



Cynulliad  
Cenedlaethol  
Cymru

National  
Assembly for  
Wales

# Cofnod y Trafodion The Record of Proceedings

## [Y Pwyllgor Menter a Busnes](#)

## [The Enterprise and Business Committee](#)

11/02/2016

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Meeting

Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynnddi yn y pwyllgor. Yn  
ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

The proceedings are reported in the language in which they were spoken in  
the committee. In addition, a transcription of the simultaneous interpretation  
is included.

**Aelodau'r pwyllgor yn bresennol**  
**Committee members in attendance**

Rhun ap Iorwerth <a href="#">Bywgraffiad</a>   <a href="#">Biography</a>	Plaid Cymru The Party of Wales
Mohammad Asghar <a href="#">Bywgraffiad</a>   <a href="#">Biography</a>	Ceidwadwyr Cymreig Welsh Conservatives
Jeff Cuthbert <a href="#">Bywgraffiad</a>   <a href="#">Biography</a>	Llafur Labour
Yr Arglwydd/ Lord Dafydd Elis-Thomas <a href="#">Bywgraffiad</a>   <a href="#">Biography</a>	Plaid Cymru The Party of Wales
William Graham <a href="#">Bywgraffiad</a>   <a href="#">Biography</a>	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Joyce Watson <a href="#">Bywgraffiad</a>   <a href="#">Biography</a>	Llafur Labour

**Eraill yn bresennol**  
**Others in attendance**

Brian Etheridge	Cyfarwyddwr Gwasanaethau Rhwydwaith, Rheilffyrdd, Yr Adran Drafnidiaeth Director of Network Services, Rail, Department for Transport
Aidan Grisewood	Cyfarwyddwr Rheilffyrdd, Transport Scotland Director of Rail, Transport Scotland
Tim James	Pennaeth Strategaeth a Chynllunio, Network Rail Head of Strategy and Planning, Network Rail
John Larkinson	Cyfarwyddwr Rheoleiddio Economaidd a Defnyddwyr, y Swyddfa Rheilffyrdd a Ffyrdd Director of Economic Regulation and Consumers, Office of Rail and Road

Paul McMahon	Rheolwr Gyfarwyddwr Llwybrau—Cymru, Network Rail Route Managing Director—Wales, Network Rail
Paul Plummer	Prif Weithredwr, Rail Delivery Group Chief Executive, Rail Delivery Group
Colin Poole	Rheolwr Cynllunio a Buddsoddi Hŷn, Cyfarwyddiaeth Gwasanaethau Rhwydwaith, Yr Adran Drafnidiaeth Senior Planning and Investment Manager, Network Services Directorate, Department for Transport

**Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol**  
**National Assembly for Wales officials in attendance**

Rachel Jones	Dirprwy Glerc Deputy Clerk
Andrew Minnis	Gwasanaeth Ymchwil Research Service
Gareth Price	Clerc Clerk

*Dechreuodd y cyfarfod am 09:32.*  
*The meeting began at 09:32.*

**Cyflwyniadau, Ymddiheuriadau a Dirprwyon**  
**Introductions, Apologies and Substitutions**

[1] **William Graham:** Good morning and welcome to the Enterprise and Business Committee. I have received apologies from Gwenda Thomas and Keith Davies, also from Mick Antoniw. Oscar is going to leave us at 11:30. The meeting is bilingual. Headphones can be used for simultaneous translation from Welsh to English on channel 1, or for amplification on channel 2. The meeting will be broadcast and a transcript will be issued later. May I remind witnesses that there is no need to touch the microphones? In the event of a fire alarm, would people please follow directions from the ushers?

09:33

**Ymchwiliad i'r Blaenoriaethau ar gyfer Dyfodol Seilwaith y Rheilffyrdd  
yng Nghymru**

**Inquiry into the Priorities for the Future of Welsh Rail Infrastructure**

[2] **William Graham:** The next item is to inquire into the priorities for the future of Welsh rail infrastructure, and we're very grateful to Aidan Grisewood of Transport Scotland who will answer some of our questions. I'm going to start the questioning, Aidan, and ask you in terms of the periodic review process in Scotland whether there are any particular similarities and differences between England and Wales, and the reasons for any such differences.

[3] **Mr Grisewood:** Thank you, and I'm very pleased to give evidence to the committee on the Scottish experience. In terms of the question, we have our own periodic review process since devolution with the Office of Rail and Road. We are treated very much in parallel as a separate review process, so in terms of having our own separate regulatory asset base historically, our own separate investment programme, our own separate set of performance targets for the Scotland routes, of course backed by funding from the Scottish Government.

[4] In terms of the process, it's very similar to the English and Welsh process, and it runs in parallel alongside it. There are, of course, elements that go across boundaries, for example, things around access charging or, historically, the financial framework within which the periodic review is taken forward. So, those are areas where it's a GB-wide approach, but on the core funding and objectives it's a similar process.

[5] In terms of how we then take that forward, in terms of the outputs and what we're seeking to achieve, then there are differences reflecting the different priorities: firstly, just the reality of the physical geography of Scotland and the differences there, but also the priorities that Scottish Ministers place on outputs in the railway, which may be different from English and Welsh priorities. So, for example, since devolution, our Ministers have invested—and this is true of successive different Governments—made substantial investments in new routes and opening new stations, so, focused on accessing new markets to the railway and social inclusion through that, but also a rolling programme of electrification that's been quite long standing, and achieved significant increases in the proportion of the route that's electrified. Also, there are differences in terms of the performance

targets that have been set. We've been particularly mindful in taking that forward to ensure there's an alignment between the objectives and the targets that Network Rail are set in Scotland—as I say, that kind of broader economic and social purpose of the railway—and, also, looking at the opportunity for better integration between the infrastructure provider, Network Rail, and the franchisees, so alignments of objectives and processes to encourage that.

[6] **William Graham:** How do you think, in terms of the infrastructure, that devolution has benefited Scotland? Are passenger growth and investment levels greater under the devolved approach than they would otherwise have been?

[7] **Mr Grisewood:** Well, it's very difficult in a sense to know the counterfactual, but what I can do though is point to the levels of investment that have been seen in the railway. So, we have had record levels of investment in Scotland since the devolution of powers. Obviously, they are choices that Scottish Ministers make in terms of the overall budget that they have at their disposal and what they choose to prioritise through that. I think there's also been the advantage historically of the regulatory asset base and the borrowing capability that comes with that, which allows upfront investment in infrastructure to be paid back over a longer period of time. And, as we know, things like the reclassification of Network Rail mean that that facility is now under question in terms of how that might go forward post 2019. So, there's been a concerted focus on investment, as I say, over successive Governments.

[8] I think what we've also been able to do, as I said in terms of being able to align the devolution of the funding in the infrastructure with the franchise, is marry those two together, and we've seen the development of a deep alliance within Scotland. We've been able to do that, in large part, because we have been able to ensure that the objectives of both the infrastructure provider and the franchisee are aligned and consistent, as well as a lot of hard work behind the scenes as part of the procurement process on ensuring that there's actually a framework and a potential commercial deal that allowed that deep alliance to happen.

[9] I think, thirdly, there is just the closer accountability. There are questions about accountability in terms of Network Rail and the Scottish Parliament, particularly post reclassification, where, essentially, it becomes an arm of the Department for Transport. But, nonetheless, I think there is

recognition that Ministers in Scotland feel very accountable for the infrastructure spend up here and the performance of Network Rail, both in terms of delivery of projects and also even day-to-day performance. So, that sense of accountability, and therefore scrutiny and local challenge, I think, is undoubtedly something that Network Rail, and, more recently, the alliance take very seriously and are responsive to, and is, if you like, an extra incentive for good performance over and above any regulatory or financial mechanisms that we've got in place there.

[10] **William Graham:** Thank you. Jeff.

[11] **Jeff Cuthbert:** Thank you very much. Good morning.

[12] **Mr Grisewood:** Good morning.

[13] **Jeff Cuthbert:** Can I just ask you a little bit about the intentions, certainly in terms of devolution, from the Scottish Ministers? As you're undoubtedly aware, the border between Wales and England is long and porous, and the evidence that we've had is very much about maintaining a network right across the whole of the island of Great Britain. In terms of Scotland, we're aware that, in the Shaw and Bowe reviews for Scotland, Scottish Ministers have made clear their view that the rail industry in Scotland should be fully devolved. What are the implications of that in terms of a national network? If I may add to it as well, in terms of your current infrastructure powers, are you able to legislate to change the rail planning process?

[14] **Mr Grisewood:** If I start with the second question, in terms of where we are at the moment, we're not able to legislate to change the planning process. That's determined by the Railways Act 2005 still. If you like, the process and the framework within which you have to operate are set and fixed, but within that, as I said, Ministers have got choices around funding and setting performance standards and targets. So, they can't legislate to change the process. They do issue guidance to the office of the rail regulator that sets out their broad intent and advice to the regulator in terms of their priorities. That's been quite important on things like freight access charges, for example, where the regulator is very mindful of Scottish Ministers' particular approach to that issue, which perhaps differed from south of the border, and responded to that. But, in terms of the process, it's pretty fixed.

[15] In terms of future devolution and the point about the single network,

certainly in terms of intent, there's a big recognition of the importance of that single network—and, indeed, from our Ministers too in terms of maintaining that. We've got two cross-border lines into Scotland and you have, by the looks of it, five or six into Wales—is that correct? So, there's inevitably a difference there. In terms of the benefits of devolved powers, there's a clear separation between the West Coast main line and the East Coast main line and the services that use those, and the trains that fan out across the country as well. Actually, it's a relatively easy split, if you like, in terms of the Scottish network and the rest of GB. So, that definitely helps, to some extent, in thinking about what the future might be in terms of a fully devolved Network Rail in Scotland.

[16] I think also there's a lot of devolution already within Network Rail. So, there's route devolution in terms of the day-to-day and the way that's taken forward, and that's something that's continuing to evolve. I know there have been recent changes in the set-up at Network Rail in terms of the central functions and giving more power to the route directors to buy services from the centre, and choose what they want to buy from the centre or otherwise. That's developing and Network Rail may give more information about that. But, that's giving more power to the route managers and actually, just in terms of the dynamics, we're seeing through the ScotRail Alliance a lot more power that's being taken—an autonomy that's being taken—within Scotland, to an extent that's pushed past the boundaries of existing responsibilities already.

[17] So, there's a more empowered route within Scotland than previously. That's actually been shored up in terms of some of the arrangements within Network Rail already. I think, in terms of full devolution, there's a recognition that those cross-border networks are important, but there's nothing necessarily insuperable there that can't be resolved. We know that abroad there are arrangements for trains to cross borders and the like.

[18] I think it's important—. We've seen this, looking back at our own experiences around the devolved network within Scotland and choices about funding—. We've worked very closely and well with the Department for Transport and we maintain an important relationship with Network Rail headquarters and the chief executive there too. In terms of cross-border investments, we've got a track record in Scotland too of making those investments in the Scottish routes that largely benefit proportionally more cross-border flows than, say, the Scottish network.



09:45

[19] I think one of the lessons to learn from the Scottish experience of devolution is just the importance of that. Thus far, there's good evidence that those smaller investments have been made. I think when you get to very large-scale investments—such as huge improvements on the West Coast main line or East Coast main line and the big costs associated with those—and when you've got a franchisee that's benefiting from those that is a UK-based franchisee, it's important to understand—. Just make sure that the incentives are right and that the funding is right. We are looking at more bespoke arrangements around those sorts of investments to ensure that there's a fair approach to that across the border. But, as I say, a lot of this is about relationships and making things work. There are not necessarily, from what we can see, insuperable barriers to that being maintained.

[20] **Jeff Cuthbert:** Can I just, very quickly, Chair—? Do you have, in Scotland—or if you don't, do you want it—the power, for example, to make changes to the technical specifications of the rail infrastructure: the permanent way that the track and/or the signalling, for example—?

[21] **Mr Grisewood:** Particularly when it comes to safety—and I think that's a UK-wide reserved power still—the specifications and technical standards are set GB-wide, typically. I think we've seen examples where they've used the Scotland route, and have been encouraged to use more innovative approaches there. For example, I think there has been some use of different types of level crossings that have been trialled in Scotland. They are much cheaper, proportionate and still meet very rigorous safety standards. So, that would be an example where Scotland has been used as a means of piloting a new approach that has brought some savings. I think it's a live issue at the moment, particularly in terms of inter-operability standards. Often, these are European directives. It is about the extent to which those are taken forward wholesale, GB-wide, and the extent to which derogations can be sought, recognising particular characteristics on parts of the network. That's something that is a very complicated area, but I really think it's quite important in terms of the impact that that can have on costs, particularly, say, on electrification programmes. We've seen that, certainly, in England on things like the Great Western route. We've seen big increases in cost, not just down to standards but other factors too. Equally, in Scotland, we have seen increases in costs there too. I think we are very keen to understand: what are the causes of those; what are the opportunities for derogations; are those being sought appropriately and proportionally; and to what extent is there a

regional opportunity there to take a proportionate approach to that and avoid undue increasing costs through—*[Inaudible.]*

[22] **William Graham:** Oscar.

[23] **Mohammad Asghar:** Thank you very much. Good morning, Aidan.

[24] **Mr Grisewood:** Good morning.

[25] **Mohammad Asghar:** I think every person in the world knows about the Flying Scotsman anyway. You are miles ahead in railway infrastructure and the technicality of the rail industry. We are still at the drawing board in Wales. We haven't increased our railway network for very many years. I think one of the reasons may be funding. My question to you, Aidan, is: how is rail infrastructure investment in Scotland funded? Particularly, what are the implications of borrowing limits for future investment after 2019?

[26] **Mr Grisewood:** Okay. Well, historically, I mentioned the regulatory asset base, and the means of funding through that. Network Rail, when it was an independent private company, could borrow off its balance sheet, and that was a facility that we had in Scotland too. There were caps on the level of borrowing that could be taken forward, so there was a focus on the ratio between the debt that Network Rail had and its assets. But it was a much looser approach, and it was a very generous facility in terms of the ability to make those sorts of investments and then pay over a 30-year time horizon. With reclassification, we'd say that that's changed. So, when Network Rail was reclassified, its debt moved on to the books of the UK Treasury, and it had a single debt cap that was agreed between the Treasury, Network Rail and the Department for Transport. Within that context, we were very keen in Scotland—the Minister was very keen—that we negotiated a separate carve-out arrangement for Scotland. So, we've got our own separate debt cap within that. It has changed the way that we approach Network Rail. I think that, now, we have much greater regular scrutiny of costs in terms of the overall debt requirement, whereas, previously, that would have been sorted out at the next periodic review. They would have potentially overspent their business plan, they would have borrowed more, and then it would have been reflected and considered as part of the next periodic review as to whether that was eligible to go into the regulatory asset base or not and paid subsequently.

[27] It becomes much more immediate when you've got a cap, and I think

that's increased the importance for us of regular scrutiny of where they are and a real recognition that, if they were to breach the cap in Scotland, that would potentially place us having to grant fund upfront any extra expenditure. Therefore, it imposes this financial management for us. That's not something that we are not used to in the sense that we've got very big road investments—the Queensferry crossing over the Forth being an example of a major large-scale infrastructure project that we have to manage within the Scottish Government in terms of managing that volatility.

[28] Post 2019, that hasn't been decided yet; that hasn't been agreed. You'll be aware that there are lots of reviews under way in terms of the structure of Network Rail, but, in terms of maintaining that ability to borrow, that will be important for our Ministers in terms of being able to maintain that investment programme. I think there's a recognition that, in any event, there's likely to be a degree of grant funding over and above what would otherwise have been the case post 2019. But, as I say, that's still to be decided and is subject to discussions between us, the Department for Transport and, I suspect, UK Treasury over that as well.

[29] **Mohammad Asghar:** Thank you very much again.

[30] **William Graham:** Thank you. Joyce.

[31] **Joyce Watson:** Good morning.

[32] **Mr Grisewood:** Good morning.

[33] **Joyce Watson:** To manage anything, you need the skills and the staff resources to do that. So, I want to ask you some questions around that and how you manage those with your devolved responsibilities for planning and the funding of the rail infrastructure. Do you have sufficient skills within your structures? If you don't, how do you acquire them?

[34] **Mr Grisewood:** Thank you. Yes, it's a very important consideration for us. Obviously, that's an evolving picture over time as well. I think that, as things stand, we do have sufficient skills to take forward the role that we need to take forward. Inevitably, there is a balance between skills that we have in-house, if you like—and we do have rail expertise within the overall rail directorate, which I head—. That's partly home grown as a consequence of just evolving and growing in line with the powers that we've had over time, and it's partly been brought in. So, when we originally got powers over

rail, there was a lot of recruitment at that stage. Then, inevitably, we've got gaps, either in terms of specific expertise that we acquire or just additional expertise that is required a particular times—for example, in the periodic review process when we need a particularly intensive look at particular aspects of that.

[35] This has been evolving over time, and we've moved, actually, from having a team of well over 100, including many technical specialists and consultants who were brought in, to a team now of about 60, and that is part and parcel of an evolving relationship that we've had over time. So, despite those extra powers and that funding, we've reduced our numbers. I think it's moving more towards a model where we want to be informed and challenging customers around the railway in terms of setting outputs, monitoring progress against projects and having sufficient information to ask the right questions and understand the answers, but not necessarily put ourselves in a place where we're second-guessing everything that Network Rail is doing. That's something that we've evolved in terms of getting ourselves into that position. That's really important too in terms of that trust and the relationships that we have with Network Rail and ScotRail Alliance, and the transparency there, in order that we are now in a position where we can have a smaller team, but be very confident that we can hold Network Rail to account in terms of our role as funder and a very clear picture of where things are.

