 in the context of the COVID-19 pandemic have further exacerbated this issue.[5] The recently published Rail white paper, originally commissioned in 2018, is designed to address some of these issues.[6]

Encouraging passengers back to the railway

4. Passenger demand for rail travel flattened out from 2015–16 to 2019–20.[7] More recently, the COVID-19 pandemic led to a dramatic decline in the use of passenger rail, as government told people to stay at home and limit travel. The Department told us that the collapse in passenger demand and revenues as a result of lockdown and social distancing

1 C&AG's report, A financial overview of the rail system in England, Session 2019–20, HC 1373, April 2021

2 The headline rail sector figures suggest a £340 million gap between income (£17.1 billion) and expenditure (£17.4 billion) in 2019–20. Consolidated statutory accounts for the industry as a whole are not prepared. The apparent income deficit is largely due to timing differences between when Network Rail government funding is received and when costs are recognised for accounting purposes. See C&AG's report, p36

3 C&AG's report, pp 7, 8

4 Qq 31, 38

5 C&AG's report, pp 13, 18, 24

6 Secretary of State for Transport, Great British Railways, The Williams-Shapps Plan for Rail, Department for Transport, May 2021

7 Q 29

were an "enormous challenge" which it faces in recovering the railway.[8] The Department reported to us that passenger numbers and revenues are just over a third of what they would have been pre-pandemic.[9]

5. The Department told us that it wanted to see a recovery in passenger demand as fast as possible and that the associated revenue from passenger travel is the "single most important determinant of cost this year".[10] However, it also told us that work to understand recovery in demand is at an early stage and that it is hard to tell how demand, especially among commuters, is growing at this point.[11]

6. Data published by the Department on transport use during the COVID-19 pandemic shows that rail travel has remained well below equivalent use in 2019.[12] It also shows that car travel has recovered quicker and to a greater extent. Since 8 March 2021 when the third national lockdown in England began to ease,[13] rail travel has remained below 50% of 2019 equivalent use, compared to car travel which has steadily. Since April 2021 it has frequently been above 90%.[14]

7. As well as providing critical revenue for the rail system, passenger rail travel supports wider government objectives around transport decarbonisation and achieving net zero. We asked the Department how they planned to encourage people out of their cars onto rail. It outlined current activities by the Rail Revenue Recovery Group, including communications and marketing activities to reassure passengers over rail travel safety and improving the information available to passengers.[15] In addition, its National Rail contracts are expected to provide a more responsive approach for meeting passenger demand and it will focus on integrating rail with other modes of transport.[16] The Department recognised that the complexity of rail fares is often a frustration for passengers and that it hopes the Rail white paper (published shortly after the session) will address these issues.[17] However, the Department and Network Rail's responses lacked the urgency and clarity we expected given the financial risk to taxpayers and the impact on the environment of increasing car use.

8. The Department referred to its recently published strategies on bus travel[18] and cycling and walking[19] and told us that integration between modes of transport is "critical" to make public transport an attractive and practical choice for passengers.[20] However, in these documents we can see only limited reference to integrated travel and even less detail on how such integration will be delivered and achieved.

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8 Q 19
9 Q 40
10 Qq 31, 38
11 Q 40
12 C&AG's report, p18; Department for Transport, Transport use during the coronavirus (COVID-19) pandemic, May 2021
13 Cabinet Office, COVID-19 Response – Spring 2021 (Summary), February 2021, Step 1–8 and 29 March
14 Department for Transport, Transport use during the coronavirus (COVID-19) pandemic, May 2021
15 Qq 40, 57, 59–61
16 Q 59
17 Q 45
18 Secretary of State for Transport, Bus Back Better, Department for Transport, March 2021
19 Secretary of State for Transport, Gear change: a bold vision for cycling and walking, Department for Transport, July 2020
20 Q 63

Planned rail system reform

9. We have previously reported on the problems inherent in the rail system which have led to poor performance and reliability of the network. Even before the pandemic, we and the Transport Committee had reported on the Department's franchising model and concluded that it was a broken model.[21] We reported in 2018 that the Department's management of two important franchises (the Thameslink, Southern and Great Northern and East Coast franchises) had been inadequate and were likely indicative of wider weaknesses in the Department's ability to manage franchise contracts.[22]

