

## **Welsh Affairs Select Committee: Inquiry into Rail Infrastructure**

### **1. Introduction**

- 1.1 This statement is being submitted on behalf of the Wales' region of the Industrial Communities Alliance (ICA), which is the all-party association of local authorities in the industrial areas of England, Scotland and Wales. Its local authority membership in Wales comprises: Blaenau Gwent CBC, Torfaen CBC, Caerphilly CBC, Merthyr Tydfil CBC, Neath Port Talbot CBC, Rhondda Cynon Taf CBC, Bridgend CBC, Carmarthenshire CC and Powys CC.
- 1.2 ICA Wales has a well-informed historical perspective of the impact of severe external shocks on former coal and steel communities, ranging from the collapse of their industrial base in the 1980s to the 2008 financial crisis and, most recently, the impact of COVID-19. It views the Government's 'levelling up' commitment as being at the heart of the economic recovery agenda, one in which infrastructure investment, including key projects such as the South Wales Metro and GWR enhancements, will help to lay the foundations for a more resilient and balanced economy. In this respect, the ICA Wales believes that ceding more control of rail infrastructure investment and priorities to the Welsh Government would assist this process, and it very much welcomes the opportunity to respond to the Committee's inquiry.

### **2. Background**

- 2.1 Since the original devolution settlement in 1998 there has been an on-going debate on where the responsibility for major policy areas should rest. The investment in Wales' rail infrastructure, together with its management, is just one example of this. In this respect the Committee will be aware that the Silk Commission Report in 2014 "*Empowerment and Responsibility: Legislative Powers to Strengthen Wales*", recommended amongst other matters that funding of Network Rail in relation to the Wales network should be devolved.
- 2.2 Most recently, the Committee's 2017 report on the Wales and Borders Franchise recommended that "*devolution of rail infrastructure and associated funding and their interaction with the franchising powers are kept under review as a means of improving clarity of responsibility to the public and ensuring that Wales's transport needs receive appropriate priority.*" It was regrettable, therefore, that the Government rejected the recommendation and that it also signaled its intention not to revisit the issue. The Committee's decision to undertake the current inquiry into rail infrastructure is therefore very much welcomed given that it will provide a further opportunity to reopen the debate on the devolution of rail infrastructure and its funding.

2.3 Apart from devolving the procurement and management of the Wales and Borders Rail Franchise to Cardiff Bay in 2018, the overall allocation of responsibilities for rail has remained largely unchanged since 1998. Capital investment in the railway network in Wales remains the responsibility of Network Rail, funded and specified by the Department for Transport on an England and Wales basis. The Committee will be aware, however, that the Welsh Government does invest in infrastructure for 'Welsh purposes', although it can lead to a very unbalanced relationship between Cardiff Bay and Westminster. Take, for example, the South Wales Metro, where the Department of Transport's capital contribution will be £125m whilst that of the Welsh Government will be £600m.