[36] **Joyce Watson:** Can I ask you how long that process took?

[37] **Mr Grisewood:** It's going back slightly to the time before, certainly, my arrival. The ramp-up in terms of skills and expertise initially was quite steep—so, that development of recruitment from across Great Britain in terms of building up a team. As I said, there was a very strong focus on getting a lot of specialist expertise. As I say, I think that will be something—. We've already had discussions at official level with our Welsh colleagues just about our experience there. As I say, I think we've since rowed back a bit. So, there'll be a lot to learn in terms of our journey there and what's actually required and proportionate, and getting that balance right.

[38] **Joyce Watson:** Okay, but you still didn't tell me how long.

[39] **Mr Grisewood:** Well, it's evolved since 2006. The powers came over in 2006, and we're now 10 years down the line. When the powers came over we were in a position already to take advantage of those, and I think there were

some examples of investments taken forward and decisions around that that took place fairly quickly on the back of those devolved powers. So, I can't point to examples where we had insufficient skills and were therefore unable to take forward an investment agenda. Inevitably, it just evolves over time in terms of the—*[Inaudible.]*—programme, the skills we need, and a view about where they should sit.

[40] **William Graham:** Rhun.

[41] **Rhun ap Iorwerth:** Good morning. An issue here that you may or may not have given some thought to: how suitable would the Scottish devolution of rail model be for Wales? Considering, I suppose, that we have a different model in terms of the sort of cross-border nature of rail in Wales, would the Scottish model work here?

[42] **Mr Grisewood:** Well, it's difficult for me to say that in terms of where Wales is in terms of its journey around the sort of greater powers. There's already some move in Wales in terms of the franchise and responsibilities over that, and expertise that's being built up. So, it's difficult for me to place myself in that position and make that judgment. I think, certainly, our experience—going back to the previous question in terms of how we took on those powers—and lessons we've learned through that process are something that would be really useful and important. I'm more than happy to share that, obviously, through this committee and my team engaging with Welsh counterparts around that experience, which would help expedite any process there. There will be unique challenges—I think we've mentioned already the different number of cross-border routes in Wales, compared to Scotland. I guess my perspective is that those aren't necessarily insuperable issues. As I say, it's just really important to identify those issues at the outset and then recognise, looking forward, the sorts of challenges that that presents, and ensuring that any settlement agreement around that is clear at the outset.

[43] **Rhun ap Iorwerth:** There are certainly ambitions to take over more responsibility—and certainly devolution of Network Rail's responsibilities is one of those that are under consideration—but there are also dangers. What would your thoughts be on the weighing up of the risks when Wales looks to the way forward, in particular, perhaps, issues such as taking on liabilities through taking on the responsibilities?

10:00

[44] **Mr Grisewood:** I think the financial aspect is really important. I mentioned previously the changes as a consequence of reclassification. So, the regulatory asset base, to an extent, meant that we were immune, in the short term, from volatility in Network Rail's expenditure, and we've changed our approach as a consequence of reclassification, despite having this debt cap. I just think that's a really important issue to consider. It's not something that can be looked at in purely transport terms, it's something that you need to consider across the breadth of responsibilities and financial powers within the Welsh context, because it's within that envelope that you need to come to judgments as to appropriate levels of risk and the extent that they can be managed.

[45] As I said, the choices are decisions that could be made in order to mitigate those within rail and that's part and parcel of the reviews that are going on, for example, the Shaw review and the review of the regulator, and thinking about recognising the new world we're in—are there different ways of taking forward Network Rail's investment programme, for example? At the moment, it's very much about trying to cram everything in within the five-year periodic review and decisions that are made as part and parcel of that, and that's something, from our perspective, that's actually gone relatively well, certainly compared to the English and Welsh example, in terms of maintaining our full programme within our debt cap. I'm not saying we haven't seen some cost inflation, but it's manageable and we benefitted from a long lead time in terms of planning and the transparency and the local networking that went on there in order to give people a heads up very early about what was coming. I think that's helped.

[46] But I think, in terms of risk mitigation, there are legitimate issues about the extent to which you put all your programme together in a single package over five years, or do you think about things like enhancements and whether you agree those on a bespoke basis when they're ready, and not necessarily constrain yourself to five-year time horizons. That's something that's been looked at as part of the Shaw review and I think it's quite important, also, in terms of thinking about how you manage the financial risks associated with reclassification and give us the flexibility, if you like, to turn on or turn off the tap around railway investment, whilst maintaining ambitions in terms of overall growth and the overall programme. I think that's the sort of territory that we're now in.

[47] **William Graham:** Oscar, question 10.

[48] **Mohammad Asghar:** Thank you very much, Chair and thank you, Aidan. My question to you is regarding cross-border working, on which you said earlier that you would like to share your experiences. That's so nice of you. But, how does Transport Scotland work with the Department for Transport, the Office of Rail and Road and Network Rail at a UK level?

[49] **Mr Grisewood:** We have very good relationships with the Department for Transport; a very good, open and transparent relationship. That's been particularly important throughout this reclassification process, for example, in understanding the new world we're in and agreeing—. We've got a framework agreement and a memorandum of understanding between ourselves and the Department for Transport recognising the new world in which we are now.

[50] I think, across a range of issues, we've got good relationships, be that on cross-border franchise or specifications, for example. We have good relationships there and good evidence where Scottish interests have been taken into account in terms of specifications on franchises. Also, just maintaining outside of, if you like, the formalities of the memorandum of understanding—maintaining good connections with officials at the Department for Transport, for example, about Network Rail's business plan and changes in Network Rail's governance, and some of the challenges that have been faced as part of the revision of the business plan, post the Hendy review. So, these are big challenges the Department for Transport has faced. We've had some similar challenges, I think, not necessarily to the same scale, around Network Rail and the impact that's had on us. But it's important that we maintain those close relationships and it's very much down to not just the formalities of the memorandum of understanding and the framework agreement, but just good, open relationships between us on that. So, that's been good.

[51] On the Office of Rail and Road, again, we've had an excellent relationship with them. I think that's got stronger and stronger over time. I think there are lessons learned from the first periodic review in Scotland that were taken forward into the second periodic review. Again, if there was a similar move in Wales, that would benefit from that kind of experience and those lessons. But we very much, in the previous periodic review, had an equal relationship with the Department for Transport in terms of the responsiveness of the rail regulator to our concerns, our interests, the communications through that, and the openness to our views around the way

that the process was taken forward. Regular meetings with the office of the rail regulator at all levels have almost become institutionalised as we go through each periodic review process, but also in terms of monitoring the performance of Network Rail against its targets and objectives, and that's something where we're very joined up with the rail regulator and work very closely as well.

[52] So, those are very strong relationships as well. We have the chair of the Office of Rail and Road and the chief executive coming up regularly, both to see us at official level, but also to see Ministers as well. I think the one area that—I can't remember if it was in the evidence, but it was around the accountability of both Network Rail and the rail regulator to the Scottish Parliament. I think in practice, if called, they will, just like I'm speaking to you in committee, speak to committees and give evidence, but it's not formal accountability, which still lies with the UK Parliament. That's something that Ministers have made representations on, supported by officials, through things like the Shaw review, in terms of just that mismatch between the funding, the decisions that are made, the political accountability that stems from failure or otherwise to meet those objectives, and actually the accountability of Network Rail and the rail regulator to the Scottish Parliament. That's certainly something our Ministers have made clear representations about. But as I say, at working level, the relationships have been good.

[53] **William Graham:** Thank you very much. Joyce.

[54] **Joyce Watson:** I want to ask you some questions about your project appraisal methods. We've had evidence that the Department for Transport and Network Rail approach to business case development is overly focused on outputs like speed, rather than the wider social and economic benefits. How, then, has Transport Scotland developed the business case, and how much scope do you have to develop your own methodology when you're assessing projects?

[55] **Mr Grisewood:** I think that's a good question in terms of the different approach that we have taken in Scotland. I think there's obviously certain work that's taken forward in terms of being able to quantify, in monetary terms, benefits, and there's plenty of evidence around journey-time savings, and being able to quantify journey-time savings as benefits. I think methodologies are much more limited in being able to monetise benefits from capacity. I think that's been very important in terms of the impact of a



growing railway and the consequences of not meeting that demand. Also, in terms of opening up new markets and, as you say, the wider social benefits, I think the way round that is to have a broader approach to appraisal that takes account not just of monetised benefits, or the economic benefits, but also sets out at the outset the broad objectives that we're trying to achieve. In Scotland we have a slightly different approach to appraisals. We've got the STAG approach—Scottish transport appraisal guidance—with five broad criteria. The economy is one criterion, but also environment, integration, accessibility and safety. Then it's about presenting the evidence against all of those, and recognising that many of those benefits or costs are things that can't be quantified, but nonetheless it doesn't necessarily mean that they shouldn't be taken as importantly as those that can be monetised. And that leads to, obviously, decisions about judgments and political priorities as much as it does about formulaic approaches to appraisals.

[56] I think a good example of that in a Scottish context would be the Borders railway, which in narrow economic terms, in terms of the core BCR, was about 0.6. In terms of attempts to quantify wider economic benefits, it was higher than that, but it was a decision taken forward in terms of strategic objectives around trying to link up what is a low-wage, less successful part of Scotland to a very fast-growing, successful, high-wage city in Edinburgh, and a recognition that there are wider economic benefits that can't be fully quantified that would come from a line of that nature.

[57] It's important that there's some structure still around developing business cases, and that there is discipline in terms of setting out those objectives and checking the importance of the modelling of that as well that goes behind it in terms of projected demand. But I think that just gives an example of the sort of investment that's been taken forward.

[58] I think it would be fair to say, in an English context, that it would struggle to pass hurdles raised in terms of the types of benefit-cost ratios that would be expected there, and perhaps a slightly narrower approach toward deciding what is taken forward or not.

[59] **William Graham:** Could I ask about Network Rail performance in Scotland? It's said that Network Rail in Scotland and its partners have a good record in the delivery of major infrastructure projects. It may not be quite true in England and Wales. Is devolution a factor in that?

[60] **Mr Grisewood:** Difficult to say. I think from our experience, we felt that

the actual planning process for CP6—sorry, CP5, control period 5, which takes us up to 2019—was a very good process that worked very well, and actually started a good few years before we actually specified in the high-level output specification what was required for Scotland. There were good working relationships between officials, Network Rail and, indeed, the Office of Rail and Road working through that process. There was a good degree of transparency in terms of where the likely priorities are going to be in terms of investment options. I think we also benefited from having quite quick turnarounds in terms of being able to get political steers as well from Ministers in terms of their objectives too.

[61] Therefore, when the high-level output specification came out, it wasn't a big surprise to the industry in terms of what was expected of them; there had already been quite a bit of good work undertaken in order to understand the delivery implications of that, and work on cost too. I think that was a process that has benefited Scotland; I think it's helped by the fact that, in a Scottish context, you can get people round a single table. Through that periodic review process, we had the industry chairing the initial industry plan process. It was the same people around the table when it was then moved to Scottish Government and our turn to chair that in terms of developing the high-level output specification. Then, obviously, Network Rail in terms of developing the business plan—that was quite seamless and open and I think worked well, and I think has benefited us in terms of the investment programme and where we are, and making sure that more of it was more developed than might otherwise have been the case if there had been surprises later on in the day around that.

[62] That's not to say that we haven't had challenges. I mentioned some of the cost inflation we've seen on electrification programmes in particular, and our disappointment in terms of, you know, that coming to pass and perhaps a failure to recognise earlier the implications of some of these standards that have been put in place, as well as a full understanding of the assets, and, therefore, the infrastructure works required around some of that as well.

10:15

[63] But, in the scale of things, it's been proportionately much less significant than we've seen in England and Wales, and we've got some very good examples of good delivery around, as I said, the Borders Railway, on time and budget, Edinburgh-Bathgate, previously on budget and on time, electrification programmes—the Cumbernauld line—and, indeed, the

Edinburgh–Glasgow investment programme more generally in terms of its deliverables and things like Haymarket Station. So, some big profile, complex infrastructure projects that have gone well—and I think, as I say, a good planning process, and I think good relationships, and a closer relationship, between ourselves and Network Rail and project teams on those schemes than I think is seen on equivalent-sized projects in England. I think that has been part and parcel of that as well, in terms of just closer scrutiny, supported by the rail regulator as well.

[64] **William Graham:** Thank you. Could I just return to how you work with devolved transport planning bodies, particularly Transport for the North, and are there any lessons that we might learn from developing those relationships?

[65] **Mr Grisewood:** Well, it's evolving fast, the relationship with Transport for the North, and indeed Transport for the North itself is developing and evolving very quickly. We've had good relationships in the last few years, just in terms of, like I was saying previously about the Welsh experience, sharing our own experience with Transport for the North as it's developed, and Rail North as well—so, just in terms of our experience of managing franchises, the challenges, the resource requirements around that, and also, in terms of looking ahead, I think, recognising that there's important cross-border issues that we need to work closely on. So, for example, the TransPennine services that cross the border—I've mentioned before that we've had good relationships with the Department for Transport around that, and it has been very important to maintain and develop good relationships with Transport for the North too.

[66] I think there's a lot of mutual opportunity around that, and I think that's recognised by Transport for the North too. In fact, I think we've got a conference only next week in Newcastle, which we're working very closely with Transport for the North on, and developing a memorandum of understanding between ourselves in terms of the way that we'll work together going forward. So, we see them as an important new entity. As I say, they have important new powers, and it will be interesting to see, post-Shaw review, what comes out of that as well, in terms of their role on the infrastructure side, but we've certainly made those connections and see them as important partners going forward.

[67] **William Graham:** Any questions from Members? Jeff.

[68] **Jeff Cuthbert:** It's not the purpose of our inquiry to look at franchising, the train operating side, as such, but I think it's fair to say that, during many evidence sessions, issues of integration between the infrastructure and rail franchising issues have raised their head. Has this been an issue for yourselves? Do you think that devolution has assisted you in terms of that planning? And the structure and benefits of your ScotRail Alliance: do you think anything similar might be okay for us?

[69] **Mr Grisewood:** Yes. We've certainly been encouraging closer integration between Network Rail and the operator. Under the previous franchise, there was a framework alliance—there's a lot of terminology that comes around with this—which was, essentially, a set of projects that were taken forward where there were potentially mutual benefits in working closer together with Network Rail around that. So, for example, there was good work there around having single operation centres and streamlined approaches to allocating delays and the financial consequences that flow from that, just to avoid and streamline some of the most obvious potential sources of cost and friction and duplication from not having better integration. There was also a very good example, and I think we've shared evidence of this, in the Paisley Canal electrification project, which again took a very innovative approach to thinking about a particular infrastructure project and saying, 'What could be done between the operator and the infrastructure provider?' both to reduce costs on the project and to think differently about whole-industry solutions, rather than just an infrastructure solution around that, but also to think about the passenger and mitigate the disruption caused by that—so, for example, mutual acceptance of ticketing on buses and the like, and First Bus Glasgow at the time—that helped the overall delivery of the project.

[70] So, there was that experience, which was an important backdrop, and certainly our Minister's been very keen on a closer integration and deeper alliance. That was something that we developed as part of the franchise procurement process. So, we actually worked closely with Network Rail in order to develop a proposition that bidders could use and develop as part of their franchise bids—a deep-alliance proposition. Abellio, who won the franchise competition, as part of their bid, came forward with a deep-alliance proposition. That has now subsequently come into place, with a single managing director and a single management team overseeing the ScotRail Alliance, covering Network Rail in Scotland and ScotRail.

[71] We've seen, I guess upfront, savings as a consequence of that,

because part of the bid that Abellio put forward actually contained within it concrete efficiency savings that they, if you like, bid on the basis of—from the deep alliance—in order to win the franchise. So, if you set it—. You know, that's actually committed and something that we will benefit from as a consequence of close integration. So, there's a clear financial identification of opportunities from closer integration.

[72] I think we've also seen very good examples—through some major disruptions that we've seen in Scotland—of close alliance working. We had a closure of Winchburgh tunnel in Scotland, which is on our main Edinburgh–Glasgow line, for 42 days. It was potentially a big risk to the connectivity within Scotland and economic impact, and that was managed very successfully, with very good communication to passengers, a very good, joined-up, co-ordinated approach between the operator and Network Rail under that alliance banner, and successful delivery of the project.

[73] We also see opportunities there on the investment side. So, strictly speaking, the investment programme is not part of the alliance. That's still part of—. It's not part of the Scotland route of Network Rail, it actually still reports to HQ Network Rail. But we've seen much—. As part of the dynamic of the alliance, bringing that investment programme closer in terms of accountability and working relationships as part of the alliance has been really important too. We see opportunities around some of the investment programme in terms of major efficiency savings. So, for example, the Highland main line is an example of a whole–industry approach, where we've got high–speed trains as part of the franchise, and what that means in terms of opportunities around doing infrastructure differently in order to get the same outcomes in terms of journey–time savings and capacity. So, rather than just thinking of an infrastructure solution, actually, a whole–industry solution can deliver potentially better outcomes at lower cost.

