



House of Commons
Transport Committee

**Delivering a
sustainable railway: a
30-year strategy for
the railways?:
Government Response
to the Committee's
Tenth Report of
Session 2007–08**

**Eighth Special Report of Session
2007–08**

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The Transport Committee

The Transport Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the Department for Transport and its associated public bodies.

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/transcom.

Committee staff

The current staff of the Committee are Annette Toft (Clerk), Jyoti Chandola (Second Clerk), David Davies (Committee Specialist), Alison Mara (Committee Assistant), Ronnie Jefferson (Secretary), Gaby Henderson (Senior Office Clerk) and Laura Kibby (Media Officer).

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Eighth Special Report

The Committee published its Tenth Report of Session 2007–08 on 21 July 2008. The response from the Department for Transport was received in the form of a memorandum dated 18 September 2008, and is published as an Appendix to this report.

Appendix

Introduction

This paper sets out the Government's response to the Transport Select Committee's report *Delivering a sustainable railway: a 30-year strategy for the railways?* (HC 219 published on 16 July 2008). The Government welcomes the interest that the Committee has continued to show in Britain's railway.

It is important to set the rail White Paper and High Level Output Statement in perspective. For the first time in 60 years the railway has stability and certainty of funding.

Under nationalisation British Rail was always at the mercy of one year funding settlements. In the 1990s there was uncertainty and an investment hiatus in the run up to privatisation. This was followed by the task of clearing up the mess left by Railtrack. Now there is a stable structure and five years' of secured funding, reinforcing passenger and freight growth.

Sustained investment over the last 10 years means that Britain now has a successful, growing railway. Last year the national railway carried over 1.2bn passengers, the highest since the Second World War.

The Government is putting the passengers and users at the heart of everything it does. We have specified demanding outputs for safety, performance and capacity on the railway. We are targeting £10bn to bring about the single biggest increase in capacity for a generation. The White Paper sets out plans to increase capacity in all the major cities and we have published an update on our rolling stock plan.

Major projects are underway or near completion. The go ahead for Crossrail comes on top of the progress on Thameslink, the almost complete West Coast upgrade, and completion of the Channel Tunnel Rail Link

We have set out a new approach to long term transport planning that will ensure more coordinated planning across modes. Network Rail, at the invitation of the Government, is looking at long term options including electrification and new lines – whether conventional or high-speed.

Recommendations and detailed response

The High Level Output Statement (HLOS)

1. The High Level Output Statement will give the industry a degree of stability and direction which we welcome. We accept that the validity of some of the assumptions which underpin the HLOS, such as economic growth and the price of oil, will change over time, and that every change should not result in alterations to the HLOS. However, where seismic shifts that are likely to remain in the medium-term occur, and where they are likely to create extra passenger growth, we think the Government needs to consider making adjustments to the HLOS. We believe the massive increases in oil prices over the past year, and the fact that prices are expected to remain very high for the foreseeable future represent such a case. (Paragraph 10)

The publication of the High Level Output Specification (HLOS) has, for the first time, given the rail industry certainty about what outputs are expected and what funding is available over the five year control period. It is too early to determine whether the increases in oil prices will cause a permanent change in the places where greatest passenger demand is forecast to occur. The Department will continue to monitor the efficacy of the HLOS outputs as the programme is implemented. As increased capacity comes on stream, we will monitor changes to passenger demand. The additional rolling stock will be targeted at where the pressure of passenger numbers is greatest.

The Department will review previous assumptions as it begins to plan for the next HLOS period covering 2014–19.

The long-term strategy and vision

2. We warmly welcome the Government’s effort to create a long-term vision and strategy for the railways. We are particularly pleased that the White Paper sets out a positive plan for growth. However, we agree with the vast majority of our witnesses from across the industry, that the level of ambition in the White Paper is too modest. The Government’s policy of responding to demand with “just-in-time investments” ignores the potential of rail investment to reduce regional disparities and improve the environment. After years of sustained growth in rail patronage, we urge the Government to be bolder in its vision and to set out a proper long-term strategy, including the planning and development of infrastructure which will improve the environment and the spatial economic development of the country. (Paragraph 17)

The Government does not agree that the level of ambition in the White Paper is too modest. This is the first time that the Government has set out clear and costed plans for railway industry outputs. The long term rail strategy sets out challenges (not just growth) over thirty years and the first five year cycle for meeting those.

The Government’s vision is that every region in England should perform to its full potential and become more competitive in an increasingly global economy. The Department is working to deliver reliable and efficient transport networks that support economic growth and improved productivity, particularly in those places that are

important for the UK's economic success: congested and growing city catchments, key inter-urban corridors and key international gateways.