### **3. Regional Investment Imbalances**

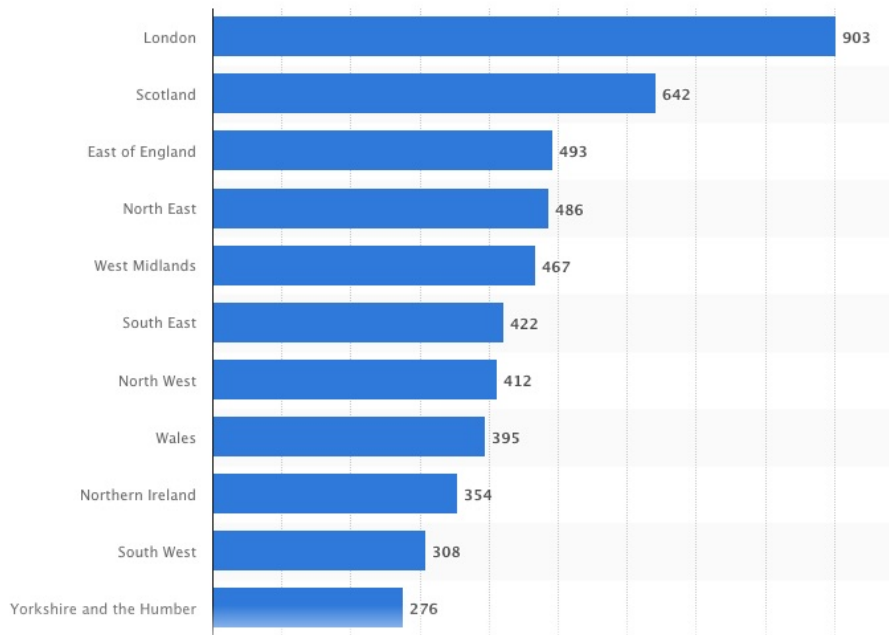
3.1 Alliance Wales believes that the case for devolving rail infrastructure to the Welsh Government, bringing it in line with Scotland, would be a logical development in the devolution process for several reasons. Firstly, and most importantly, it has been clear for a very long time that Wales has lost out in terms of investment in its rail infrastructure. As noted in the Committee's 2017 inquiry into the Wales and Borders Franchise Inquiry, only around 1.5% of the rail enhancement expenditure across England and Wales has been made in the Wales Route areas since 2011. Professor Mark Barry<sup>1</sup> in his 2018 report for the Welsh Government, *'The Rail Network in Wales: The Case for Investment'*, makes a similar point when stating that *'the Welsh rail network has not received an equitable proportion of UK rail investment over many years. The Wales Route, which represents 11% of the UK rail network, has received just over 1% of rail enhancements.'* Securing a more equitable distribution of funding for priorities in Wales is therefore at the centre of the rail devolution debate.

3.2 The Westminster Government's ambitious infrastructure plans and, in particular, the sheer scale of the investment required to deliver HS2, has also heightened the devolution debate amid concerns that the remainder of the rail network in other areas of the UK could be starved of investment. This is especially the case in Wales, which will receive no compensation for HS2 through Barnett consequentials (unlike Scotland and Northern Ireland) since the project is being treated as an England and Wales project. In this respect, the Alliance would urge the Committee to seek an explanation from the Dept. of Transport as to why HS2 is being treated as an England and Wales enhancement for investment purposes.

3.3 In February 2020 the First Minister's statement also called on the government to allocate an additional £5bn for rail investment in Wales as a consequence of the HS2 spend (Network Rail is planning to invest £1.9bn in Wales during the period 2019-24). Together with the increased GDP spend on infrastructure pledged by the government,

the Welsh Government has calculated that the figure should be nearer £9bn over the next 20 years. A similar argument was made by Professor Wyn Jones<sup>2</sup>, University of Wales Governance Centre, in November 2020 when he stated that Wales was only getting 36.6% of its population share of transport spending as a result of HS2 being classified as an England and Wales project.

3.4 The geographical discrepancies in transport investment have been widely documented, and the levels of expenditure across the nations and regions of the UK make for uneasy reading. The 2018 spending per head in Wales was 44% of that in London, with only Northern Ireland, the South West and Yorkshire and Humberside receiving less. The fact that Wales has received so little in rail enhancements is therefore part of wider policy discrimination in favour of London. According to the IPPR<sup>3</sup>, London has received twice as much public spending on transport than the UK average for every year of the last 10 years. Furthermore, the IPPR figures show that the dominance of London-focused transport investments, which are mainly rail, is set to continue with the per capita figure for planned expenditure at 2.3 times higher than that for all of the English Regions. According to the Welsh Government's report,<sup>4</sup> *'Mainline Railway Enhancement Requirements'*, projects such as Crossrail and HS2 will have accounted for over £100bn of government funded rail investment between 2001 and 2029, whilst a generous estimate for the likely expenditure in Wales over the same period is just £2.2bn.