[74] So, we see very positive sides to the alliance. It's still early days. I guess, in the Scottish context, it's helped by the fact that we have a single operator in ScotRail that takes up a very large proportion of the overall passenger numbers in Scotland and clearly defined boundaries between the operator and the Scotland route. As I said before, there's a lot of work to get alignment of objectives between the operator via our franchise agreement and the infrastructure provided by Network Rail through the regulatory process and just aligning those incentives, which weren't aligned before, in order to encourage an alliance and strengthen that relationship. Now it's happened. So, we've seen—as I say, early days, but good, positive evidence

so far of the benefits of that approach.

[75] **William Graham:** Well, thank you very much, Aidan. Time has beaten us—most grateful for your evidence today. The committee now will recess for 10 minutes.

[76] **Mr Grisewood:** Thank you very much.

*Gohiriwyd y cyfarfod rhwng 10:24 a 10:33.  
The meeting adjourned between 10:24 and 10:33.*

[77] **William Graham:** Welcome back to the second part of our committee. I'm grateful to our witnesses for attending today. Thank you for your written evidence. Could I ask you to give your names and titles for the record?

[78] **Mr McMahon:** I'm Paul McMahon. I'm Network Rail's interim route managing director for Wales.

[79] **Mr James:** Hi. I'm Tim James. I'm head of strategy and planning for Network Rail in Wales.

[80] **William Graham:** Right. Thank you very much. In terms of the draft Wales route study and the priorities for investment, do you think the UK and Welsh Governments are taking the positive and timely decisions on the choices set out in the Welsh route study that Network Rail suggests are necessary?

[81] **Mr James:** I think, certainly, the Welsh Government and the DfT have been really involved in the preparations for the route study, along with other funders and the rest of the industry. We've had really good involvement over the last two years, really, in building up a plan—which is still in draft; it will be published in the next six weeks—that really sets out a vision for rail in Wales and what the choices are for funders. So, I think, fundamentally, there's been some really good work with Governments, funders, and the industry. Clearly, some of the choices for funders are decisions that will need to be made over the next 12 to 18 months. So, there is still more work to be done but, certainly, we've had some really good engagement from all parties in pulling together the route study.

[82] **William Graham:** Okay, thank you. CP5 being delayed by the Hendy review, control period 6 and the implications for funding now in terms of

future control periods.

[83] **Mr McMahon:** Well, the Hendy review was necessary. Clearly, we'd seen cost increases on a number of schemes across the board, so it was right that Sir Peter came in and conducted his review. He obviously got extensive engagement across the board. The DfT is consulting on the enhancements delivery plan that was published a couple of weeks ago. They're consulting until the end of March for anybody and stakeholders to respond to that. So, we think it was the right thing to do. Clearly, with respect to Wales, it's reaffirmed the commitment to bring electrification to Cardiff in this control period. So, the wires will be up by December 2018. Obviously, it's caused some consternation with respect to Swansea, but what the report has clearly set out is that electrification is deferred but that there is still a commitment to electrifying the line to Swansea during the next control period.

[84] **William Graham:** Thank you. Jeff.

[85] **Jeff Cuthbert:** On this particular point, if I may, we've had evidence to say that, if there is a significant gap in terms of electrifying the line between Cardiff and Swansea, after London to Cardiff, that could greatly undermine the value of the project and raise its costs significantly. Would you share that concern?

[86] **Mr McMahon:** We are currently looking at—well, we're carrying on development of the route through Wales, including developing the plans and the schedules to take the work through to Swansea. So, we're looking at the exact timing. Clearly, if we stand everybody down once we get to Cardiff only to recruit and mobilise a team months or many years later, that's going to introduce cost into the project, all other things being equal. So, all of that's being weighed up. Clearly, we want to do it as cost-effectively as possible to reduce the burden on taxpayers and to bring the railway to Swansea as soon as possible.

[87] **Jeff Cuthbert:** So, you're quite clear that cost-effectiveness could be hit significantly if there was a significant gap.

[88] **Mr McMahon:** Yes, absolutely. If there is a big gap, then that could introduce a cost increase, but, as I said, we're looking at the optimal phasing of the scheme—so, how quickly we can do that through CP5 and into CP6.

[89] **Jeff Cuthbert:** Okay, thank you. The Valleys electrification: I think we

need greater clarity—you might not agree—in terms of the actual Valleys lines that are due to be electrified. Is there likely to be any adverse effect as a result of the plans for the metro or can they, do you think, be co-ordinated well?

[90] **Mr McMahon:** Well, in terms of the electrification of the Valleys lines, we've got no current plan to go in and start any works. It's all being discussed as part of the metro project—the metro programme. In recent months, we've started to work increasingly closely with the Welsh Government and the officials to look at the options for the Cardiff city region and how we best improve transport services.

[91] **Jeff Cuthbert:** Okay. So, it will be a co-ordinated plan that's under discussion.

[92] **Mr McMahon:** Yes. I think the options that need to be looked at—. From our perspective, obviously, there are various press reports and speculation about whether it's some form of light rail service or whether heavy rail remains the most viable option, and we are keen to work with Welsh Government to explore those options. Obviously, what the right option is and the timing of that will influence electrification.

[93] **Jeff Cuthbert:** So, at this point, you don't have any preferred option.

[94] **Mr McMahon:** No, no.

[95] **Jeff Cuthbert:** Okay. Thank you.

[96] **William Graham:** I want to turn, if I may, to capacity at Cardiff Central. Dafydd, please.

[97] **Lord Elis-Thomas:** Thank you very much. You will recollect that we had a bit of a discussion about this when you were last here. I was very grateful for that, and it did feature in our report, which subsequently was debated in the Assembly. Would you like to give us an update on where you are in your short-term and longer term planning on this?

[98] **Mr James:** Yes, of course. We are very proud to be proposing a scheme that will transform our capital station into something that really is truly fit for a modern capital city. We're really in the very early days. So, we've started a master plan, which has set the vision for what we need to achieve. It's also



helped our partners, Cardiff council, in terms of agreeing what land—and how the rail interfaces with the BBC and the bus station. So, the earlier work has enabled the BBC development and the relocation of the bus station to be what could well be something that's integrated with a future station.

[99] We're quite clear that a new station has got to provide sufficient capacity for the next 30 to 50 years. It's got to give a much better experience for customers, particularly in terms of queueing for events. Our plans, really, are to rebalance the north and the south sides so that they're of equal prominence, both under cover, and also with something like a Reading-style facility to hold people in comfort while they wait for a train.

[100] **Lord Elis-Thomas:** Did you say 'Reading'?

[101] **Mr James:** Like the Reading example.

[102] **Lord Elis-Thomas:** Oh, wow. That sounds good.

[103] **Mr James:** In terms of the transfer deck above it. Having said that, it's still very early days. We're quite clear that, if we are to take this forward and get a schemes that is, as you may call it, shovel-ready, we need to do many more years of development work to look at the technical feasibility of the options, and that work will need to be funded as part of these choices.

[104] **Lord Elis-Thomas:** So, you're looking for an integrated public transport hub, which will be able to cope for a long period ahead.

[105] **Mr James:** Absolutely. It should absolutely address the learning from the Rugby World Cup, from this committee's inquiry, and we need to develop a number of options. We're looking at some evolutionary options, such as making better use of what's currently there, which could well be extending platform 0. Many of you will recall that platform 0 was put in place in 1999 for the Rugby World Cup as a temporary facility. We've seen so much growth that it's in use every hour of every day in the week. We think that that should be extended all the way through to create a full-length platform for trains heading towards London. We believe that capacity requires us to reopen bay platform 5 to the west, and we also believe that there are perhaps other more revolutionary options, such as—you know, some people would say that we should knock it down and start again. That clearly is an option, but there is an affordability element. So, our key points, really, are to work out all the options, what's affordable to funders and the industry, and how we then take

it forward. But at this stage we are probably 10 per cent of the way through getting this shovel-ready, and if funders want a scheme that's fit for a capital city, we will need to be funded for further work to do that.

[106] **Lord Elis-Thomas:** So, you've done quite a lot since we last spoke about this, which is good news.

[107] **Mr James:** Yes.

[108] **Lord Elis-Thomas:** I'll just ask one final question on this round. There'll be other questions about the overall funding activity, but it just seemed to me that if you're developing such a hub, there is a case here for the transport budget of the Welsh Government to make a contribution alongside Network Rail resources. Would that be your view?

[109] **Mr James:** Well, clearly, it's going to be a large scheme and Governments will need to fund that work, as part of the enhancement work in control period 6.

[110] **Lord Elis-Thomas:** Thank you.

[111] **William Graham:** It is, of course, a very valuable commercial site as well, isn't it? I'm sure that won't be overlooked in your calculation. How about the track capability?

[112] **Mr James:** I think we need to look at what that does. Clearly, if we work on platform 0 and platform 5, that gives more capability. Currently, in response to the Rugby World Cup, we still want to learn lessons for this six nations championship and, of course, the very important football final next year. We're currently modelling what a better event plan will be for those events. Essentially, they're overlaying the new infrastructure—platform 0 and platform 5—to see what that would have given us, if we had another event like the World Cup, on the new station. So, absolutely, we should do that.

[113] **Mr McMahon:** But what we've got now, as part of the Cardiff area re-signalling programme, which is due to be commissioned this Christmas into the new year, when we'll be opening platform 8—the new layout and signalling design gives us more operational flexibility and resilience. So, that should stand us in better stead every day of the week as well as when there are major events. It's perhaps not the ideal longer-term solution, but it's an improvement on what we've got today.

10:45

[114] **William Graham:** Thank you.

[115] **Lord Elis-Thomas:** I'm a big fan of the south side of the station. Keep working at it.

[116] **William Graham:** Turning to north Wales, Rhun.

[117] **Rhun ap Iorwerth:** Actually, just one more question on that, I don't know if it's possible to pin you down on a slightly more accurate timescale. People will be concerned, hearing you say that it'll be many years before we get to a shovel-ready position. Can you give an approximation in terms of years?

[118] **Mr McMahon:** At the moment, no-one has committed to fund the building of the station. As Tim said, we are keen to carry on the development work so that we've got a plan, a design for the station, that everybody buys into, that is the right design for Cardiff and for the region and that is funded. It needs to be funded. That'll all come through decisions that will be made over the next few months and couple of years as part of the normal industry funding process, and if or when that decision is made then we can start building it. It needs to be funded, first and foremost.

[119] **Rhun ap Iorwerth:** Thank you. Going up to north Wales, can I just have your general thoughts on the state of the business case being put together for electrification across the north?

[120] **Mr James:** Of course, yes. So, about three years ago, we met with the Minister, who asked us for our views on the business case and we said that we would proceed with the industry case, which really looks at the benefits to rail users in terms of journey time savings, carbon savings, et cetera. At the same time, we agreed that, probably, we weren't best placed to do the wider economic studies and they would be better done by the local authorities in the region. So, essentially, we've worked very closely in finishing our business case and then working with local authorities and the taskforce with Jim Steer, who was here giving evidence at Wrexham, on what the agglomeration of the wider benefits is. I think, you know, that work is still in progress. We've done our business case; we need to add to that the wider benefits.

[121] I think it is definitely a choice for funders for CP6. There are many benefits from modernising north Wales. In fact, there are two choices for funders within our paper. One of them, which is probably a timely precursor, is some work to improve line speeds between Chester and Holyhead anyway, as part of work we're doing to re-signal the line, which needs some funding—roughly about £20 million—which will give journey time savings, which is a good precursor, then, to any electrification.

[122] **Rhun ap Iorwerth:** Obviously, the key piece of work being done is on developing the socioeconomic case, on the assumption that the traditional, if you like, business case model is difficult to achieve for north Wales. How confident are you that the socioeconomic case can genuinely be taken into account in helping us achieve an early decision on north Wales electrification?

[123] **Mr James:** We follow WebTAG transport appraisal guidance, which sets out—. It's a green book, a methodology, which sets out what we need to do. The wider progress and the wider study are going well. We've certainly helped the authorities and the taskforce. I think they're now talking to people behind Norwich in 90 and, clearly, you know, that is a decision for funders to take into account, weighing up both business cases and the benefits to the region. It is a decision that funders can look over and ultimately make. We certainly believe that it would be the right thing to do to modernise north Wales and to provide better links for passengers into Crewe, into HS2 and to other regions. So, we wouldn't be arguing against the case in any way. Indeed, it's one of our choices.

[124] **Rhun ap Iorwerth:** There's concern in the north, much in the same way as there are concerns over a delay between London and Cardiff, and then Cardiff and Swansea, that, perhaps, if electrification did happen—Warrington to Chester and Crewe to Chester as an initial phase—that, somehow, that would then delay the electrification west of Chester, as opposed to doing it as one entity. Would you agree that that would be a potential blockage for, you know, early development of electrification across the whole of the north Wales main line, if Chester was chosen as a kind of phase 1, if you like?

[125] **Mr James:** I think you've got to start somewhere. As long as it's part of the overall programme, then there's nothing wrong with working incrementally. So, I wouldn't necessarily agree that that would be the wrong thing to do. That's probably where—you know, you have to start somewhere, and it would be a sensible starting point in the programme, in the same way

that London to Swansea is starting from the east. So, I wouldn't agree that that was necessarily a blocker. Certainly, our business case looks at the entire section between Crewe, Chester, Warrington and Holyhead.

[126] **Rhun ap Iorwerth:** Does the fact that we have, in general, lower passenger numbers in Wales always put us at a disadvantage when it comes to priorities being set by funders on where investment should happen next? Is that something we just have to live with? How do we get around that?

[127] **Mr James:** We've seen really strong growth in Wales—50 per cent more passengers in the last 10 years. So, if you're thinking, 'There's strong growth', the choices reflect that. Clearly, there will be areas with higher demands around the south-east, and essentially the role of Network Rail, the industry and funders is to try and see where the optimum balance is. I'm sure that the Welsh Government will be working with the UK Government to make sure that Wales has due consideration in those decisions.

[128] **Mr McMahon:** Quite a lot of funding has gone in to enhance the network in Wales through the various new stations that we've constructed—the Ebbw Vale scheme's another good example. On a day-to-day basis, you're probably aware that the Conwy Valley line in north Wales has been flooded and we've closed that since just after Christmas. We've gone in and we're spending a number of millions of pounds on repairing that line, so that it can reopen by the end of this month. As part of those works, we're putting in rock armour protection to give it some additional protection against the elements in the years ahead. So, we are committed to the day-to-day improvement of the network.

[129] **Joyce Watson:** On that point, before I get to my next question, we all know that weather patterns are changing rapidly. Are you doing some detailed examination of the resilience of the network, because we know that there are major issues and they are always weather related?

[130] **Mr McMahon:** 'Yes' is the short answer. So, as part of developing our plans for future industry funding, I've asked the asset management team to analyse all the main places where we see repeat flooding events, analyse the risk of future flooding to the network and price that up. That doesn't mean that that'll get done, because that could come at a hefty price, but what we want to do is to set out to the industry and funders and say, 'Okay, this is the level of risk we're looking at; this is the opportunity to enhance and protect the network.'

[131] **Joyce Watson:** Okay. Will we be able to get any sight of that any time soon?

[132] **Mr McMahon:** Yes. We're, in Network Rail, starting to prepare a draft now, and we're pulling together the details. From where I sit, I'm happy to sit with anybody and share our emerging analysis and studies on that.

[133] **Joyce Watson:** Thank you for that. Moving on to further analysis, we've had evidence from freight operators that, in their opinion, freight isn't a priority for the industry—the rail industry, that is—and that it is, at times, difficult for Network Rail's route managing directors to make time for freight at all.

[134] **Mr McMahon:** Well, I sit in quite an interesting position. As I said, I'm the interim route managing director for Wales. My substantive role is Network Rail's freight director, which is a national role, and that role sits alongside the route managing directors. So, I can see it from both perspectives. Freight is a relatively small part of traffic on the network as a whole, both within Wales and across the United Kingdom. But, freight operators have equal rights to running trains on the network. They use the same processes, effectively, as passenger operators to bid for capacity and train paths on the railway. Network Rail has stated its support and commitment to freight and to support freight growth.

[135] **Joyce Watson:** I think they understand that. I think the point that they made to us is that there are small projects that would really enhance their capabilities and your capabilities to deliver for them. Very often, they're just simply overshadowed by bigger projects and they get shunted aside. How do you answer that?

[136] **Mr McMahon:** There is a strategic freight network fund, which covers England and Wales, that the DfT—. Well, they first established it in the last five-year regulatory control period, and there's a £250 million fund for this current five-year period. Ordinarily, I would chair the steering group that identifies the schemes and agrees the funding for those investments, which cover a wide range of small freight enhancements across the network. We have seen some challenges in developing that programme, which are the same sorts of challenges that have led to Sir Peter Hendy's review in terms of cost escalation and deliverability challenges. But there's plenty of scope for freight schemes to be identified; they all need to be funded as well as the

schemes that principally benefit passenger operators.

[137] **Joyce Watson:** So, are you saying then that the evidence that we've had isn't accurate, and that freight is seen by equal measure as a priority for the rail industry?

[138] **Mr McMahon:** I understand that the freight operators often feel that they're hard done by, to put it in simple terms, but we sincerely in Network Rail support rail freight, and we do our best to utilise the funding that's been made available through the strategic freight network fund to support investment in rail freight. We talk and meet regularly with the freight operators, and one of the things we are doing now is to include targets for each of Network Rail's eight routes across the United Kingdom—targets for each route to grow or to improve freight performance to try and give a better local focus for freight, so that they feel that the routes, as per the question, are seen to be taken seriously.

