Consultation Response

Sir Peter Hendy report: re-planning of Network Rail's investment programme

Department for Transport

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Content

1. Introduction

1.1. The Urban Transport Group (UTG) represents the seven largest city region strategic transport bodies[1] in England, which, between them, serve over twenty million people in Greater Manchester, London, the Liverpool City Region, the North East Combined Authority area, the Sheffield City Region, the West Midlands conurbation and West Yorkshire. Nottingham City Council, the West of England Partnership and Strathclyde Partnership for Transport (SPT) are associate members of the UTG. Our members plan, procure, provide and promote public transport in some of Britain's largest city regions, with the aim of delivering integrated public transport networks accessible to all.

1.2. We met Sir Peter Hendy during the period of his review and following its publication, and have provided some input into this process, though we have not had the opportunity to comment on its outcomes. We therefore welcome this consultation by the DfT.

1.3. We understand that some of our members, as well as Rail North and Transport for the North, are providing their own evidence to this consultation and we have worked closely together on this consultation. In this response, we have focussed on issues of common concern to city region transport authorities.

2. Response

Introduction

2.1. As the body representing city region transport authorities, our interest in this consultation is related to the process of re-planning Network Rail's priorities and the overall outcomes for urban and regional networks. We do not feel it is our place to comment on the prioritisation of individual schemes as this is a matter for our members.

2.2. Our recent report, *Destination Growth: the case for Britain's regional railways*, explores the potential benefits from sustained investment in regional rail and further devolution of rail powers[2]. We argue that whilst regional rail actually makes up a large proportion of the rail network, it has received very little investment for years despite strong passenger and revenue growth.

2.3. With aging rolling stock and infrastructure that is stretched to capacity in many places, there is an increasing strain on the ability of the network to deliver the required level of capacity and connectivity.

2.4. We find it worrying that regional rail has again been largely side-lined as part of the Hendy review. The prioritisation process seems to again have been weighted towards profitable intercity flows, ignoring the wider economic benefits and the vital role that regional rail plays in supporting the growth of city region economies.

[1] With the exception of Transport for London, these bodies were formally known as Passenger Transport Executives (PTEs) and the UTG was previously known as the Passenger Transport Executive Group. In recent years, some PTEs have been abolished with their functions transferred onto successor bodies, such as Combined Authorities. The new name for our group reflects these changes.

[2] Our recent report 'Destination Growth – the case for regional railways' points out that regional train operators outside London and the South East carry 2.7 times the number of passengers as inter-city

2.5. We also feel that the operational impact of delays to planned infrastructure enhancements seems to have been overlooked when re-prioritising schemes. In some cases, these delays will have a significant and immediate impact on service operating costs, with franchise sponsors (including city region authorities) left to pick up the bill.

2.6. This is even more problematic given the current focus on city region economies to help drive national economic growth. Rail connectivity is central to developing growth plans in the North and the Midlands, so delays in delivering key schemes could have negative impacts on the effectiveness of local strategies.

2.7. The Hendy review has provided some certainty over when a number of key schemes will be implemented, which is welcome to the extent that it allows major projects to resume. However, we have a number of specific concerns about the process followed by the Hendy review and its outcomes, which include:

- The lack of consultation and bypassing of standard industry processes in re-prioritising schemes;
- The cumulative impact of proposed delays:
  - on the ability of the railway to meet the requirements of passengers, operators and freight, and its impact on wider economic plans;
  - on the financial position and operational performance of franchised train services;
- The focus on the re-timing of schemes over exploring/understanding costs drivers and long term financial sustainability;
- The implications of an asset fire sale.

Process

2.8. We are concerned that the processes used to re-prioritise schemes in the Hendy review has not followed standard industry practice, and has been undertaken in the main without detailed consultation with local stakeholders.

2.9. We would be interested in gaining further clarity as to why specific projects have been selected for the go ahead, delayed or apparently dropped from the long list of projects, as this is not immediately clear in the Hendy report. The methodology and the assumptions behind decisions is vital in being able to assess them properly.

2.10. When determining schemes to prioritise and timelines for delivery, the rail industry has a long process that involves consultation with key stakeholders and funders. Whilst this process might not be prefect, it is currently the accepted way of planning schemes for the long term.

2.11. The process of reprioritising schemes in the Hendy review has not followed standard industry practice to agree priorities (via Industry Planning Group and an Indicative Train Service Specification), and key specifiers and funders have not been properly consulted. Having been previously consulted by Network Rail on an on-going basis to set priorities as part of their formal planning process, we feel it is potentially problematic for this to be changed through a process that lacks accountability.

2.12. Although we and a number of our members have had high level conversations with Sir Peter Hendy about the review, this level of engagement is not a substitute for standard industry processes.