10. We were interested to hear the Department's views on the main issues caused by the rail system's current structural organisation. The Department recognised that problems have emerged over a number of years, partly the result of poor alignment between Network Rail, responsible for rail infrastructure, and operators, responsible for delivering passenger services. The Department highlighted issues around missed opportunities to collaborate and a lack of strategic direction and accountability for the industry. It also told us that these issues have led to poor performance and reliability, insufficient capacity to meet demand and an increasingly expensive railway, all of which have consequences for taxpayers and fare payers.[23] The Department also recognised that the COVID-19 pandemic has brought significant additional challenge for the rail sector. Passenger revenues, which according to a National Audit Office analysis provided 80% of rail system earned income in 2019–20, have dramatically reduced.[24]

11. After our evidence session, on 20 May, the Department published its long-delayed Rail white paper, which outlines its "once-in-a-generation" reforms planned for the rail system, including replacing franchising and better integrating infrastructure with passenger services.[25] The Department acknowledges that it must overcome a "complex and…deep-rooted set of issues" to improve the system, and that such a large reform programme will be fraught with risks.[26] Despite this, the Department told us it expects reforms to be complete within the lifetime of this Parliament.[27] Our recent report *Lessons from major projects and programmes* is a stark reminder of the repeated difficulties we see in the delivery of major programmes. These include programmes not keeping to cost or schedule, a lack of transparency in progress and weak leadership and governance.[28] Our scrutiny of other reform programmes shows that large reform programmes are susceptible to overambition which leads to delays in delivery.[29]

21 Committee of Public Accounts, Rail franchising in the UK, Twenty-Fifth Report of Session 2017–19, HC 689, April 2018; Transport Committee, Rail franchising, Ninth Report of the Session 2017–19, HC 66, February 2017
22 Committee of Public Accounts, Rail franchising in the UK, Twenty-Fifth Report of Session 2017–19, HC 689, April 2018
23 Q 19
24 Q 19; C&AG's report, p7
25 Secretary of State for Transport, Great British Railways, The Williams-Shapps Plan for Rail, Department for Transport, May 2021; Q 24
26 Qq 19, 24
27 Qq 26, 27
28 Committee of Public Accounts, Lessons from major projects and programmes, Twenty-Ninth Report of Session 2019–10, HC 694, p3
29 Committee of Public Accounts, Transforming Courts and Tribunals: progress review, Second Report of Session 2019–20, HC 27, p3

Oversight of the rail system

12. Since privatisation in the 1990s, cash flows in the rail system have become increasingly complex. Although the rail system is privatised, government still provides significant funding for infrastructure operations, maintenance and renewals, and ongoing subsidy for passenger service operations. The National Audit office's report identifies that the lack of a complete set of public data makes it difficult for Parliament and taxpayers to understand the overall financial position of the rail system, and the impact of government's choices.[30] The lack of whole-system financial data adds to poor financial transparency in the rail system. During the session, the Office of Road and Rail told us about its oversight of Network Rail, which demonstrated to us the importance of data in enabling effective monitoring and progress reporting.[31]

13. The Rail white paper outlines government's plans for a new rail system, with one body responsible for overseeing infrastructure and passenger services and with less complex financial transactions.[32] The Office of Rail and Road told us that such a "guiding mind" could add much needed accountability for the whole system.[33]

14. Specifically in relation to passenger service operations, prior to the COVID-19 pandemic, private sector companies operated passenger services under a franchise model but still received some level of government funding. The amount of government funding provided to train operators has increased in recent years, changing from a net surplus paid to the Department to net a deficit paid to operators in 2018–19.[34] In March 2020, the Department told us it made a "conscious choice" to keep rail services running during the COVID-19 pandemic, despite the dramatic reduction in passenger numbers and associated revenue earned by operators. As a result, taxpayer financial support paid to operators increased significantly. The Department told us it will continue to pay operators to deliver services under the contracting system being drawn up as they transition operators from emergency measures. The Department acknowledged that transparency is "desirable" and will better enable Parliament and the public to understand what they are paying for in the rail system. The Department outlined its proposed quarterly review process for these new contracts, the outcomes of which should be made available to Parliament and the public.[35] Written evidence we received reiterated the importance of improved financial transparency in light of recent significant increases in taxpayer funding to the rail system.[36]

30 C&AG's report, p4
31 Q 34
32 Secretary of State for Transport, Great British Railways, The Williams-Shapps Plan for Rail, Department for Transport, May 2021
33 Q 23
34 C&AG's report, p15
35 Qq 31, 42
36 Porterbrook (OE0001), paras 1.2, 6.2