[139] **Joyce Watson:** Okay.

[140] **William Graham:** The strategic freight fund that you mentioned; could you illustrate any particular benefits that Wales has enjoyed with that?

[141] **Mr McMahon:** Yes, the main scheme that was agreed to be funded through the strategic freight network was some gauge enhancement work through the Severn tunnel. So, to sort of piggyback on the electrification work that is being done through the tunnel, it was identified that in order to carry bigger containers through to Wales—

[142] **William Graham:** You'll be using W10, will you?

[143] **Mr McMahon:** It will be a W12 for gauge enhancement that was discussed. That was last year that that was agreed. The schemes in the strategic freight network are now being reviewed as an outcome of Hendy, but that scheme was identified last year and Welsh Government were party to that decision.

[144] **William Graham:** Okay, thank you very much. Jeff.

[145] **Jeff Cuthbert:** Thank you. As we know, the border between Wales and England is long and porous. In the light of that interdependence, how do you ensure that when you're planning investments in England, the needs in Wales

are taken account of?

[146] **Mr James:** The long-term planning process that Network Rail leads on behalf of the industry is a GB activity. There are four market studies that look at the freight markets across Great Britain, the rural and urban market, the long-distance market, and also London and the south-east. They essentially set out how markets will change and how demand will grow in those markets over the next 30 years. Below that, there are 12 route studies being carried out, because that's the best way of doing it; it's about local engagement. We co-ordinate those through a central programme. And, certainly, there has been lots of work between the Welsh route study and neighbouring route studies. The western route study is a great example where movements between Bristol and Cardiff have been identified as being really important, and they're covered in both the western route study and in the Welsh route study. So, there's really close co-operation and working between these boundaries, because of course the railway in Wales, in order to go from north to south, goes between many English border counties. We absolutely recognise that within the planning process, because people travel beyond boundaries and this work is about markets, not necessarily franchises.

[147] **Jeff Cuthbert:** According to statements about two weeks ago, they'd have to get off the train in Wales. Are you familiar with those statements, which were rubbished, actually? Do you remember that about two weeks ago?

[148] **Mr James:** Yes, I think we saw something about the need to interchange.

[149] **Jeff Cuthbert:** Okay. Look, with the devolution of planning powers to bodies like Transport for the North, for example, what do you think are the implications of that, both for you and indeed for the Welsh Government? With the new devolved structures that are becoming very popular at the moment, how is it best to engage, really to preserve the national network as well?

11:00

[150] **Mr James:** I think, clearly, the railway is part of a national network and there are absolute benefits from it being so, in terms of maintaining markets and economies of scale, but clearly there's also a role for devolution. I think we were very clear when we gave evidence to Silk, for example, that we were supportive of more devolution for railways in Wales. So, I think working with devolved bodies is absolutely fundamental to providing better opportunities,



better experience for passengers, and better value for taxpayers. As part of the work that we do we work very closely in Network Rail with devolved bodies, and we know that the Welsh Government works very closely with those devolved bodies in terms of the north of England. So, absolutely, our view is that it's absolutely critical to getting more local ownership and better value for customers.

[151] **Jeff Cuthbert:** Okay. So, do you—I'm anticipating a further question, but I may as well raise it now; I think it's relevant—anticipate any possible shortcomings or difficulties as a result of further devolution in terms of network planning and, indeed, the availability of financial resources?

[152] **Mr James:** Not really; I think it's a national system. There needs to be clear governance around how devolved funders work, but we've seen within Wales that there have been some really great examples of the Welsh Government investing in the railway to make it better, while responsibility is still non-devolved. So, I think Wales is probably a great example of how devolved administrations can make the railway better.

[153] **Jeff Cuthbert:** Right. I don't know if you heard it earlier, but we had evidence from Scotland. Would you think that the type of model that they have there could have benefits for us here?

[154] **Mr McMahon:** We didn't really catch all the evidence that Aidan Grisewood gave. Personally, I was quite heavily involved with the process that devolved the arrangements from the UK to Scotland back in 2005–06, and I think that model, by and large, has worked very well. I know there are current reviews by the UK Government into the funding arrangements, but, in essence, I think that's worked quite well, and I think that model could work very well for Wales. So, it's transferring responsibility for rail strategy from Westminster to Cardiff, and transferring the financial resources as well. Clearly, there are whole big debates then about the ability of Cardiff, of the Welsh Government, to bear risk in a new environment like that, and they were exactly the same discussions that were had at that time with the Scottish Government.

[155] **Jeff Cuthbert:** Okay; thank you.

[156] **William Graham:** Rhun.

[157] **Rhun ap Iorwerth:** We are looking at infrastructure, not franchising,

but there's a relationship obviously between the two. To what extent do you think choices identified by Network Rail, in terms of capacity and connectivity, could actually be dealt with through the next franchise procurement, rather than specific infrastructure?

[158] **Mr James:** The route study is timely, in the sense that it's here to inform control period 6 and beyond, and also of course the thinking and specification behind the next Wales and borders franchise. So, I think, absolutely, it's fundamental to some of those choices. When you look through our evidence, of the 14 choices for funders, there are a number there that are more for franchise specification than Network Rail, so not all of them are about building more infrastructure or new stations. There are lots of examples there of where we believe as an industry that, in order to meet the growth in demand, there need to be more train services, and/or longer trains. I think those are clear choices that are evidence based in the route study, that are generally agreed by the industry and that are in place to inform the thinking behind the next franchise.

[159] We've seen really strong growth, for example, on commuting to Cardiff. That is set to continue to grow, probably by up to 140 per cent in the next 30 years. So, clearly, a lot more work needs to be done to think about how the railway can accommodate that demand, and also then how car parks and other facilities need to grow in response.

[160] **Rhun ap Iorwerth:** And longer platforms for longer trains. What do you think are the main infrastructure considerations when it comes to the procurement of the next franchise in Wales?

[161] **Mr James:** Certainly, within the choices, Cardiff Central station is going to be really important for the future. And also, clearly, we expect to see strong growth between north Wales and Liverpool, Manchester and with HS2 at Crewe. We believe that those, probably, economically, are the most important schemes. There are then other ones elsewhere, which equally have regional economic importance. Certainly, south Wales and north Wales have national economic significance in terms of connectivity to major economic centres in England.

[162] **Mr McMahon:** A lot of that will be looked at through the joint work we're doing with Welsh Government on the metro programme.

[163] **Rhun ap Iorwerth:** One of the things that's been drawn to our attention

is, where you have adjacent franchises and overlapping franchises, that competition for capacity could be being complicated by infrastructure limitations. I know access to Manchester Airport is one in particular—Arriva Trains Wales has difficulty in achieving access to Manchester Airport. It's basically down to a lack of infrastructure for the two adjacent franchises to be able to operate on the same lines. How much of an issue is that and how do you then get involved in trying to resolve those infrastructure problems where you have those clashes between the adjoining franchises?

[164] **Mr McMahon:** In Network Rail, our responsibility is to sell, for want of a better word, the capacity to train operators, subject to the regulator—to the ORR—approving those track-access contracts, which set out the capacity and the number of train paths that we're selling. We can't oversell. We can't sell the same capacity twice. There has been an ongoing issue around Arriva into Manchester. That's absolutely right. If there's an issue then we will identify where we can make an operational improvement, which could be a timetable tweak or some other intervention that does not require capital investment. That's what we would like to do. If it requires a capital investment, then that needs to be funded. So, that can be funded by a third party immediately, or else it has to wait for the five-year industry funding process to take its course.

[165] **Rhun ap Iorwerth:** How often do you come up against these sort of clashes? Manchester Airport is one particular one—there's just not enough capacity in that part of the north-west of England. Is this common?

[166] **Mr McMahon:** Increasingly, it is. Great Britain has got about, I think, 40 per cent of the declared congested infrastructure in the European member states. As everybody knows, the usage of the network has more than doubled since privatisation of the industry. We're seeing huge stresses and strains on the network every day of the week across the network—not everywhere, of course—particularly around major conurbations and cities we've got real pressure.

[167] **Rhun ap Iorwerth:** And because you are able to identify those areas of congestion, do they in some way automatically become prioritised in terms of funding, because there are issues that are clearly holding back the expansion of the railway?

[168] **Mr McMahon:** They get clearly identified as areas for discussion and funding for possible interventions gets identified. That's what Tim leads on

in Wales as part of the long-term planning process.

[169] **Mr James:** In terms of the Welsh routes study, in your evidence paper, choice No. 3 essentially anticipates that issue about competing demands for the next 30 years. So, if you currently think about the railway between Cardiff and Severn Tunnel, there are two fast lines and there are generally two slow lines. One of our proposals is to seek funding to modernise those slow lines so they're equally as fast as the other two lines. Essentially, that anticipates that there will be continued growth in train services and demand for services between Cardiff and Bristol, London and Manchester, on what are currently the fast lines; and, equally, that the Welsh Government has aspirations for more local stations between Severn Tunnel and Cardiff, at places like St Mellons and Magor. Essentially, we will need to have a four-track railway for passengers to accommodate all of those different markets, and that's probably one example of where we've tried to anticipate ways of getting around that congestion, as a choice for funders.

[170] **Rhun ap Iorwerth:** It's vital, of course, in all this that you have a good working relationship between Network Rail and the train operating companies. There are all sorts of different models of that relationship, and deep alliances, and that kind of thing. Are there ways in which that relationship between Network Rail and train operating companies operating either exclusively in Wales, Wales and borders, or those operating into Wales can be improved?

[171] **Mr McMahon:** Yes, absolutely. We do work closely with Arriva and with the other operators in Wales. We sit down formally at director level every four weeks with Arriva to discuss current issues and emerging issues. We do have something with Arriva called an alliance, which is a very, very light and loose alliance compared to some of those more formal and deeper arrangements that have existed across the network. We're quite keen to build on that. We think it's only by collaborating closely with train companies that we can improve services.

[172] **Rhun ap Iorwerth:** Should that specifically be part of the specification, if you like, of the next franchise in Wales—that there is a new, formalised, deeper, whatever it might be, relationship between that new company and Network Rail in Wales?

[173] **Mr McMahon:** I'm personally not sure it needs to be a formal requirement. It's one of the options that could be considered in the

marketplace as we move forwards.

[174] **Rhun ap Iorwerth:** Okay. Thanks.

[175] **William Graham:** Oscar.

[176] **Mohammad Asghar:** Thank you very much, Chair. What I've just heard from you is that, if there's any capital investment, you need it from third parties. [*Inaudible.*]—when the first trains started eight years ago from Newport to Ebbw Vale, it was from Cardiff to Ebbw Vale—. I think surely you must have a business plan for that track. It's never touched Newport, somehow. It was promised many times, and according to your business plan you recovered not only your investment, within the time period, but you recovered very early. So, when you make profit, do you reinvest in infrastructure, or do you still look for investment from other third parties?

[177] **Mr McMahon:** The funding of Network Rail and the funding of the rail industry is quite a complicated affair, as you're well aware. So, in simple terms, that works in five-year chunks, so the key investments, improvements and enhancements that we will make are discussed, debated and agreed on in the two- or three-year process up to the start of those five years. Then we are funded for a range of improvements, and those are the ones that we do. Now, third parties, whoever they may be, or Governments, can come in at any time and agree with us to do additional specific investments on top of what we've been funded for, and we're very happy to do that, and we do that all the time, including with Welsh Government. So, we don't have any spare money, as it were, to do anything different. We do do things around the edges where we can. I mentioned earlier that we're putting in some enhancements on the Conwy valley line to provide some protection against additional flooding risk. But we don't have significant amounts of money to build new stations or new lines without it being funded by a Government or a third party.

[178] **Mohammad Asghar:** And finally, have you got any plan for that Valleys lines to link to Newport and then Cardiff? You have just been bypassing Newport from day one. Because I've heard all these excuses from day one. Before the Ryder Cup and all the other big events in Wales, they said the line would go to Newport, but it never did. So, is there any good reason? Have you got any plan to bring that forward?

[179] **Mr James:** I think in many ways that's a specification issue for the

franchise, in the sense of deciding where trains go, and there is currently nothing to stop trains going to Newport, but of course that would then be at the expense of their going to Cardiff. We're doing a piece of work, funded by the Welsh Government, to redouble most of the Ebbw Vale line. So, the line was opened in 2008, and we're now redoubling over half of it, and that will then allow two or three trains per hour to operate. So, that then will give the ability perhaps for one train to carry on going to Cardiff, and then the other one to go to Newport—or different patterns of timetables around that. That's something that we're currently delivering for completion in this current control period.

[180] **William Graham:** Joyce.

11:15

[181] **Joyce Watson:** We've had some criticism from witnesses and some respondents about the lack of contestability in procurement for infrastructure investment, so we'd like your observations on that, and also your observations on the extent to which Network Rail funds are controlled centrally, rather than controlled at route level.

[182] **Mr James:** In terms of contestability, we're really keen that, if third party funders believe they can deliver a scheme in a more efficient way, that should take place. There are some examples of that recently around the new station at Pye Corner on the Ebbw Vale line, where, essentially, the Welsh Government contested that work and used Alun Griffiths to build the station to deliver that work. Clearly, our role is to make sure, then, that they work safely and they build the station to the right standards and the right specification, and we enable that to take place. So, I think that's a good example of a successful contested scheme. Clearly, we've got lots and lots of activity taking place on the Wales route. Our renewals plan, Paul, is several hundred million pounds a year and we employ contractors and many local contractors, and all of that work is contested in the marketplace. So, I think we're quite clear, really, that we get the best value from the market that's there by contesting Network as best we can.

[183] **Mr McMahon:** We contest in the marketplace for multi-year framework agreements, and then we contest the other half on a sort of spot basis, as jobs emerge. In Wales, we've been very keen to grow our supplier base in Wales, and Alun Griffiths, who you'll know well—we've helped build them up as a supplier to us in Wales. I think they've grown their rail capability quite

extensively in recent times. I know I keep mentioning the Conwy valley line, but they're on site repairing the Conwy valley line for us as we speak.

[184] **Lord Elis-Thomas:** And on the Cambrian as well.

[185] **Mr McMahon:** Yes, that's right.

[186] Your second part of the question was about allocation of central funding in Network Rail. Network Rail, as part of the current funding arrangements, did put in expenditure plans to the rail regulator for each of the routes, but we're not currently regulated on a route-by-route basis. So, the company has a large sum of money, centrally, but what we do within the company is each route—as route managing director, I need to sign off, and I recently signed off for the next three years, our budget proposal and our business plan for the Wales route. So, we spend, roughly speaking, around £400 million a year, at the moment, through Network Rail's Wales region. We spend about £85 million or £90 million on operating and maintaining the network, about £200 million on renewing the assets, and at the moment we're spending about £100 million a year on enhancement schemes. Obviously, the enhancement schemes will fluctuate quite a lot. That has all been agreed centrally and we are held to account for that in Wales.

[187] **Joyce Watson:** And that's exactly why the issue of contestability is important, because you're talking of very, very large sums of money, and that brings me to the next part of the criticism: part of that is that it is sometimes being poorly delivered by teams that have been brought into Wales.

[188] **Mr McMahon:** That's right. I'd accept some of those criticisms, and, partly, some of those criticisms apply across the business as a whole, hence Sir Peter Hendy's review. We recognise some of the issues and challenges we face in terms of developing and delivering enhancements, which is why we published, towards the end of the last calendar year, the enhancements improvement programme about how we improve our procedures and our competence in terms of developing and delivering enhancement schemes.

[189] In terms of some of those, where resources are positioned, we've been very keen in recent times, to strengthen the Wales route. I mean, the Wales route is the youngest of the routes within Network Rail. Historically, it was part of the Western route in the south and it was part of what we call London and North Western in the north. We've developed Wales; we're trying to build

Wales as a strong, self-standing route, and the company's behind that. We've brought more engineering and capital programme resources to be based in Cardiff, just up the road here. A lot of them have, in the past, been based in Swindon, or in Bristol, and we don't think that's ideal; we want them sitting next to our asset managers and our other teams and our stakeholders in Wales.

[190] **Joyce Watson:** Can I ask just one further question, please, Chair? You've got a three-year plan. You know that you're going to carry out certain levels of maintenance and you're going to need certain levels of skills to deliver that. Do you work with anyone to help facilitate any learning and skills base through apprenticeships or anything else that might actually leave something in Wales to futureproof that workforce?

[191] **Mr McMahon:** Network Rail's got quite a highly regarded graduate and apprenticeship scheme, and, at the moment, by and large, that works nationally. We've taken on, I think it's 18, Tim, apprentices in Wales to train up for electrification and for electrification maintenance when that comes to Wales. So, we're very keen both as a company, UK wide, but also within Wales, to do exactly that. I think it's something that we're actively thinking about—how we do more of that within Wales itself.

[192] **Joyce Watson:** So, 18.

[193] **Mr McMahon:** Eighteen dedicated for electrification.

[194] **Joyce Watson:** Okay.

[195] **William Graham:** Thank you very much. Just a question, if I may, on the availability of data on the performance of Network Rail: how far are your financial and performance data available?

[196] **Mr McMahon:** For Wales, we've put as part of the last periodic review process—there were some fairly high-level and initial plans for each of our routes, so, including Wales; they are in the public domain. In terms of publishing actual financial results for Wales route, we currently don't publish anything, but the rail regulator has recently started producing, as part of its work, its monitor of Network Rail. Its monitoring report has reported on some of our financial expenditure in Wales.