Source: IPPR

#### 4. Wider Strategic Objectives of Rail Investment

- 4.1 Turning to the devolution of infrastructure in the context of the contribution of rail investment to wider economic objectives, Alliance Wales supports the Welsh Government's view that it is essential to the delivery of an efficient and integrated transport network in Wales, which in turn will be underpin economic growth and its commitments to the climate change agenda. The present fragmented approach does not adequately reflect Welsh Government priorities in terms of addressing the economic and social needs of different parts of Wales. At the same time, it restricts the ability of the Welsh Government to respond with its own solutions as part of an integrated approach towards transport investment.
- 4.2 The fact that Welsh Government has felt it necessary to publish its own strategy for the rail network in Wales (*The Rail Network in Wales: The Case for Investment*), further exposes the absence of a vision and a long term commitment to invest in Wales within the Dept. of Transport in London. A case in point is the decision by the Dept. of Transport in 2018 to curtail the electrification of the GWR at Cardiff, rather than extend it to Swansea as promised previously, thereby ensuring that the vast proportion of the benefits will be delivered to passengers in England along the Thames Valley from Swindon to Bristol. The decision was a major blow to Swansea and West Wales, given that it undermined the connectivity along the corridor as whole, reducing the potential for economic growth and the further integration of the South Wales economy and labour market with Bristol/Severn Side, the Thames corridor and London. On the other hand, transferring the responsibility of the Wales and Borders Franchise to the Welsh Government is a good example of what can be achieved with greater decentralization; the new franchise provides for enhanced frequencies and long overdue investment in stations and rolling stock.
- 4.3 Looking further ahead, Alliance Wales fully supports the Welsh Government's rail investment proposals set out in the recent *Mainline Railway Enhancement Requirements (September 2020)*, together with the case for devolving investment decisions from Westminster. Its calculation that its investment priorities could deliver up to £2bn of transport user benefits is particularly noteworthy and demonstrates the scale of the missed opportunity should the current approach to rail investment continue. The Alliance also shares the view that that the full realisation of the City and Growth Deals is partly dependent upon the delivery of key rail enhancements both within and beyond Wales. At a strategic level, the corridor linking Swansea to London, and the cities of Cardiff, Newport and Bristol, is of crucial significance to realising the Welsh Government's economic ambitions.

## **5. Evaluating Rail Infrastructure Investments**

- 5.1 Political priorities aside, one of the key determinants of rail investment is the outcome of the cost/benefit evaluation. In this respect the Treasury's Green Book provides guidelines for appraisal and

evaluation for use by all government departments. The Department for Transport has taken the framework set by the Green Book and developed it in its Transport Analysis Guidance (TAG) (UK Government Department for Transport, 2019) so that it provides decision makers with information about the social value of alternative policies and investment options for addressing transport problems.

- 5.2 Historically, these analyses have relied heavily on measuring the benefits in time-savings accruing to passengers. These are calculated by applying a monetary value to the time saved by business, commuter and leisure travellers. According to Dept. of Transport guidance, values of travel time savings should represent what people and businesses would be willing to pay for quicker journeys, with different values being applied, for example, to business and leisure journeys. As a result of applying multipliers on the 'value of time', the approach gives undue weight to high-income travellers using busy urban networks. This helps to explain in part the imbalances in rail investment between London and the SE and Wales, the latter being unable to demonstrate time-savings on a sufficient scale to compete effectively for investment.
- 5.3 The weaknesses in this model have been widely recognised for some time, and it is pleasing to note that the government has now amended the Green Book to reflect its 'levelling up' agenda. The inclusion, for example, of employment multipliers, locational and environmental factors and the application of distributional weights between poorer and wealthier beneficiaries all add up to a potentially more equitable allocation of resources. The approach is however predicated on the assumption that projects are deemed to support the government's wider objectives and these have yet to be clarified in terms of its 'levelling up' priorities and its plans for the railways. In this respect, the Williams' Review is vital in terms of informing the government's strategy, and the Committee is urged to support calls for its publication as soon as possible.

## **6. Impact of the Pandemic on Service Sustainability.**

- 6.1 As with the UK rail network as a whole, COVID-19 has had a devastating impact on the financing of services across Wales; at the deepest point of the 2020 lock-down public transport usage fell by 87% across the UK, whilst rail footfall in Wales was around 12-15% of pre COVID levels (TWF).<sup>5</sup> Prior to the pandemic, there were over 31m rail passenger journeys starting or finishing in Wales, a figure that has increased every year over the last 20 or so years.
- 6.2 The dramatic fall in passengers has necessitated a massive intervention by Welsh Government with the injection of £105m of revenue support in the period March-November 2020, and a forecast for a further £65m by the end of March 2021. This pattern has been repeated across the UK. It is unlikely that passenger numbers will return to anywhere near their pre COVID levels anytime soon, and it is

vital that financial support continues to be made available in order to sustain services, albeit at their current reduced level. This is necessary not only to ensure continuity of service for the remaining passengers, but also to avoid inflicting permanent damage to the network, which could inhibit its full recovery in the post-pandemic era. Welsh Government will not be able to do this alone, and given the need to support the integrity of UK network as whole it will require a significant intervention from the Westminster Government.