2 Financial and environmental sustainability

Interim National Rail contracts for passenger service delivery

15. The Department acknowledged that there were significant challenges inherent in its franchising model used prior to the pandemic. It told us that the previous surplus in franchising costs had become a deficit prior to the pandemic.[37] During the final four years of Control Period 5 (2015–16 to 2018–19), net government funding for franchised operators increased from a surplus of £1 billion to a deficit of £2 million. In 2019–20, the first year of Control Period 6, net government funding was a deficit of £533 million, including £300 million of COVID-19 support.[38]

16. Our previous reports have covered some of the commercial difficulties caused by the Department's franchising model. In the worst-case scenarios, issues such as over-optimistic assumptions of passenger growth led to severe operator losses and early contract terminations.[39] These contract terminations accelerated the Department's exposure to the commercial issues in the franchising system as, after termination, the Department is legally obliged to ensure continuity of passenger service; doing so either through a replacement contract with the incumbent on amended terms or, as was the case for the East Coast and Northern Rail franchises, transferring operations to a government-owned operator of last resort. In both scenarios, the Department becomes exposed to the financial risk of reduced revenue from slowed passenger growth.[40]

17. The Department updated us on the Emergency Recovery Measures Agreements (ERMAs), which it put in place as an overlay to franchising agreements in response to the dramatic loss in passenger revenue caused by the COVID-19 pandemic. The ERMAs transferred all cost risk and revenue risk from operators to the Department and were put in place to ensure the continued operation of rail passenger services during the pandemic, now funded by the taxpayer. The Department told us that the cost of its emergency measures to the taxpayer to date was £8.5 billion. The Department acknowledged that this level of investment is unsustainable and that it will be transitioning all operators from ERMAs to new interim National Rail contracts to reduce financial burden on the government and taxpayer.[41] However, cost and revenue risk will remain with government as, under these new contracts, operators will be paid a fixed fee for operating services rather than themselves being exposed to changes in operational costs and passenger revenues.[42] The Department considered that, given the current economic uncertainty, contracting in any other way would be untenable.[43]

18. Following our session on 13 May 2021, the Department told the Transport Committee that negotiations with all train operators have concluded around terminating the underlying franchise agreements, which is necessary to enable the transition of operators

37 Qq 19, 31
38 C&AG's report, pp 8, 15
39 Committee of Public Accounts, Rail franchising in the UK, Twenty-Fifth Report of Session 2017–19, HC 689, April 2018
40 C&AG's report, p20
41 Qq 22, 31, 38
42 C&AG's report, p19
43 Q 42

from ERMAs to the National Rail contracts.[44] It will be agreeing these new contracts over this year[45] and told us that these new arrangements will work on the basis of annual business planning by operators with quarterly reviews by the Department against specific targets. It also said that the new contracts will use a similar fee-based approach in place on the EMRAs.[46] The Department acknowledged that oversight and management of these contracts will require significant Departmental resource, but felt that it would not be a step change from the intensive management required for awarding and managing franchise contracts.[47]

19. We were concerned that the short-term nature of these new contracts could fail to incentivise operators to make cost savings and improve performance, and asked the Department to explain how operators would be incentivised to keep costs down. The Department said that the annual business planning approach will help identify where cost reductions are needed and that its quarterly reviews will increase the levers available to control costs over the life of the contracts. In addition, the contracts will contain a small fixed element, but the majority of the fee paid to operators will be related to performance, including efficiency.[48] The Department said it expects to put details of the new contracts into the public domain.[49]

Rail network electrification

20. Network Rail noted that electrification of the network is a significant cost issue faced by the rail system.[50] In its Traction Decarbonisation Network Strategy Interim Business case, published in July 2020, Network Rail estimated that between £18 billion and £26 billion of capital investment (2020 prices) would be required to deliver net-zero emissions from rail based on known technological capability, the majority of which would be needed to electrify the network.[51] Currently, electrification projects must compete with other demands on enhancement funding.[52]

21. The Department told us that electrifying the rail network is a key part of decarbonising and achieving net zero on the railway and that to ensure success, a steady long-term plan for electrification is needed. However, the Department acknowledged that its approach to electrification in recent years has reflected a "feast-and-famine" attitude.[53] Data published by Network Rail shows a substantial range in annual track electrification undertaken since 1970, ranging from less than 10 track kilometres to almost 600 track kilometres, interspersed with years where no electrification took place.[54] We asked whether the Department planned to rectify this through developing a long-term electrification plan, and it told us that high-level ambitions for rail would be set out in its planned Transport Decarbonisation Plan but it was unlikely that this Plan would contain a detailed long-term strategy for rail.[55]