[197] **William Graham:** So, would you intend to improve your availability of



information?

[198] **Mr McMahon:** Yes. We're obviously subject to freedom of information, and we've got a big theme around improving our transparency. I absolutely support making more financial and all performance data available for Wales route, yes.

[199] **Mr James:** And we do publish the regulatory accounts, don't we, every year. So, I think, you know, we could probably send you the information around that, which breaks it down then, by—

[200] **Mr McMahon:** Yes, that's right. I'd forgotten that. There's some very detailed stuff, which you probably need a PhD in accountancy to want to get through. It's not easily digestible.

[201] **William Graham:** We rely on our research service, who can cope with it. [*Laughter.*] We have a few minutes. Could I ask you if you would speculate, really, on the implications of the more recent reviews?

[202] **Mr McMahon:** Nicola Shaw's review is probably the highest profile report at the minute. That study remains to be concluded. We haven't seen the report; we don't know what's in it. There's obviously all sorts of speculation that's creeping out, some of it in the newspapers. We've engaged quite strongly with that as Network Rail, and what the company has done in recent times anyway is—and you may have seen this—that Mark Carne has announced more and stronger devolution within the company as it exists, so giving more accountability and responsibility to each of our routes, including the Wales route, very much within the national framework.

[203] **William Graham:** Thank you. Any questions from Members? No. Thank you very much for your evidence today—most grateful to you for coming.

[204] Can I welcome our witnesses and thank you for your attendance today and for your written submissions? May I ask you just to give your names and titles for the record?

[205] **Mr Plummer:** My name is Paul Plummer. I'm chief executive of the Association of Train Operating Companies and the Rail Delivery Group, which includes those train companies, the freight operators and Network Rail.

[206] **William Graham:** Thank you.

[207] **Mr Larkinson:** I'm John Larkinson. I'm director of economic regulation and consumers at the Office of Rail and Road.

[208] **William Graham:** Thank you very much. Could I ask both of you, really, for your views on the implications of the Bowe and Shaw reviews?

[209] **Mr Plummer:** Shall I kick off?

[210] **William Graham:** Please.

[211] **Mr Plummer:** Thanks, Chair. I think, as the previous witnesses stated, one of the changes that Network Rail have already been making is around devolution much further to their routes, and to Wales as part of that. I think the whole of my membership strongly supports that direction of travel and strongly supports the routes being really strongly empowered to work effectively with the train operators locally to deliver what it is that's required by their stakeholders, the passengers and, ultimately, freight users and Governments such as here. Really important as well, and consistent with the questioning already that I've heard this morning, is the fact that that still needs to be operated as part of a national network, and the need to make sure that devolved routes, although strongly accountable, are operated as part of that network so we deal properly with cross-border flows and we don't have unnecessary issues at those boundaries, which, frankly, passengers shouldn't notice.

[212] I think as part of it as well we've been quite clear that the industry thinks that the regulator has an important role to play in making the industry work effectively, and we see that as an important part of those reviews. I'm sure Mr Larkinson will have a view on that. Similarly, it's critical that Governments are very clear about what it is they want from the railway, and the railway industry can help to inform those choices. I think it has an important role to do so, but I think there are important decisions that need to be made, and the clearer those decisions can be, the more efficient the industry can be in delivering those requirements.

[213] The final thing I'd highlight is something, again, that has come up in some of the questioning, which is around the need to attract different sources of capital into projects and the different ways of delivering projects and to get more contestability to your question into those delivery mechanisms, so there is confidence in that delivery. So, all of those things, I

think, are really important in those various reviews, and we're working closely with Nicola Shaw and with Governments to help inform choices that have to be made.

[214] **Mr Larkinson:** If I could just add a couple of points, one of the specific recommendations of the Bowe review is that there should be a review of the work of the rail regulator—us. We welcomed that at the time, because of issues that have been raised in some of the previous evidence about some of the changing context and changing environment around railways, particularly the reclassification of Network Rail. We felt that did raise some fairly fundamental issues and we thought it was right that the role, in fact, of all parties, including the regulator, should be looked at. So, we've been working quite closely with the department on that, although, obviously, that review's not due to be published for a few weeks now.

[215] Just on the Shaw review, again, we're working very closely. There have been some feed-ins of our views into the Shaw review. I know there's been a lot of speculation in the press, and I'm sure there's going to be a lot more speculation in the press over coming weeks, but I think we have to wait until we see the recommendations from the review.

[216] **William Graham:** Quite. So, the press reports, really, of privatisation, open access and things like that are, what, unfounded?

[217] **Mr Larkinson:** I'm personally not privy to the likely findings of the review. From our perspective, all we can do is feed in our views, and one of our views has been, quite clearly, that, to some extent, the role of the regulator has to follow the structure and form of the railway. So, to some extent, we wait to see the outcome of the review.

[218] **William Graham:** Indeed, yes. Any comment, Paul?

[219] **Mr Plummer:** What I described were the views we've expressed to those reviews, and, obviously, we need to wait to see what they conclude in the light of that. Anything else is speculation at this stage.

11:30

[220] **William Graham:** Okay. Thank you very much. Joyce.

[221] **Joyce Watson:** I just want to ask some questions around the periodic

review process, and, particularly to the Office of Rail and Road, whether you think that there is an opportunity for this inquiry to influence the approach taken in the next periodic review.

[222] **Mr Larkinson:** I think the short answer to that is ‘yes’, because, from my perspective, we’ve reached a very important stage in the periodic review: in probably April, maybe May, depending on exactly when the Shaw report publishes, we’ll be publishing our initial consultation document on the periodic review. That really sets the scene for the whole review, and we want to do a number of things in that, including reflecting changes in the political landscape, possibly around devolution, changes in the structure of the railway, potentially, and possibly as recommended by Shaw, but also to build on changes that are already happening in the rail industry, particularly, as Paul was just saying, around the emphasis on the routes and Network Rail’s routes. We think that the whole concept of route devolution has been a huge benefit, and we want to see how we can develop that during the periodic review process. So, there’s a lot of scope between now and that document for everyone to be involved. Indeed, I was discussing this with officials from the Welsh Government only a week ago. So, yes.

[223] **Joyce Watson:** And, of course, we are particularly interested in Wales, as you won’t be surprised to hear. So, we’d like to know whether the interests of Wales have been considered in past periodic reviews and how that could be then developed for the future.

[224] **Mr Larkinson:** Right, yes. It must have been about 13 or 14 months ago that I wrote to the Welsh Government specifically on that topic, because we felt that there were some lessons to be learned from how we’d engaged with Transport Scotland on the previous periodic review and what that told us about how we should be engaging with Wales and the Welsh Government in terms of this periodic review. And we think there is quite a bit of work that we can do to basically allow people in Wales—Welsh Government, passengers, freight companies—to play a stronger role in the periodic review and to get better involved.

[225] That’s partly down to us being clear about the signposting around the review—you know: what are we talking about and when? And when are we looking for views and on what issues? So, we’re going to be working quite hard on that and, indeed, specifically, just in terms of, again, some of the things I heard people talking about earlier—things like the metro proposal and things like that—how those would affect a periodic review and what

might be done differently. So, in short, yes, we've given this a lot of thought, yes.

[226] **Joyce Watson:** I'm sure we're very pleased to hear all of that. What we'd like to know, though, is whether the next periodic review might need clearer Network Rail targets and outputs for us here in Wales.

[227] **Mr Larkinson:** The short answer again is that it could do, yes. That partly depends, I think, on what the funder wants and how that is reflected in the periodic review. So, for example, at the moment, if you think about how the periodic review is structured, there tends to be a specification from Governments of what they want to see. At the moment, there are two separate specifications: one for Scotland and one for England and Wales. In terms of that specification for England and Wales, there are clearly choices there in terms of how Wales is represented within that specification.

[228] However, in addition to that, the periodic review process is really, really flexible. You don't have to do everything inside the periodic review process. Funders, Governments, can specify things outside the periodic review process. One of the things I heard people discussing earlier was the idea that the funding of some enhancements could be taken outside the periodic review process and done separately. Again, that is possible. All these things are possible. One of the things we've been saying quite clearly to people is that the whole process is extremely flexible to what people want to see. So, yes.

[229] **Joyce Watson:** One of the other areas of our inquiry has been to look at freight, and they clearly don't think they're getting the deal they could be getting. They don't think, from some of the evidence that we've had, that they've got a level playing field with road, for example, and they don't, equally, feel that the environmental benefits of putting freight on rail are considered. Do you have anything to add to those comments?

[230] **Mr Larkinson:** Shall I go first? In terms of making sure that we understand the views of not just the freight operators, but also freight customers—the people who potentially contract with freight operators to run the trains—we put a lot of effort into that. Indeed, I chair our freight customer panel within the Office of Rail and Road, so I'm very alive to the views of the freight customers and freight operators. We've always said that we've listened very carefully to what we've been told, and one of the things that we've been told very clearly by the whole freight industry is the

importance of what you might call predictability and stability in the freight charges framework. Indeed, in a meeting last week with some freight customers, that was again a very clear message: 'There are a lot of issues, but please give us some predictability and stability, because we need to be able to plan our business.' That's the message that we're getting loud and clear from the freight industry, and that's the message that we are very definitely hearing and listen to.

[231] **Joyce Watson:** We know that there are challenges to freight with the steel here at the moment, but I happen to live in Pembrokeshire. So, there is another whole route that is required for freight in terms of the oil industry and other industries down there. So, I suppose there will be a nervousness potentially about taking your eye off the ball if the emphasis is on just what's happening in south Wales rather than what's happening in west Wales.

[232] **Mr Plummer:** Do you want to comment on that specifically?

[233] **Mr Larkinson:** Yes.

[234] **Mr Plummer:** If I may, a number of the points that you've raised, I think, highlight some things that certainly the industry players and members of my group are passionate about. So, the fact that there are some really important choices, and whether those are made as part of a periodic review or, as John said, separately, is up for debate. It doesn't need to be done one way or another. The important thing, I think, is that we do have clarity about those choices, and that the industry plays its role in informing those choices, and does so critically from an overall network perspective, because of a lot of the emphasis on the cross-border issues that you've talked about, as well as the issues within different parts of Wales. Really critically as well from the perspective of the customer experience, making sure that we're thinking about it from that end of the telescope. But as well as that, in reference to your points about freight in particular, what the rail services do for the economy. So, one of the things more recently in terms of within Rail Delivery Group, there's a freight group that has been thinking much more about how we get better understanding about what freight contributes to the economy of Great Britain, but also more within Wales, Scotland or whatever it is, communicating that more clearly to help inform those choices. Beyond that as well, the social impact of what the railway does is clearly an important point in forming your decisions about what you ask from the railway. So, behind all your questions, I think, from my point of view, is an important point that those choices need to be made, they need to be clear, but there's

a responsibility on people running the railway to help inform those and get the best possible customer experience.

[235] **Joyce Watson:** Okay.

[236] **William Graham:** Okay; thank you very much. Rhun.

[237] **Rhun ap Iorwerth:** We've certainly heard evidence from people who believe that there should be more accountability; that Network Rail should be more accountable to Welsh Government. Is that becoming—if not universal—a wider point on which there is wider agreement?

[238] **Mr Plummer:** You go first.

[239] **Mr Larkinson:** Shall I go first? Yes, from my perspective, I'm looking more into as how we can help make Network Rail, and indeed ourselves, more accountable to the Welsh Government. One of the things we've been building on is the experiences of what has happened in Scotland, where over time we've had quite a systematic process of engagement. I think it's fair to say that that didn't suddenly come about. It evolved over time and it reflects some of the lessons that were learned about how it worked from the start and as we developed it. But, one of the things that has been different is the difference between what I would call perhaps a slightly more ad-hoc engagement in Wales and more systematic engagement in Scotland. My personal view is that Network Rail has put a huge amount of effort into its engagement in Wales; I think you can see the effects of that. I think they're extremely conscious of their accountability in Wales and that has improved dramatically. I think it's also improved—we may come to this later—in terms of the available data and things like that.

[240] On top of that, we've been working hard to see what more we can do. So, can we listen to what the Welsh Government's concerns are and make sure we're raising them with Network Rail, and making sure we're reflecting that in how we monitor? About two weeks ago, we went through a fairly rigorous set of meetings with agreed data and analysis with Network Rail and with Welsh Government officials to try and get that process moving. I thought that went very well. I'm sure everyone else has their own views. I thought that went very well. I thought it was extremely positive and we're intending to build on that and develop that over time.

[241] **Rhun ap Iorwerth:** How much more detail can you give us about that?

[242] **Mr Larkinson:** In terms of perhaps the sort of thing—

[243] **Rhun ap Iorwerth:** The exercise that you—

[244] **Mr Larkinson:** Okay yes. In terms of the sorts of things we covered, yes. As an example, in terms of Network Rail's performance, we went through very standard headings in terms of safety, in terms of the number of trains on time, that sort of thing, in terms of the management of the assets, financial performance—how is Network Rail currently performing in Wales? Where, perhaps, are there some unique Welsh issues and where are these, perhaps, more general issues across the piece? Then, we talked a bit about what we're doing in each of those areas and then, also, where there were new things coming, particularly on the metro-style proposal. We haven't been involved in great detail in the past, but we clearly need to get more involved. Indeed, one of the key messages from the Welsh Government to us is that we're reaching a stage—'we' as in the Welsh Government—in this whole process where we're now starting to look at some options in quite a lot of detail and we need regulatory input about what some of these options might mean. So, that's what we're now taking away and doing next.

[245] **Rhun ap Iorwerth:** From the way you see it, is that paving the way towards more formal devolution of Network Rail responsibilities and funding and so on, or is this a way in which you can achieve accountability without actually devolving, if you understand?

[246] **Mr Larkinson:** You won't be surprised to hear me say that, on issues of political devolution, as a regulator—

[247] **Rhun ap Iorwerth:** Of course.

[248] **Mr Larkinson:** —we remain strictly neutral on that. I think the answer is that it works from the both scenarios. In my view, it's worth doing in its own right with the current structure, because I think it has benefits. Equally, clearly, if a decision was, in fact, taken, then I think it would help, yes.

[249] **Mr Plummer:** Directly in answer to your question on whether there is a strong consensus: absolutely. Within all of my members, there's a strong view that, actually, there needs to be clearer accountability locally from Network Rail routes to their immediate customers, train operators and local stakeholders, including Government, so they're able to specify what it is they



want. So, there's no doubt about that. The qualification is to make sure it still works as a network, which, from all your questioning, you're concerned about as well in terms of cross-border flows. So, as an example of that, all of my train operators would strongly support the idea that Network Rail routes have a much more customer-focused scorecard as to how their performance is measured with operators, but also other stakeholders, such as yourselves.

[250] **Rhun ap Iorwerth:** Could I come back to you, Mr Larkinson, and refer to something in your written evidence? Thank you for providing that written evidence. You say that there are a number of different options available for devolving further responsibility for funding the Network Rail Wales route to the Welsh Government, and funding is key, obviously. Could you, perhaps, give us an idea of those options?

[251] **Mr Larkinson:** Okay. So, to take, perhaps, one extreme in the process is the position that Scotland is now in where they clearly have their own opportunity to allocate funding to the railways to express that process into a periodic review. And, as I heard Aidan Grisewood saying earlier, that has implications in terms of how the borrowing limit is interpreted, so, they have their own limit within the overall GB-wide borrowing limit for Network Rail. So, that's a very formal structure and that would require legislation to bring that about in Wales, I believe. So, that would be, perhaps, one extreme in the process.

11:45

[252] But, within that, it seems to me, and this wouldn't be my decision, obviously, but there's then a question of how you express the specification, the England and Wales specification, in terms of Wales—the specification, often called the HLOS, that feeds into the periodic review. How is that expressed in terms, maybe, of specific Wales outputs or requirements? I think that would require a conversation between the Department for Transport and Welsh Government in terms of how that would work, but clearly, conceptually, that must be an opportunity.

[253] Then the other area of funding just forgets about a periodic review, but the ability to influence and specify and deliver things outside of a periodic review. Indeed, that already happens to some extent in Wales. More could be made of that, in principle, again, I believe. So, I think there is a range of options like that, and there are probably more that you may have considered.

[254] **Rhun ap Iorwerth:** Okay. I don't know if you want to add to that.

[255] **Mr Plummer:** I agree with everything that John has said.

[256] **Rhun ap Iorwerth:** Okay. In terms of practical implications for Welsh Government if further devolution does take place, you state what's quite obvious, in a way, in that you say that the Welsh Government will need to do a substantial amount of preparation to fulfil a role—be it a full, formal, Scottish-style role or a partial role. Are you confident in the capacity of Welsh Government to do that preparation, and to be in a position where it can take on the responsibilities and the liabilities and so on?

[257] **Mr Larkinson:** I wouldn't, to be fair, feel able to answer that question in terms of an assessment of the Welsh Government's capabilities. I don't think I could fairly do that. From my perspective, the question I ask myself is, 'What can we do to assist the Welsh Government?' Ultimately, it's the Welsh Government's call on how they resource up for this, and indeed Aidan Grisewood was describing the process that Transport Scotland had been through. So, from my perspective, what are the sort of things the Welsh Government are likely to need under any of these scenarios? Access to data is just a fundamental one. I know it's quite boring, but it is just absolutely fundamental for all this, in the overall process. An understanding of some of the implications—we've had a lot of experience of how different models work. We've seen some of the pros and cons of different models. So, for example, you could take an example where, suppose everybody took all enhancements funding out of a periodic review. Okay, then you're not locked into that five-year cycle. What if all that enhancement funding then generates extra demands for maintenance spend within Network Rail? How is that going to be taken into account when you've just got down some funding? I think we could help develop mechanisms that would address those potential issues. So, from my perspective, it's about us providing advice and assistance. We've already had some specific requests from the Welsh Government on that, and that would be our intention, yes.