6.3 Looking further ahead, it remains to be seen whether passenger numbers and therefore revenue will recover and continue to grow as in previous years. There are indications that as a result of the pandemic, travel patterns could undergo a radical and irreversible change. More people working from home, either permanently or on a part time basis, seems inevitable, impacting on the demand for commuter services in particular. Indeed the Welsh Government has indicated that its long-term ambition is to see around 30% of Welsh workers working from home or near from home. Passengers may also be more averse to travelling on crowded trains in the future, which in turn will have capacity implications.

6.4 The impact of the pandemic on the sustainability of rail services could, therefore, continue long after the country emerges from the crisis. At the same time, governments in Cardiff Bay and Westminster, will be mindful of their climate change commitments and the need to enhance the usage of public transport. Regional connectivity and levelling up will also assume greater significance in the debate, This is likely to require a fundamental review of how the UK rail network is sustained and at what level, including the balance between the fare payer and the taxpayer, and it may need to go beyond the remit of the current Williams' Review.

## **7. Regional Connectivity**

7.1 A key component of the rail devolution debate will be the outcome of Sir Peter Hendy's Union Connectivity Review which openly acknowledges that *'much recent transport investment has been the result of an appraisal methodology that prioritises large numbers of travellers saving time spent on travel; naturally favouring travel to and from major conurbations.'* The emphasis on identifying what can be done to invest in and widen the benefits of growth and cohesion across the UK is particularly welcome. In this respect, the Alliance very much hopes that the outcome of the review will be a meaningful manifestation of the government's levelling up agenda, from which it originated.

7.2 If the review is to address how investment in connectivity can contribute to the strategic goals of promoting economic growth in areas such as Wales, it will need to go beyond identifying specific rail investments in isolation from Welsh Government's plans to increase

economic prosperity. Fundamentally, it will need to address the link between the devolution of responsibility for rail investment and the present and historic disparities in resource allocation. It will also need to address the process for evaluating transport investments to ensure that the historical bias towards London and the SE no longer persists. The Welsh Government also made it clear in its report on Mainline Railway Enhancement Requirements that without a significant change in how rail scheme development, funding and delivery is discharged in Wales, very few of the emerging proposals set out in the report are likely to proceed.

- 7.3 The Hendy review therefore presents a long-overdue opportunity to address the historical underfunding of the rail network in Wales in the context of what should, in theory, be a very favourable policy context emanating from Westminster in the form of the levelling up and climate change agenda. Given the remit of the review, its recommendations should aim to test the commitment and willingness of the government to fulfil its promises to the UK's nations and regions. In this respect, it should aim to bring about a step change in the way in which rail infrastructure, and indeed other transport investments, are planned and delivered.

*February 2021*

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<sup>1</sup>Professor Mark Barry, The Rail Network in Wales: The Case for Investment, September 2018

<sup>2</sup> Professor Wyn Jones, University of Cardiff, November 2020.

<sup>3</sup> Luke Raikes, Transport Investment in the Northern Powerhouse, 2019 Update, IPPR, August 2019.

<sup>4</sup> Transport for Wales, Mainline Railway Enhancement Requirements, September 2020.

<sup>5</sup> Transport Data & Trends, A New Transport Strategy for Wales Consultation, Welsh Government, 2020

*The Industrial Communities Alliance is the all-party association of local authorities in the industrial areas of England, Scotland and Wales. The Alliance was formed in 2007 by the merger of longer-standing associations dating back to the 1980s. Its role is to deliver funding and policies to enable economic, social and environmental renewal in the cities, towns and communities covered by its member authorities. Its local authority membership in Wales comprises: Blaenau Gwent CBC, Torfaen CBC, Caerphilly CBC, Merthyr Tydfil CBC, Neath Port Talbot CBC, Rhondda Cynon Taf CBC, Bridgend CBC, Carmarthenshire CC and Powys CC.*