Devolution and collaborative working

2.13. As we argue in our response to the Shaw Report consultation, we believe that there could be significant benefits from a better alignment, both in terms of geography and governance arrangements, between Network Rail's devolved business units and local government bodies to whom transport funding and rail franchising powers are being devolved.

2.14. These include greater focus on local requirements; greater accountability; the ability to leverage local knowledge more effectively in prioritising investment decisions and in holding Network Rail to account; as well as more locally tailored and potentially more cost effective design solutions.

2.15. Investment decisions also have a direct impact on franchise management and decision making, meaning it is important that processes are aligned and there is predictability in the investment programme. Otherwise:

- Franchising decisions might be made around assumptions that prove not to be correct and could impact on the ability of franchises to deliver.
- This has the potential to increase costs, which must ultimately be met by passengers and the public sector.

2.16. In line with this, we would argue that franchising bodies need to be explicitly consulted in any process that can change investment priorities and timelines to ensure that decisions are aligned.

2.17. When future reviews of Network Rail prioritisations and spending are undertaken we would suggest that a different approach is taken, engaging key stakeholders and funders at an earlier stage in the process. With earlier involvement, we are able to offer constructive help that might improve the outcomes achieved.

Impact

2.18. In terms of detailed outcomes, our members are concerned that:

1. Schemes that they think are crucial to complete in the short term have been delayed, in some cases by multiple years.
2. Other important schemes no longer have an estimated completion date or are no longer on the list, bringing into question whether they are still going to happen and when.

2.19. With a number of critical projects being delayed, for example the trans-Pennine electrification, the completion of the Northern Hub and capacity work in the West Midlands, we feel that there could be a negative impact on the ability of the railway to meet near term demand.

2.20. We have great concerns that the delay of projects could have implications that extrapolate into other projects further down the pipe line, causing the railway to fall behind on core schemes.

2.21. An example of this is the Kenilworth to Leamington Capacity Enhancement project which was envisaged to be completed in the early 2020s. Whilst an important project on its own, this is also vital to maximise wider capacity released by HS2 in 2026. Delaying or cancelling this project will also impact on:

- A second Cross Country intercity service being provided between Coventry, Birmingham and the HS2 station.
- The Snow Hill lines capacity and connectivity work.
- The realisation of the full benefits of improved access to HS2 Curzon Street via Birmingham Moor Street and enhanced central Birmingham rail capacity.

2.22. Together, these projects are vital to meeting the future needs of passengers and delivering wider connectivity, capacity and economic benefits, but could all be negatively impacted by the decision to delay a single project.

2.23. City region transport authorities are Network Rail's clients for many of the projects implemented on the railway, with contracts and plans set out for a number of years. The Hendy review has changed the timelines of a number of projects, meaning that some operational assumptions will no longer hold. These can have potentially large impacts on the railway, including impacting upon new electric fleets, the cascade of diesel trains, and changes in service frequencies based on infrastructure enhancements. The impact of this is likely to be higher operational costs.

2.24. For example, delays to projects in the North of England have already caused the next Trans-Pennine franchise to lease bi-modal trains at a higher leasing cost than either diesel or electric trains and could lead to problems in achieving planned service frequencies over the coming years.

2.25. We are still unsure what the precise implications of the Hendy review will be on franchise specification, how franchise clients will be compensated for disruption to operations or whether the Hendy review took into account these wider impacts from its decisions.

Understanding cost drivers

2.26. We are concerned that alternative approaches to ensuring that projects run within budget do not appear to have been considered as part of this review, resulting in the only options being viewed as to delay or cancel projects. The Hendy report says little about the underlying reasons for cost increases or whether the levels of cost quoted are actually reasonable or acceptable. We would encourage the DfT and the ORR to challenge cost overruns and seek ways of keeping control over costs on projects to ensure that they can be delivered to their full specification and on time.

2.27. In our experience of dealing with Network Rail as a client, delivering schemes on time and on budget requires having the right people with the right technical qualifications and experience on the job and with authority to make operational decisions. This is something that we feel is lacking now and needs to be addressed.

Asset disposal

2.28. Whilst recognising the pressures to reduce Network Rail’s debt, we urge extreme caution in the sale of railway assets to address this problem. Our concern particularly focuses around the sale of assets that might be required by Network Rail in the future, potentially leading to them being leased back at a higher cost. If this happens, the short term benefit of a cash injection is removed as long term liabilities increase. It should be ensured that any decision to sell assets is done with long term benefits in mind rather than short term cash flow.

2.29. Network Rail should aim to consult with partners to ensure that the sale of any assets will not impact on future plans to improve the performance of the railway, including in relation to the intention by some of our members to seek the devolution of powers over local rail stations to city region transport authorities.