[258] **Mr Plummer:** I listened to Aidan Grisewood's evidence earlier, and I think the lessons from there are really helpful for you, I'm sure. The things that chime particularly in terms of what the industry can do to help, similar to the way John answered the question, is around helping Welsh Government to be an informed client, and to play its role properly as that client and enable the industry to have the flexibility to deliver what it wants in the most

efficient way possible, and really for the industry to play its role as well in helping to inform those choices in terms of some of the longer term planning issues, the customer experience as they see it, glued into the whole of the network. So, I think those are some of the things that the industry can do to help the Government to play its role, if it has a bigger role in the future.

[259] **Rhun ap Iorwerth:** And it's about devolution for a purpose, and I think there's a desire to push devolution as much as possible, but we need to make sure there are dividends that come from that, and I think I'm right in assessing that both of your organisations think that, if done correctly, there are potential benefits to going down the further devolution route.

[260] **Mr Plummer:** It certainly can be made to work, absolutely.

[261] **Mr Larkinson:** Yes, that's right. If you combine more local devolution in all its forms with the devolution that Network Rail's made to its routes, then that can be quite a powerful combination.

[262] **Rhun ap Iorwerth:** Thank you.

[263] **William Graham:** Thank you very much. Jeff.

[264] **Jeff Cuthbert:** Yes, thank you. These questions are mainly for Mr Plummer, but I'd welcome your comments as well, about the industry plan, and the next industry plan. Network Rail made a comment, and I quote:

[265] 'Positive and timely decisions from funders will be needed'.

[266] Well, I can understand that. I can see the logic there. So, what, in your view, are the levels of engagement from and with the Welsh Government on this matter? And, then, indeed, what is the methodology that's been adopted for preparing the next industry plan time frames, and how do you expect Welsh stakeholders to engage? And the steps you're taking to make sure that engagement does happen.

[267] **Mr Plummer:** Okay, thank you. There were some parts to that question. I think some of it has already been covered by the Network Rail submission, because we obviously work particularly closely with Network Rail, but also with operators to help them on that process. So, the route study I think is fundamental to it, and the process there has been very positive, with intense engagement with Network Rail, the operators and the

stakeholders in Wales to inform that, and, critically, as part of an overall network in terms of the cross-border flow. So, I think that engagement has been very positive. But ultimately, as implied by the quote used by Network Rail, it needs to lead to some decisions, and clarity about those decisions is what enables the industry then to deliver efficiently and in a timely way. So, in terms of that, I think that's been positive, but it now needs to come to a head and achieve clarity.

[268] In terms of methodology, I think the thing we'd emphasise is around—well, actually, we can look at the capability of the current railway and what the demands are for it to provide more connectivity, improved journey times, additional capacity—where the gaps are and find the best way of meeting those gaps. We can appraise those, as we do using economic appraisal methodology, seeking to value those benefits, and in particular, the challenge, as you'll be aware, is to capture the broader economic benefits of that. But at the end of that process, ultimately, there are still some key choices, because many of these services will not be purely commercially viable. So, as I say, the industry can inform, and, indeed, must play its role to inform those choices, but where they are not commercially viable it's really important that Governments make those choices, and we help them to do it. And all of those appraisal methodologies are critical inputs to it, but ultimately there are choices and that's why you're here to help make those choices. So, we can input into it, and there's a lot of really good quality engagement to do that, but at the end of the day, some choices have to be made.

[269] **Jeff Cuthbert:** Okay, thanks. Anything more to add?

[270] **Mr Larkinson:** The only thing I would add perhaps is that one of the things that's been put to us in terms of how the process works is that, as Paul said, there is a strong industry planning process. That's absolutely right, and it's not for us to be involved in the detail of all the industry planning processes. But one of the questions that's been put to us is: 'When you say industry plan and a specification, does it have to be absolutely fixed at those points in time; is there any more flexibility that can be built into the process?', because otherwise people perceive it as a bit 'all or nothing'. If all my options aren't in the plan, then I've got a problem and it becomes a bit of a scrabble to get it in to make sure you're in the plan, in that sense. I think that is a fair challenge, and it's one of the things we're looking at to see whether it can be seen as more of an options development process, with refinement options over time, rather than absolute lines in the sand. But

we're looking at that.

[271] **Jeff Cuthbert:** It seems sensible that there are opportunities to revisit the plan in the light of developments from time to time.

[272] **Mr Plummer:** I'd strongly reinforce what John said and go even further than you suggested there. With the mindset we have, if we can have more of a continuous planning mindset rather than these chunks of arbitrary periods of years, I think it is much better. And, indeed, our own submission probably didn't emphasise that enough—that, actually, we have a periodic review process, but if we're going to deliver the best possible outcomes for the railway, we need to be thinking much more continuously through those periods of time, and have much more flexibility for stakeholders to say, 'Well, actually, we want something different', and to be clear about what that different thing is.

[273] **Jeff Cuthbert:** Thank you.

[274] **William Graham:** You've helped us a bit on some of the lessons from Scotland. How about the implications of the debt limit in Scotland for funding Network Rail, given that Transport Scotland have said that there are no guarantees of further borrowing beyond 2019? I appreciate that they're the subject of present discussions, but do you have a comment?

[275] **Mr Larkinson:** It will be fundamental in terms of how the next periodic review works as to what approach is taken to the debt limit after this control period ends in 2019, because, when we did the last periodic review, there wasn't a concept of a debt limit in that sense; there was a concept of relativity between your debt and your assets, which is how most private companies would work. That's not the issue now; the issue now is the borrowing limit. So, the conversation around how the borrowing limit is set; the role of Scotland within that borrowing limit; and what it actually covers at that point in time, and what, potentially, it doesn't cover. So, for example, a conversation about taking enhancements of the funding of the periodic review—how does that play into the setting of a debt limit at a point in time and how does a debt limit therefore possibly change over time? They're all really fundamental questions, frankly, for the next periodic review. When I was saying earlier about setting out in our first consultation document in the spring the impact of the changing context of the railway—that will be one of the sections that we'll be developing.

[276] **Mr Plummer:** I'd agree with that. The thing that I would add is the constant focus the industry has on trying to improve efficiency, to be able to do more within whatever debt limit, or funding limits are there. Linked to that as well, how we get more innovative in terms of making sure we exploit the value from commercial development opportunities, and then, going beyond that as well, how we find different ways of financing, particularly projects, as I mentioned at the beginning, to bring in different sources of finance, to manage within whatever Government, DfT, Network Rail finance limits there are.

[277] **William Graham:** Just as an aside, as it were, we talked in terms of further devolution, and, therefore, with finance, presumably there'd be some form of debt that would have to be taken on, would there? Had that happened in Scotland?

[278] **Mr Larkinson:** Well, yes, Scotland has responsibility for its own borrowing limit, which it can't exceed, in an absolute sense. It goes back, I think, to the different models of devolution and how they would work, and what risk would be assumed by what parties in it. I'm not sure how that's going to play out in time.

[279] **William Graham:** To be negotiated, really.

[280] **Mr Larkinson:** Frankly, yes.

[281] **William Graham:** Thank you very much. Joyce.

[282] **Joyce Watson:** I want to go back to infrastructure projects and the comments that you might have about Welsh Government's concerns about efficient delivery of infrastructure projects by Network Rail, and any action that the ORR and Network Rail have taken to address that.

[283] **Mr Larkinson:** Okay. There have been issues about the efficient delivery of infrastructure projects across the piece in England and Wales. I think we probably ought to say that Network Rail have actually delivered quite a lot of projects on time and on budget; it's not as if it's something that affects every single project, which is often forgotten. Indeed, thinking back just a couple of years, at the end of the last control period, over this previous four or five years, Network Rail's performance has actually been excellent on infrastructure projects. But, what's happened is that there has been a specific set of projects where there has been cost escalation. There

has been delay, and, not surprisingly, that's had a big impact on passengers, on freight users and on funders. That is a serious issue in that sense. It's an issue which started becoming apparent some time ago, and the specific regulatory response on that is that Network Rail has to correct a number of fairly fundamental problems it has, both in the way it plans major infrastructure projects, some of the designs around major infrastructure projects, and the basic delivery of it.

[284] So, what we've worked on with Network Rail is: what are the areas where there have been specific problems, and how is the company going to address them? that's all been brought together, really, in one overall plan—an enhancement improvement plan—and we're currently monitoring the company's delivery of that, because we think if Network Rail does improve the capabilities in some of those areas, that will have a general effect on the delivery of those projects across England, Wales—everywhere, basically.

[285] **Joyce Watson:** Have you got anything to add?

[286] **Mr Plummer:** I'd reinforce what John said. There clearly have been some very challenging issues on some particular groups of projects, but there have been some outstandingly brilliantly delivered projects. One of the things I certainly think everybody in the industry welcomes is the changes that Network Rail has made to make it much clearer that, with the projects teams within Network Rail, their immediate customer is the route team, and they are accountable much more strongly for pulling these issues together and making sure it meets their customers' and stakeholders' requirements locally. So, I think that's been a very positive development and will help with some of the issues that have been seen.

12:00

[287] **Mr Larkinson:** I agree with everything Paul's just said. If I can raise one further issue about our role in all of this. There are some projects where Welsh Government contracts directly with Network Rail outside of a periodic review cycle. There is an opportunity to do that. There are standard templates around that and I know that there have been problems on one of those projects. That's not something that we, effectively, are directly party to; that's a contract between the Welsh Government and Network Rail. The question there is: what's the role of the regulator if those sorts of contracts don't go well? Again, that's been a specific question that's been put to us by the Welsh Government. I think there's probably a very long answer to that.

But, if you're searching for a short answer, the regulatory issue, from my perspective, was: has something happened on that contract which suggests a deeper underlying issue within Network Rail, which is basically about its performance against its license? Network Rail does have license obligations in terms of being a best-practice operator and things like that. So, there's a slight nuance to that answer for some different types of contracts.

[288] **Joyce Watson:** You don't normally carry out efficient cost reviews on third-party funded projects. We've talked about third-party funders being at a disadvantage in securing value for money. Do you think that not carrying out efficient cost reviews does put those at a disadvantage?

[289] **Mr Larkinson:** No. I don't, to be honest. The point of having a framework where people can do, effectively, commercial deals with Network Rail is to inject some flexibility into the system and to allow people to flex their requirements over time. What we do is effectively sign off on a standard set of template contracts, which parties can draw upon to stop them having to spend a lot of money on lawyers' fees drawing up new contracts every time they want to do a job. I think those template contracts do actually provide a lot of flexibility for funders.

[290] However, on the question of if we were specifically asked by a funder, 'Look, we want your help, we would like you to do something on this contract, it is a one-off because we want some help from the regulator', yes, we would look into that on each individual circumstance. It's not something which we have, to date, been specifically asked to do. But, we would consider it, yes.

[291] **Joyce Watson:** There's going to be further English devolution to bodies and Transport for the North is, of course, such a body. Do you think that there would be any implications—and it's following on from the same question—for you to play a role in third-party funding?

[292] **Mr Larkinson:** In terms of providing a framework to allow third parties to specify things that they'd like to see Network Rail doing or, indeed, in terms of that wider discussion we're having in terms of contestability and things like that, yes. In the wider area of contestability, we worked quite closely with Transport Scotland on some ideas they had on the Borders railway. One of the original proposals was that a group other than Network Rail would do the work; a private contractor would do the work. There is a specific contractual framework with Transport Scotland, and potentially with



other contractual frameworks, and we worked quite closely on that. As it turned out, Transport Scotland decided not to go down that particular path and had the work done by Network Rail. But, I think it's just one part of a fairly profound shift taking place in terms of the landscape. That will be accompanied by other fairly profound shifts. For example—and I think Paul was making this point earlier—Network Rail are currently planning some major asset sales. So, in a few years' time, the company will look different because it will have sold off certain chunks of its assets; its income stream will be affected because it will no longer own those assets. I think all those things will require a slightly different approach to regulation. We're going to have to adapt—I think, frankly, everyone's going to have to adapt—to some fairly major shifts in the landscape.

[293] **William Graham:** If I may, last year, we had some specific criticisms of Network Rail, particularly on routes in Wales, where work had been done and where there were some major problems. They seemed to be identified because, I would say, the initial investigation was poorly undertaken. It was done as a desktop survey for a major route. It then involved, from memory, the location of certain services that were not properly located, and that caused some—*[Inaudible.]* So, what is your view on that? Is that specific, or would you be more likely to say, 'We want more investigation at any particular point'?

[294] **Mr Larkinson:** Across the piece, one of the things that we set specific targets in Network Rail for in this control period in the periodic review was improving the quality of its asset data information. It's actually quite unusual for a regulator to set targets around data. Normally, a regulator sets outputs in terms of the number of trains delivered on time, or something like that. But it was so fundamental to us that we thought it was important that we actually set data improvement targets. I should say, Network Rail supported that. It recognises that. On average, there is no doubt that there has been improvement in asset data quality. What the data also shows is that, on average, there have been improvements in asset reliability—i.e. generally, the assets don't fail as often. That is all good news.

[295] When you come down to the specifics, I'm aware of the particular case that you are talking about. I'm pretty certain that came about within a direct contract between the Welsh Government and Network Rail across a specific job. Is that—?

[296] **William Graham:** That's right.

[297] **Mr Larkinson:** Yes, just checking that. So, on that one, I've heard quite a lot about that. From my perspective as a regulator, I need to be very clear on the evidence. So, we are doing things in a fairly systematic way. There is going to be an audit report on that, which I think is due out shortly. I can't remember the exact date, but I will check that. We are going to review that audit report. We're going to compare that to information that we already have, and we will then decide on the next steps on that. I don't want to be pedantic, but that's all I can say at the moment.

[298] **William Graham:** No, of course. It's just to get an idea of how your processes work. We're very grateful. Thank you very much. Jeff—

[299] **Lord Elis-Thomas:** May I ask one further question, Chair?

[300] **William Graham:** Sorry. Please, Dafydd.

[301] **Lord Elis-Thomas:** I know it's not your position to indicate future options on devolution, but what is your understanding of the meaning of the expression by Welsh Government that it is the medium-term goal of the Minister to have greater devolution? Have you been able to fathom what that means? It would be of interest to us as a committee.

[302] **Mr Larkinson:** It's not something I've given a great deal of thought to, I have to say. Again, I don't really think it's my job to know—or, indeed, that I really need to know—exactly what that statement means. From my perspective, it's about a direction of travel and understanding that direction of travel. I've heard loud and clear what the direction of travel is. I suspect that there will be many factors that influence the pace of that journey. But it goes back to a comment I made earlier—that we need to be prepared for a world where there is increased devolution, and we need to assist in that. The reason why I'm confident we can do that is because of some of the lessons we have learnt in Scotland, where I don't think anyone predicted exactly how that would turn out, including us. So, we will continue to do that. The issue then would be—and, I think, going back directly to your question—supposing the pace of that change became faster than now, we would adapt, and we would adjust to that. I know that that would be the answer of our board. Their view is that if we need to put more resources into these areas because the pace of change or the direction changes slightly, then we can and must adapt.

[303] **Lord Elis-Thomas:** That's very helpful. Thank you.

[304] **William Graham:** Jeff.

[305] **Jeff Cuthbert:** Thank you. There have been concerns expressed by the Welsh Government about Network Rail's general or wider performance, shall we say—things like health and safety, train performance and financial performance. So, to both of you: do you have any comments in terms of those subject areas?

[306] **Mr Larkinson:** Shall I start?

[307] **Mr Plummer:** If you could.

[308] **Mr Larkinson:** Okay. So, in terms of Network Rail in Wales, in terms of a very high-level summary—and perhaps a slightly over-simplified summary—I would say that Network Rail's safety performance has been good across the piece. Health and safety performance has been good. There have been a lot of new initiatives in terms of health that we, I hope, incentivised by basically assuming that Network Rail could make some savings by ensuring there was better occupational health, which we see in other industries. So, I think we've seen good performance there. In terms of trains on time, I think there's always room for improvement, but, again, I think that performance has been pretty good from Network Rail in Wales. In terms of asset reliability, all the indicators show that that has been improving, which I think, again, is positive.

[309] However, not surprisingly—you won't be surprised to know I'm going to turn to some negatives now—there have been problems on a couple of fairly high-profile projects. The Cardiff area signalling renewals, there has been a problem on that, not just in terms of delivery, but in terms of costs where, if you look at some of the implied unit costs in that work, that's clearly not been as efficient as it could be. That's manifested itself more generally in terms of the financial performance of Network Rail across England and Wales, and, in Wales, that's been relatively poor. So, for example, the efficiency improvements that we expected to see when we did our last periodic review have been very slow in coming through. That's across the piece. I think it's fairly safe to say that the situation's relatively better in Wales, but it's still not particularly good—

[310] **Jeff Cuthbert:** Sorry, 'relatively better' than where?