44 Q 37; Transport Committee, Oral evidence: Williams-Shapps plan for rail, HC 230, 26 May 2021
45 Transport Committee, Oral evidence: Williams–plan for rail, HC 230, May 2021
46 Qq 29, 38, 49
47 Q 51
48 Q 49
49 Q 31
50 Q 32
51 Network Rail, Traction Decarbonisation Network Strategy – Interim Programme Business Case, July 2020, p131
52 Q 33
53 Qq 52, 53
54 C&AG's report, p29
55 Qq 52–55

22. The Department acknowledged that long-term, strategic direction on electrification is needed to provide market certainty for operators, rolling stock companies and the procurement of trains that will be able to operate on the network and to drive innovation. It also recognised that its erratic approach had resulted in “some extremely inefficient outcomes in terms of cost”.[56] Written evidence we received highlighted that the Department’s piecemeal approach to electrification projects to date has caused serious boom and bust problems in the supply chain and for SMEs involved in electrification projects. A consistent and rolling programme of electrification projects would help retain the skills and capability required for such projects and help drive down costs overall.[57]

Network Rail’s efficiencies

23. The Office of Rail and Road told us that in Control Period 5 (2014–15 to 2018–19), Network Rail became less efficient and failed to meet efficiency targets.[58] Indeed, in contrast to assumptions made by the Office of Rail and Road that Network Rail could improve the efficiency of its core business activities by 19.4% during Control Period 5, its efficiency actually declined by 7.4%.[59] For Control Period 6 (2019–20 to 2023–24), Network Rail told us it has agreed to a target of £4 billion of efficiency savings on operations, maintenance, renewals and support activities. This is an increase from the original target of £3.5 billion, which Network Rail considers it can exceed.[60]

24. In the first year of Control Period 6 (2019–20), Network Rail exceeded its planned efficiency savings; achieving £385 million compared to £316 million expected.[61] The Office of Rail and Road told us that Network Rail has improved its efficiency through the development of a bottom-up business plan which routes and regions are bought into.[62]

25. But Network Rail recognised that there “is still a mountain to climb” to achieve the full efficiency improvements it has committed to, and that it will need to continue to increase savings.[63] Network Rail estimated that 60% of remaining planned efficiencies would come from renewals activities (like for like replacements to renew the railway).[64] However, the Office of Rail and Road highlighted in 2020 that plans for renewals were immature.[65] A review of Network Rail’s delivery plans, published by the Office of Rail and Road in January 2021, highlighted that Network Rail needed to do more work to develop a smooth renewals profile and consider how this would improve efficiency in Control Period 6.[66] Lessons must be learned from the problems with renewals activities in Control Period 5 which caused significant inefficiencies.[67] A subsequent review letter, published after our

56 Qq 53, 54
57 Rail Industry Association (OES0004), p3 section 3
58 Q 34
59 Office of Rail and Road, Annual efficiency and finance assessment of Network Rail 2018–19, July 2019, p3
60 Qq 32, 46
61 Office of Rail and Road, Annual efficiency and finance assessment of Network Rail 2019–20, July 2020, p14
62 Q 34
63 Qq 32, 34; Office of Rail and Road, Annual efficiency and finance assessment of Network Rail 2019–20, July 2020, p5
64 Q 46
65 Office of Rail and Road, Annual efficiency and finance assessment of Network Rail 2019–20, July 2020, p6
66 Office of Rail and Road, ORR’s review of Network Rail’s delivery plan update (RF8) for the financial year 2020–21, January 2021
67 Q 34

session, highlighted that COVID-19 has had a significant impact on the development of some efficiency plans and has caused cost pressures, meaning that assumptions made at the start of Control Period 6 are now too optimistic.[68]

26. In 2020, the Office of Rail and Road reported inherent uncertainty in the value of some of the efficiency savings made by Network Rail in 2019–20.[69] The Office of Rail and Road told us that it has now agreed a set of indicators with Network Rail which measure the likelihood of Network Rail meeting its efficiency targets for the Control Period. It also told us that Network Rail's regional management information has improved, enabling a better understanding of relative performance. Despite these improvements, the Office of Rail and Road reiterated the large scale of the challenge faced by Network Rail in achieving its efficiency target for Control Period 6.[70]

68 Office of Rail and Road, ORR's review of Network Rail's RF11 delivery plan update for the financial year 2021–22, March 2021

69 Office of Rail and Road, Annual efficiency and finance assessment of Network Rail 2019–20, July 2020, p5

70 Q 34

Formal minutes

Thursday 1 July 2021

Virtual meeting

Members present:

Meg Hillier, in the Chair

Sir Geoffrey Clifton-Brown	Sarah Olney
Craig Mackinlay	James Wild

Draft Report (*Overview of the English rail system*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 26 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Tenth of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 5 July at 1:45pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Thursday 13 May 2021

Bernadette Kelly CB, Permanent Secretary, Department for Transport; **Andrew Haines**, CEO, Network Rail; **John Larkinson**, CEO, Office of Rail and Road; **Conrad Bailey**, Interim Director General, Rail Strategy and Services Q1–79

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

OES numbers are generated by the evidence processing system and so may not be complete.