[311] **Mr Larkinson:** Than GB as a whole. Sorry. I'll just reflect, if I may, on a question that you may have asked or somebody asked earlier on about where do we see some of those data. So, when we talk about financial performance, where is it? Where do we see the numbers? So, for the first time—we do an annual report on Network Rail's efficiency and financial performance, which usually comes out about the autumn time, and in the most recent report, we split out financial performance by route. So, you can see—I'm afraid I don't have the exact numbers in front of me, and I could provide them to the committee—the performance of the different routes. Network Rail's overall financial performance has been very poor, but Network Rail splits those numbers out by route and, increasingly, we'll be publishing that information by route.

[312] **Jeff Cuthbert:** Presumably, you brought that to the attention of Network Rail.

[313] **Mr Larkinson:** It's part of the route devolution work. What we see is Network Rail itself challenging itself internally on its own route performance, and that's the way I would like it to be, rather than us—. You don't really want the regulator involved in all the details of the company. Network Rail, I think—again, this has evolved over time: originally, those route data were produced and probably were just produced; now, what you see within the company is the route data are produced as a fairly systematic attempt to compare across routes. We then draw on that as part of our challenge. So, we will ask fairly basic questions about how come Wales seems to be doing a lot better on this topic than, say, the London north-eastern route or something like that. That really has developed in leaps and bounds over time. If you were in any way inclined to read it, the whole of Network Rail's regulatory accounts are split out by route now. Network Rail splits all its data out by route, and I think that's a hugely positive development and allows, in terms of devolution, people to build on that, because it means there's more information available.

[314] **Jeff Cuthbert:** Thank you.

[315] **William Graham:** Could I just go back to concerns raised in evidence on the current Department for Transport/Network Rail business case, that the approach that approach focuses on network outputs such as line speed rather than wider socioeconomic benefits?

[316] **Mr Larkinson:** In terms of how Network Rail does its own assessments—

[317] **Mr Plummer:** I think there are a number of issues here that I touched on very briefly earlier. The industry uses a standard economic appraisal methodology for investment projects to make the case to Governments for that investment, ultimately. In many cases, there are opportunities for genuinely commercial investment, in which case, there's no need to make that case in quite the same way; it's a business case for those businesses. But, where it requires commitment of public funds, then we use the appraisal methodologies that those public bodies use. That does value certain things in a very mechanistic way. It is often harder to capture, in that sort of methodology, the broader economic impacts, and, indeed, where you can make a case without needing to do that, then perhaps there is less effort that goes into it. But I think that, increasingly, it's very important, not just for how much investment, but which investment you make, that we capture the real economic impact, and I think there's a lot more thought going in across the whole of Great Britain, if you like, in terms of that methodology capturing the broader economic effect, but then, beyond that as well, recognising the political reality, if you like, that there are social choices beyond even those impacts that the railway cannot make. It can highlight, 'Well, actually, the railway could deliver this improved connectivity between these places', and if that's something that, as a nation and nations, we want to buy, then that's something the Government needs to choose so we can inform those choices. We can use the methodologies that Government bodies use to appraise it, but, ultimately, there are political choices behind that.

12:15

[318] **William Graham:** Quite so, for example, electrification.

[319] **Mr Plummer:** Within that, there are purely commercial impacts in terms of what it means for the cost of maintaining trains, procuring trains and the energy, which are relatively easy to capture. There are benefits in terms of the acceleration and the service that you get from there. There are benefits in terms of the fact, actually, the options for buying rolling stock become increasingly limited if you don't electrify. So, there are all those benefits, but then there are broader economic impacts and the customer experience, fundamentally, that you get from modern trains.

[320] **William Graham:** Quite so. How closely involved are you in terms of

comment, I suppose, when certain routes are so very heavily subsidised? I appreciate that is a choice for Government.

[321] **Mr Plummer:** Sorry, I'm not quite sure where the question—

[322] **William Graham:** How involved are you with this, because certain routes would not be viable without substantial subsidy, and that is, as you say, a choice for Government? But how closely involved would you be in offering a comment on that?

[323] **Mr Plummer:** Being transparent about the costs to inform those decisions, as well as the benefits that we just talked about, is what the industry would focus on, and, as I said, in terms of driving down those costs and generating value where we can. That would be our focus.

[324] **Mr Larkinson:** I think that would be our focus too. Transparency is key for us. Obviously, it's up to funders to make political decisions about that, but the key issue for us would be that people understand where the money's going. We do a publication, and a new one will be coming out next month, called GB rail financials, where we try and cut the rail industry data in different ways so you can see some of those effects. Often, the more extreme numbers get quoted more in the press, but it is about transparency. It's about people understanding what it is they're buying, how much it's costing.

[325] **William Graham:** Quite so. Thank you. The Rail Delivery Group's comment—major opportunities for Wales

[326] 'can be supported and delivered by planning the specification and provision of passenger and freight services efficiently'.

[327] That seems a fairly obvious statement. Would you like to enlarge on that?

[328] **Mr Plummer:** Sorry, I didn't hear the first—

[329] **William Graham:** Would you like to make any comment—there are major opportunities for Wales, and you say,

[330] 'supported and delivered by planning the specification and provision of passenger and freight services efficiently'.

[331] **Mr Plummer:** Okay, I think I commented on it, effectively, already, in the sense of—if the industry can have a clear specification of what outputs stakeholders want from the railway, what is commercially viable, but what things they want to be on that, then the industry has the opportunity to deliver that efficiently. The more flexibility it can have—train operators with Network Rail—to work out the best way of delivering the outputs, then the more efficient it will be. So, clarity and then flexibility to deliver those outputs are what the industry needs to help you get what you want from the railway.

[332] **William Graham:** Quite so. What about competition then between adjacent franchises?

[333] **Mr Plummer:** Competition in a number of places—so we've talked about the contestability issue, we've talked about the transparency issue in terms of benchmarking, but also the franchising process and the benefits that you get from that dynamic and then, as well, as you say, the fact that there are some competing services between overlapping franchises where passengers have a real choice—you can certainly see benefit from that and, indeed, open access. Our view on that is that what is absolutely very important is that we actually have clarity about how we want to introduce competition, rather than that being, sometimes, a bit of a compromise. So, actually, we'd like to be clear that there are some markets where you can have much more competition and let's fully embrace that. There are other places where that, perhaps, doesn't work so well, so let's follow through on that basis.

[334] **William Graham:** When we were in Wrexham a fortnight ago, there were comments on the Arriva Trains Wales attempts to increase service frequency to Manchester Airport. Any comment on that—

[335] **Mr Plummer:** I'm not specifically sighted on that.

[336] **Mr Larkinson:** I'm aware of that. Ultimately, if there is a dispute about an access application and the train operator can't come to an agreement with Network Rail about an access application, they come to us for a decision. Most access applications are agreed between the train operators and Network Rail. Some aren't. Indeed, some of the more controversial ones—and Paul was just referring there to open access—often revolve around open access. Indeed, you may be aware that we have a major case at the moment on the East Coast main line where we have four bids to use the available

capacity of the track, and they don't all fit.

[337] **William Graham:** On that note, are there any other questions from Members? Thank you very much for your evidence today. We're most grateful to you both. Thank you so much.

[338] **Mr Larkinson:** Thank you.

[339] **Mr Plummer:** Thank you.

[340] **William Graham:** The committee now will recess for an hour for lunch.

[341] **Joyce Watson:** Are we coming back here?

[342] **William Graham:** We're coming back here, so you can leave your papers here.

*Gohiriwyd y cyfarfod rhwng 12:20 ac 13:32.  
The meeting adjourned between 12:20 and 13:32.*

[343] **William Graham:** Good afternoon and welcome to the final session of today's committee. I'm grateful to Colin Poole and Brian Etheridge from the Department for Transport for giving evidence this afternoon. Could I ask you to formally give your names and titles for the record?

[344] **Mr Etheridge:** My name is Brian Etheridge. I'm the director of network services in the Department for Transport.

[345] **Mr Poole:** And I'm Colin Poole. I'm a senior planning and investment manager in the network services directorate.

[346] **William Graham:** Thank you so much. I'm going to start the questioning, if I may. How about your assessment of the effectiveness of Network Rail, its performance in England and Wales, compared to that in Scotland, and perhaps the views generally on the performance of Network Rail in Wales?

[347] **Mr Etheridge:** I'm not sure I would draw a distinction necessarily between its performance in Wales, England or Scotland. I think it's a matter of public record now that there were some issues with Network Rail last year, which led the Secretary of State to make an announcement in the House. I



think performance is—should I say—variable according to different projects. It's experienced some difficulty on some projects and some aspects of its work. Other aspects of its work have gone very well. I think the explanation for some, or most, of that was set out in the Bowe review, again last year, where she examined the relationship between the planning of some of the work that Network Rail does and its ultimate performance. So, I'm not sure I can draw a distinction on a country basis, if you like, but almost certainly it's variable according to the different projects that it's been running.

[348] **William Graham:** Thank you. How about your comment that the Shaw review is considering all options and that the Government has no pre-determined view of the right outcome?

[349] **Mr Etheridge:** I think that's true. So, again, as part of that package of measures announced by the Secretary of State for Transport last year, the Shaw review was created to look at the opportunities for the future arrangements for funding Network Rail. I'm not desperately close to this, but I think it's fair to say that she's considering all options and, in fact, released a consultation at the end of last year that was very open-ended, I think, inviting people to comment. I believe she's got those now and is working through them and is ready to make some recommendations to Government at or around the budget this year. So, I think, yes, all options are on the table and being considered by her.

[350] **William Graham:** Including privatisation.

[351] **Mr Etheridge:** As I say, all options, whether that be privatisation in whole or in part or not, I couldn't say, but certainly, consideration of those must be part of her agenda, yes.

[352] **William Graham:** And a greater role for the Welsh Government in the governance of Network Rail, perhaps.

[353] **Mr Etheridge:** In what respect would you mean?

[354] **William Graham:** Well, particularly, we've had a lot of evidence of how the Welsh Government feels that its consulted a little bit late in the process.

[355] **Mr Etheridge:** Sorry, consulted on which aspects?

[356] **William Graham:** On Network Rail, particularly, and on the major

projects in Wales over the last couple of years.

[357] **Mr Etheridge:** I see. So, yes, I mean, I don't know the arrangements the Welsh Government has for linking with Network Rail, but I'm not aware that this is a particular issue.

[358] **William Graham:** In terms of the Bowe review, your work with Network Rail provides clear accountability for associated costs and project management. So, following the review, it includes a category of third-party funders, such as the Welsh Government.

[359] **Mr Etheridge:** Yes. What we're doing to take the Bowe recommendations forward—. I think, as you're aware, the Secretary of State accepted all of her recommendations and we're currently working through those at the moment to try and do exactly what you just said, being much clearer about the respective roles and responsibilities of different parties in working with Network Rail, and certainly, in the planning process. As far as we're concerned, that will culminate in some kind of memorandum of understanding, again, published in the next month or so. But, underneath that, I think there are some other changes that we would like to embark upon. Some of those, almost certainly, will draw in the Welsh Government and, indeed, others with an interest in planning for enhancements, going forward.

[360] So, although the Bowe review talks in the language that you've just described, we're looking very much at trying to establish, going forward, a much better planning process, one which—. Again, the Secretary of State said in his response to Bowe that he was looking for something that was much more user or passenger led, rather than producer led. So, we're looking at ways in which, when we have to make those difficult decisions about those investments we intend to prioritise—that we really have got the views of everyone and not just the industry about what those might be.

[361] So, that's pretty much in preparation at the moment. I think the next stage of that that you will see is probably a consultation by ORR, which looks forward to the next periodic review process. But, I think, you know, we're making clear to Network Rail and ORR that we're looking for something that gives us a much longer term and constant, if you like, portfolio of projects to choose from, and that the contribution, at least, to that overall portfolio is a contribution not just from the existing initial industry plan, which is the current process, but from a wider group of stakeholders.

[362] **William Graham:** Thank you. It leads on, then, really, in terms of our concerns about funding and the implications of the Hendy review for control period 6, related to delays in control period 5. Do you think it'll affect the funding available for any new projects in control period 6?

[363] **Mr Etheridge:** It's very difficult to talk about what the Government's position on control period 6 might be. As you know, that doesn't start until 2019, so that's a little way ahead, yet. I think it's fair to say that a fair amount of work is still to be done in control period 6, including those things that the Government remains committed to, but doesn't yet have the detailed plans for. So, at this stage, it'd be difficult to comment on what the Government's position is at that time for future funding. But also, as we are here at the moment, we don't have the final figures for some of the schemes that have been delayed so far into control period 6.

[364] **William Graham:** Thank you very much. Joyce.

[365] **Joyce Watson:** Good afternoon. I want to ask questions around the periodic review process, and particularly starting with how your department's rail policy and periodic review process takes account of Welsh needs, including any changes in preparation for PR18?

[366] **Mr Etheridge:** The PR18 process is led by ORR. As I say, I think the next stage of that will be that they will set out some initial proposals for how we might do this going forward, and that will be open for consultation, and I would expect all stakeholders, including the Welsh Government, to respond.

[367] I believe also—I couldn't guarantee, but I hope it's the case—that ORR are in constant touch with the Welsh Government at official level about the proposals going forward.

[368] **Joyce Watson:** Thank you for that. I note that you say, and I quote, that

[369] 'no decision on any major investment in Wales is made without taking into account the views of the Welsh Government',

[370] particularly. How, in practice, are Welsh Government's views taken into account in the periodic review process? Is it sufficient merely to take those views into account given the Welsh Government's need to co-ordinate transport modes in developing an integrated transport policy?

[371] **Mr Etheridge:** I hope I'm understanding you correctly. The PR process is a periodic review of the way in which the ORR does its business, in particular its final determination. I think you might be referring to what previously has been called the HLOS, the Government's statement of overall priorities, if you like, which is quite early in the process. So, again, just to reassure you, this is something that will be consulted on in the PR process, but our views at the moment are that we need in some ways to be more inclusive than we possibly have been before in not relying so heavily on an initial start to those conversations that largely comes from the industry. So, we will be welcoming the industry's initial plan, which is due out in September this year, but we want to make sure going forward that, before decisions on investments are made, we've got a slightly wider view of that, or, if not a wider view, one that expresses more clearly than Network Rail would be able to do in its initial plan the nuances and important aspects of different stakeholders. So, in that sense, we would hope that our process going forward, as I say, follows the Secretary of State's requirement that we're not wholly reliant on inputs from Network Rail to decide what future investments to make, that we're looking across all stakeholders, and Welsh Government will be no different in that respect.

[372] **Joyce Watson:** Good. That's good news. I would like some views on Greengauge 21's comment that Wales faces the complication of being a minority funder, so that responsibilities are not always clear between Westminster and Government.

[373] **William Graham:** Cardiff.

[374] **Joyce Watson:** Sorry, Westminster and Cardiff, yes.

[375] **Mr Poole:** Well, I think, on your first point, as Brian was saying earlier, the issues that we are tackling with Network Rail are not ones that are unique to the particular status of individual funders. I think the evidence, the investment going on in Wales, suggests actually they are quite a big player in the overall investment programme. I think, in terms of responsibilities for infrastructure investment, as we put in our written evidence, the position is fairly straightforward: the UK Government's funding through the high-level output statement is really focused on the national network and the high value and affordable upgrades that provide the capacity we need to get people to and from and between our major cities, and that, where the benefits of schemes are largely local or regional, rather than national, we

look to local and regional funders to contribute to the funding. That, I think, you can see in the current control period: for example, the Welsh Government has committed funding to upgrade between Chester and Shrewsbury, but UK Government is sponsoring Great Western electrification to Swansea, and we are sharing funding, in a way, in relation to the Valleys lines project into Cardiff. I think we would expect that kind of framework to continue.

13:45

[376] **Joyce Watson:** Okay.

[377] **William Graham:** Did you have a question, Jeff?

[378] **Jeff Cuthbert:** Yes. You just raised the issue of the electrification all the way to Swansea. We are concerned that there could be a significant delay for electrification from London to Cardiff and then a significant delay for the Cardiff to Swansea stretch, which could greatly increase the cost to the public purse. Do you have any comments on that?

[379] **Mr Poole:** I don't think you have any reason to have concerns on that basis. Both the electrification to Cardiff and from Cardiff to Swansea are being delivered as part of an integrated Great Western route modernisation programme, so it's very much envisaged that it is an ongoing programme, and obviously looking at the synergies between the two potential projects in terms of preparation as well. So, I think there's no reason to have concerns on that basis.

[380] **Jeff Cuthbert:** Okay. All right.

[381] **William Graham:** In terms of Network Rail accountability, do you acknowledge the difficulties the Welsh Government experiences in terms of the potential Welsh franchise, and funding Network Rail to deliver enhancements while only having limited direct access to Network Rail?

[382] **Mr Poole:** I think I would say these are exactly the kind of issues that we're looking to receive Nicola Shaw's report on, to see what the recommendations are on the best long-term future for how Network Rail is funded, and how each of the key stakeholders is involved in that process.

[383] **Mr Etheridge:** Again, we don't know what Nicola Shaw is going to say,

but we won't have to wait too long now. But I think the department has largely supported the move of Network Rail to devolve itself onto a more regional basis, and to give both responsibility and accountability into the routes rather than into the centre. So, I think, again, we would expect route managing directors to be more prominent than they perhaps have been up until this point, both in terms of straightforward accountability but also in the way in which they engage with people like the Welsh Government and others to be an accessible and visible face of Network Rail in the community. I think, whatever happens with Nicola Shaw, that's a consequence we would expect to happen as a result of the devolution that is going on within Network Rail itself.

[384] **William Graham:** So, you would agree there is scope within the current arrangements to increase its role without formal devolution.

[385] **Mr Etheridge:** I'm not sure that's increasing its role; it's just doing its current role better, if you like.

[386] **William Graham:** Thank you very much. Rhun.

[387] **Rhun ap Iorwerth:** Just in general terms, looking at the projects in the pipeline, you highlight £2 billion-worth of investment that you say Wales will benefit directly or indirectly from. Could you tell us a little bit more about that figure of £2 billion and what you think those particular projects you're referring to are?

[388] **Mr Poole:** I think the key rail investment schemes that the UK Government is funding that are benefiting Wales are, firstly, as I already mentioned, the electrification of the Great Western main line to Swansea. And you may recall that Peter Hendy in his report has already said that electrification to Cardiff alone is likely—well, certainly should be completed within a budget of £2.8 billion. So, that's a very significant project that will benefit Wales.

[389] We're investing in a new fleet of 57 intercity express programme trains on the Great Western main line to come into service from 2017. We've agreed to contribute £125 million to the Valleys lines electrification project, and we're completing the major project in the Cardiff area on re-signalling and increasing the capacity, and those projects are due to be completed by 2017.

[390] So, yes, it wasn't a figure totalled by adding up particular numbers, but I hope I can demonstrate there that certainly there is a very significant level of investment going on in Wales under the current plans.

[391] **Rhun ap Iorwerth:** Thank you for that and, obviously, we're all very well aware of those developments that you mention. What about the indirect benefits of investments out there? Were there particular schemes that you had in mind?

[392] **Mr Poole:** I think, sorry, to deconstruct the wording, 'indirect' was basically recognising that the Great Western electrification is clearly a project that benefits a very large part of the country, stretching from London to south Wales. Ascribing the benefits to individual areas is obviously quite difficult. But, clearly, it recognises that there are other areas of the country that will benefit from that project.

[393] **Rhun ap Iorwerth:** Indeed. I was asking the question of other investments, such as HS2, for example, where it's often argued that there are indirect benefits to Wales and so on.

[394] **Mr Poole:** Indeed. I think that's undoubtedly—.

[395] **Rhun ap Iorwerth:** I was pleased to hear you say that you don't believe there will be a delay at all between electrifying London to Cardiff and then Cardiff to Swansea. There has been a concern that a delay could emerge because one part was in control period 5 and the other was in control period 6. Can you confirm that you believe it will be seamless and that there will be no gap at all?

[396] **Mr Etheridge:** So, let's be clear about this. The Hendy process was a painful process, quite clearly. There is no—. No-one's hiding the fact that, last year, we recognised that some of these major schemes were both overrunning in terms of time and cost. I certainly believe, in terms of the Great Western route modernisation, that an awful lot of that has been brought back into control. But, as we stand here, the Hendy report commits to, I think, delivering to Cardiff by 2018, and we're still working on the details of Cardiff to Swansea. So, the commitment at the moment is to deliver that within CP6; we don't quite yet know how that pans out.

[397] The overall commitment is undiminished. I think the Secretary of State has made very clear that he's not pausing any of these programmes, he's not

stopping them, and the Hendy review has not removed any from our agenda. It is fair to say that, just a couple of months on from Hendy, we're still working very, very hard to pin down the exact dates of delivery. So, I think we're very clear on Cardiff. We expect to move seamlessly, as you say, to the rest of the route. That's still at an earlier stage of development at the moment. So, I think it would be wrong of us to say that we have an absolute date for that now. But a date will come very soon, I think. We're expecting a more detailed plan from Network Rail in the next couple of months.

[398] **Rhun ap Iorwerth:** Okay. Thank you. And, even though we're taking evidence from you, we'll take this opportunity to feed back the other way how keen we are that Cardiff–Swansea is right at the start of control period 6. Moving to the north of Wales, if I can, what's your assessment of where we're at on putting together the business case, and a case based on wider socioeconomic issues, on electrifying the north Wales main line?

[399] **Mr Poole:** Well, as you know, I think, the rail industry so far—and this was illustrated, I think, in the draft route study—hasn't identified a robust rail business case for electrifying the line in CP6, and we are looking to the Welsh Government and local and regional stakeholders in north Wales to develop that wider case that you refer to and identify sources of additional funding. We're working closely with local government officials in north Wales on setting up the taskforce that was announced last November in Llandudno, and we're looking for strong political leadership on that, and we're hoping that that taskforce will build the case for rail investment in north Wales and Cheshire. And we look forward to working with the Welsh Government and the taskforce on improvements that could be made in the north Wales line, and what part electrification could play in that. As, again, you're probably aware, there are other schemes that could be taken forward on that line in advance of electrification that might deliver some of the outputs that are sought by stakeholders in terms of journey times and connectivity. So, we're working closely to help the authorities there build up that business case, and that obviously will help inform the Government's decisions on any new schemes and how they might be progressed in CP6.

[400] **Rhun ap Iorwerth:** Of course. There are parts of the network that, if you like, feed north Wales or serve north Wales where a more classic business case can be made, for example, Warrington through to Chester, or Crewe through to Chester. Along those business case lines, we might expect that there might be a phase 1 electrification up to Chester. Would you accept that it would be easier to include Chester on to Holyhead as part of a wider



business plan, as a way of avoiding the electrification programme hitting the buffers at Chester, as it were?

[401] **Mr Poole:** I think we'd be very mindful—as, indeed, the northern electrification taskforce were when they looked specifically at those lines within England—of the disbenefits of stopping the electrification at Chester. Clearly, yes, as you say, that's a very important consideration in deciding what the overall approach should be. I'm not saying that this is the right way forward, but there are ways with bi-mode trains of overcoming the potential connectivity issues that arise from stopping electrification at a particular point. But, I think, you know, we're very seized of the issue that you raised there of ensuring that, actually, we deliver the services that passengers need and that we don't create unnecessary obstacles to travel through in the way in which electrification is rolled out.

[402] **Rhun ap Iorwerth:** How much weight is given to the requirement under the European TEN-T network that both south and north Wales are electrified by 2030, which would be taking us to the end of control period 7, I guess? Is that seen as an obligation that UK Government is going to honour?

[403] **Mr Poole:** Well, let's just be clear what the obligations are—the obligation, as you refer to, is not unqualified. You're correct that the TEN-T regulation requires the core TEN-T network to be electrified by 2030. However, the regulation also has references to member states being able to afford to implement the projects, and it also requires projects to be economically viable on the basis of a socioeconomic, cost-benefit analysis. So, the obligation is not unqualified. Clearly, in developing our strategy, we'll have regard to the requirements of the regulation and, if necessary, take forward the case for appropriate derogations. I think all that will actually be set out, I understand, in some detail in Network Rail's final route strategy so that the position is absolutely clear for everybody.

[404] **Rhun ap Iorwerth:** As with the Valleys electrification programme, there will no doubt be protracted discussions on who should pay for north Wales electrification. Confident as I am that it will happen at some point—hopefully sooner rather than later—what are your thoughts on whose shoulders the funding responsibility should weigh on? Does the fact that there is a regulation under the TEN-T programme for the UK Government to deliver north and south Wales electrification mean that actually it probably should be UK Government paying for that one?

[405] **Mr Poole:** I don't think I would necessarily link those two. You're right, the EC obligation sits with the member states and we would be asked to make the case for a derogation if we think that's appropriate. I think that's a separate issue from the policy on who should fund these schemes. I've already articulated that we prioritise the national network where there's a good business case and it's addressing the capacity needs of our major cities. We will look to other local funders to contribute for the part that has the wider and local economic benefits. I think it's premature to say how all that will pan out in a position where we don't yet—we haven't received a fully worked-up business case from the Welsh Government.

[406] **Rhun ap Iorwerth:** We might come back to that point about the priority being serving the major population centres and the odds being therefore stacked up automatically against Wales when it comes to bidding for funds. We might come back to that later, but thank you for the time being.

[407] **Mr Etheridge:** Should I just probably make two things clear? Of course, the difficulty of this conversation is you're asking us to make decisions about something that is not yet clearly defined and, possibly, is a reasonable way into the future. I guess my political masters would be loath for me to make those kinds of predictions on their behalf.

14:00

[408] The other point I wanted to make is: if we did learn anything from the Hendy review process, it is that, too early in these conversations—and this is the point made by Bowe—we talk about the mechanism. So, in this case, we are talking about electrification as if that is the thing that we are pursuing, as opposed to what we should be talking about, which is the things you've mentioned already—you know, improved economic growth, connectivity, improved capacity, faster journey times and so on. I just want to leave the point with you that electrification isn't necessarily the best route always to deliver those things. There are other options. When we get to that conversation, I think it's still important that we consider those options at that time.

[409] **Rhun ap Iorwerth:** You're right, of course. We have heard as a committee, on numerous occasions, the advantages in terms of procurement of rolling stock for a whole-Wales network if we are able to have synergies in terms of how our network works in different parts of Wales. But it's a point absolutely noted.

[410] **William Graham:** Jeff, please.

[411] **Jeff Cuthbert:** Thank you. Just a few questions on project appraisal and development: one of the specific concerns raised with us during an earlier session with Greengauge 21 is their concern that the north Wales main line electrification could be undermined if the English-side electrification, from Warrington and Crewe, stops at Chester. Do you have any views on that?

[412] **Mr Poole:** Well, I hope I addressed that in one of my previous comments. I think any appraisal and business case will rapidly pick up the disadvantages, or the potential disadvantages, in terms of where you stop a particular electrification scheme. Clearly, there's never necessarily going to be a right answer, but I think I'm confident that the way in which we assess business cases for projects would pick up those kinds of issues in terms of loss of connectivity. Is that helpful so far?

[413] **Jeff Cuthbert:** Yes, so far. I can recall now your earlier answer, so, probably there's no need for you to add anything further, unless you wish to.

[414] **Mr Poole:** Well, just in terms of project appraisal, clearly, I think there is a concern, which I saw reflected in the Greengauge submission, that the appraisal framework was too narrow. I'm not sure I share that analysis. We assess the business case for projects in a five-case business case, of which the economic quantification is only one element. We look at the strategic case for investment. We look at the financial case. We look at the management case and the commercial case, as well as the economic case. I think, you know, even the economic case—yes, it focuses on user and non-user benefits and reductions in road congestion. But it does also look at some of the wider economic benefits through increased productivity from investment. So, if you are looking at the business case process as a whole, certainly these kinds of wider issues are already reflected in that. I know there is ongoing work undertaken by our economists to look at how we—to review our guidance on the appraisal of these wider economic impacts. That's going to be published later this year.

[415] **Jeff Cuthbert:** Okay. So, when you refer to wider economic benefits, they would include the socioeconomic benefits, for example, making it easier for people to get to decent employment and allowing investors to come and build factories in Wales. All these things would be considered as part of the business case.

[416] **Mr Poole:** I think that's right; you know, there are—. I'm not a technical expert on economic appraisal, but there is clearly a limit to what the quantified assessment will do. I think the particular issue that, at the moment, that kind of appraisal framework sometimes struggles to deal with is the dynamic aspects of, if you improve connectivity between places, it actually alters the pattern of jobs and where people live, and that kind of thing. That's always been quite difficult to model, and I think it's that side that is perhaps the challenge, not looking at the sort of immediate effects of improving connectivity, looking at it on a static basis of the current pattern of distribution of employment and population.

[417] **Jeff Cuthbert:** Okay. Can I just very quickly turn to the issue of passenger numbers? We're told that passenger numbers in Wales are increasing, which is good, in line with our policies to promote public transport more generally, but we understand that they're still generally lower than passenger numbers in England. Does that have any implications for funding? Could it place Wales at a disadvantage, pro rata?

[418] **Mr Poole:** I think that's quite a hard question to answer. I think passenger numbers are only going to be one element of a business case. Clearly, that may influence revenue expectations, but, clearly, in any particular project, you're looking at cost and you're looking at the wider implications, wider benefits, of an investment, which could be in road traffic reduction and that kind of thing. So, I don't think it particularly disadvantages Wales and, indeed, as I mentioned earlier, there are a number of very significant projects going on to deal with the capacity needs, particularly in south Wales, at the minute, that will be of great benefit to the people of south Wales.

[419] **Jeff Cuthbert:** Okay, thank you.

[420] **William Graham:** Could we just turn a bit to some cross-border issues and the implication of the devolution of rail planning responsibilities to English bodies, such as Transport for the North, the benefits of this approach and how the risk of fragmentation in planning, both for infrastructure and train services, can be avoided?

[421] **Mr Poole:** Well, I think my view is it's an opportunity, really, for Welsh stakeholders to work with an organisation that is very much focused on the economic interests of the north of England. That's a region with which there

are very close links with north Wales, so I think it's an opportunity to have a better influence on the Government's strategic investments in the region. As you say, there are always challenges of co-ordination. At the moment, Transport for the North are going to be advising us on their strategy for the north of England and how that should affect the Government's overall rail investment strategy. So, I think it's an opportunity to work together, and we're very pleased that the Welsh Government has entered into a memorandum of understanding with Transport for the North to take forward and strengthen that co-operation.

[422] **William Graham:** What about Transport for the North's comment that it's receiving funding that would previously have gone direct from the Department for Transport to Network Rail?

[423] **Mr Poole:** I'm not sure I understand that one.

[424] **Mr Etheridge:** Sorry, forgive us, I'm not sure—. I don't want to mislead you by any means, but my understanding at the moment is that the funding has been allocated to set up Transport for the North. I don't believe there's been any allocation of funding for actual projects yet. The next stage is to receive Transport for the North's strategy for transport. Actually, I'd take the same view as my colleague Colin, and it refers a bit back to our ambition to make the overall planning process better. I think it's undeniable that the opportunity for local people, whether that be the Welsh Government or regions of England or whatever—. They are the people best placed to understand particularly the integration point that you mentioned earlier—best placed to be able to put forward proposals that make the most sense to you locally. So, in that sense, yes, it is an advantage.

[425] Of course, the problem again, already raised by your committee, is that there is still a challenge of funding, and, you know, that's—hopefully, whatever constraints there are on funding, we will get to a position where that funding is better allocated and better spent because we have a much better picture of what the overall investment portfolio is, what the overall requirement is out there, and what the benefits of those things will be.

[426] **William Graham:** Thank you. Joyce, on the franchise.

[427] **Joyce Watson:** I just want to ask some questions about franchising, which did hit the headlines, certainly here in Wales, not so long ago. But I'll start with an open question first of all on how, in your opinion, the Welsh

Government should maximise the exploitation of the current and planned rail infrastructure in preparing the specification for the next Welsh rail franchise?

[428] **Mr Poole:** Well, as you know, we're working with the Welsh Government to devolve that franchise—the next franchise—to them. So, I think our view is, really, that it is for the Welsh Government to decide how they can best make use of the infrastructure. Clearly, we will want to be in dialogue with them about the best way of doing that, and we're obviously helping as much as we can to help them with that procurement process now. I welcome the fact that they have started that process of engagement with the public on what the priorities should be for that franchise.

[429] **Joyce Watson:** On another matter, in terms of devolution, there were stories—they might have been spurious, I don't know—that went out in the press that suggested that, with the devolution of the franchise to Wales, people would have to get off their trains at the borders—English borders—and get back on other trains because the franchise did start and end in its respective country boundaries. Have you got any comments to make on that?

[430] **Mr Poole:** Those comments are, indeed, spurious, and I think our Minister went on record, certainly in one of the Welsh newspapers, to make that very clear. Both Governments are committed to ensuring the best possible service for passengers. We recognise the importance of maintaining and developing those cross-border links. Although, I'm afraid, discussions are ongoing with the Welsh Government on the shape of the future franchise, I can assure you that we have no plans to require people to get off and on trains at the borders. Our discussions are really about where ownership and responsibilities for particular services should lie, and not about splitting or curtailing the current services. Indeed, I think we've responded, I think, to one of the Welsh user organisations specifically on that question that they raised with us.

[431] **Joyce Watson:** I'm sure they'll be very pleased to hear it. Thank you.

[432] **William Graham:** So, really, one would emphasise the comment that your department made that Wales will be no better but no worse with the re-mapping in 2018.

[433] **Mr Poole:** That's correct. That's the position, yes.

[434] **William Graham:** Thank you very much for your evidence. Much

obliged for your attendance. Thank you very much.

[435] **Mr Etheridge:** Thank you.

14:13

**Papurau i'w Nodi  
Papers to Note**

[436] **William Graham:** Could I ask Members just to note the survey results from the rail freight group?

[437] **Joyce Watson:** Noted.

[438] **William Graham:** Thank you very much.

14:13

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o  
Weddill y Cyfarfod a Dechrau'r Cyfarfod Nesaf  
Motion under Standing Order 17.42 to Resolve to Exclude the Public  
from the Remainder of the Meeting and the Beginning of the Next  
Meeting**

*Cynnig:*

*Motion:*

*bod y pwyllgor yn penderfynu that the committee resolves to  
gwahardd y cyhoedd o weddill y exclude the public from the  
cyfarfod a dechrau'r cyfarfod nesaf remainder of the meeting and the  
yn unol â Rheol Sefydlog 17.42(vi). beginning of the next meeting in  
accordance with Standing Order  
17.42(vi).*

*Cynigiwyd y cynnig.*

*Motion moved.*

[439] **William Graham:** I now move, under Standing Order 17.42, to resolve to exclude the public for the remainder of this meeting and at the start of the next meeting.

*Derbyniwyd y cynnig.  
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 14:13.  
The public part of the meeting ended at 14:13.*