1 Porterbrook (OES0001)

2 West Midlands Rail Executive (OES0002)

3 Rail Delivery Group (OES0003)

4 Railway Industry Association (OES0004)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2021–22

Number	Title	Reference
1st	Low emission cars	HC 186
2nd	BBC strategic financial management	HC 187
3rd	COVID-19: Support for children's education	HC 240
4th	COVID-19: Local government finance	HC 239
5th	COVID-19: Government Support for Charities	HC 250
6th	Public Sector Pensions	HC 289
7th	Adult Social Care Markets	HC 252
8th	COVID 19: Culture Recovery Fund	HC 340
9th	Fraud and Error	HC 253
1st Special Report	Fifth Annual Report of the Chair of the Committee of Public Accounts	HC 222

Session 2019–21

Number	Title	Reference
1st	Support for children with special educational needs and disabilities	HC 85
2nd	Defence Nuclear Infrastructure	HC 86
3rd	High Speed 2: Spring 2020 Update	HC 84
4th	EU Exit: Get ready for Brexit Campaign	HC 131
5th	University technical colleges	HC 87
6th	Excess votes 2018–19	HC 243
7th	Gambling regulation: problem gambling and protecting vulnerable people	HC 134
8th	NHS capital expenditure and financial management	HC 344
9th	Water supply and demand management	HC 378
10th	Defence capability and the Equipment Plan	HC 247
11th	Local authority investment in commercial property	HC 312
12th	Management of tax reliefs	HC 379
13th	Whole of Government Response to COVID-19	HC 404
14th	Readying the NHS and social care for the COVID-19 peak	HC 405

Number	Title	Reference
15th	Improving the prison estate	HC 244
16th	Progress in remediating dangerous cladding	HC 406
17th	Immigration enforcement	HC 407
18th	NHS nursing workforce	HC 408
19th	Restoration and renewal of the Palace of Westminster	HC 549
20th	Tackling the tax gap	HC 650
21st	Government support for UK exporters	HC 679
22nd	Digital transformation in the NHS	HC 680
23rd	Delivering carrier strike	HC 684
24th	Selecting towns for the Towns Fund	HC 651
25th	Asylum accommodation and support transformation programme	HC 683
26th	Department of Work and Pensions Accounts 2019–20	HC 681
27th	Covid-19: Supply of ventilators	HC 685
28th	The Nuclear Decommissioning Authority's management of the Magnox contract	HC 653
29th	Whitehall preparations for EU Exit	HC 682
30th	The production and distribution of cash	HC 654
31st	Starter Homes	HC 88
32nd	Specialist Skills in the civil service	HC 686
33rd	Covid-19: Bounce Back Loan Scheme	HC 687
34th	Covid-19: Support for jobs	HC 920
35th	Improving Broadband	HC 688
36th	HMRC performance 2019–20	HC 690
37th	Whole of Government Accounts 2018–19	HC 655
38th	Managing colleges' financial sustainability	HC 692
39th	Lessons from major projects and programmes	HC 694
40th	Achieving government's long-term environmental goals	HC 927
41st	COVID 19: the free school meals voucher scheme	HC 689
42nd	COVID-19: Government procurement and supply of Personal Protective Equipment	HC 928
43rd	COVID-19: Planning for a vaccine Part 1	HC 930
44th	Excess Votes 2019–20	HC 1205
45th	Managing flood risk	HC 931
46th	Achieving Net Zero	HC 935
47th	COVID-19: Test, track and trace (part 1)	HC 932
48th	Digital Services at the Border	HC 936

Number	Title	Reference
49th	COVID-19: housing people sleeping rough	HC 934
50th	Defence Equipment Plan 2020–2030	HC 693
51st	Managing the expiry of PFI contracts	HC 1114
52nd	Key challenges facing the Ministry of Justice	HC 1190
53rd	Covid 19: supporting the vulnerable during lockdown	HC 938
54th	Improving single living accommodation for service personnel	HC 940
55th	Environmental tax measures	HC 937
56th	Industrial Strategy Challenge Fund	HC 941