English regions currently have differing economic performance and growth rates and the Government has agreed a PSA target not only 'to improve the economic performance of all English regions' but also 'to reduce the gap in economic growth rates between regions'. Transport including rail services can make an important contribution to local and regional economies but good transport links are not in themselves sufficient to guarantee the prosperity of a city or region. The Department is keen to work with regions to ensure that rail and other transport investment is properly planned to support wider economic and land use strategies.

The Department has included contributing to the reduction of regional economic imbalance as a challenge in the illustrative matrix for its new transport planning process. This will ensure that the connectivity of more outlying areas of the country, in particular, is not overlooked.

The White Paper was informed by the work completed in 2007 on the series of Regional Planning Assessments (RPAs) for England and Wales and the work that Network Rail is continuing on Route Utilisation Strategies (RUSs). These assessments and strategies are developed in consultation with stakeholders and take a long term view of infrastructure use, including the role of rail in the wider context of transport and spatial planning in each of the areas. The policy set out in the White Paper will, in turn, inform the work that is needed to follow up the recommendations of the RPAs and RUSs.

The Government will consider whether there is a case for additional infrastructure, including the case for high speed lines, in the wider, multi-modal context of the country's transport needs (see also the response to recommendation 4 below).

The White Paper is based on improving the environmental performance of the existing railway and ensuring that future investment in infrastructure and rolling stock takes full account of environmental impacts. We will develop proposals for improving the contribution that the railway can make towards improving the environment, and will consider the inclusion of a new environmental output requirement in the next HLOS.

Rail within an integrated transport strategy

3. When the Government does develop a proper long-term strategy for the railways, it is essential that it is thoroughly integrated with other Government and regional policies, on transport, the environment and planning. Policy-making on rail needs to be integrated with other policy areas in such a way that it is able not only to react to, but also to adapt to, inform and influence them. We await a more integrated policy approach and expect to see clear evidence of it in the next High Level Output Statement (HLOS) and the Transport White Paper accompanying it. (Paragraph 22)

The Government's approach aims to ensure that the Government's policies nationally, regionally and locally are aligned to maximise the potential for sustainable economic growth within environmental limits.

The White Paper was informed by various studies. Local and regional planning bodies were fully involved in these studies, which considered future forecasts of growth in rail passenger demand arising from changes in employment, population and other factors. The White Paper was both informed by, and will influence, planning policy and regional development plans. The plans in the White Paper are real and deliverable: the investment is committed and the enhancement programme will inform the regions' wider economic and spatial planning strategies.

The Department is working to develop further improvements to the ways in which transport planning at regional, sub-regional and local level may be better integrated with other policy initiatives. Initiatives on Regional Funding Advice, sub-regional governance and Multi Area Agreements provide important opportunities for such further improvements.

The Government has announced a PSA target to increase long term housing supply to 240,000 net additional dwellings per annum by 2016. The Department for Transport has developed a high level work programme with the Department for Communities and Local Government (CLG) to make sure that transport is properly considered at all levels of the planning system and sustainable transport is properly planned and incorporated in all new developments. Revised housing plans will be taken into account in the next HLOS and as part of our wider 30 year transport planning.

At the suggestion of Campaign for Better Transport, the White Paper included a proposal to encourage the development of Station Travel Plans with the aim of providing the best possible package of environmentally friendly access options. The Government believes that a Station Travel Plan can make it easier for people to use sustainable forms of transport for their journeys. We are delighted by the high level of interest shown by local authorities and train operators in the idea and welcome the announcement by ATOC that over 20 pilots are to be set up. Each station travel plan will include a series of measures to encourage non-car access to the station. These can include improved cycle storage facilities, better bus interchange or more passenger information.

High-Speed Rail

4. It is deeply disappointing that the White Paper dodged the decision on high-speed rail. Given the additional capacity and the limited additional cost in building high speed as opposed to conventional rail lines, we recommend that the Government consider very seriously the possibility of building high-speed lines where new lines are to be constructed. Although there have been encouraging signs of movement in the Government's position since the publication of the White Paper, we firmly believe that this is an area where the Government needs to move into a different gear. We welcome the preparatory study to develop and evaluate options recently announced by Network Rail. Once the study is complete, it will be incumbent on the Government to make decisions and initiate the work without delay. The time frames for the planning, procurement and construction of high-speed rail links are measured in decades rather than years. Hesitation now will mean years of avoidable misery and overcrowding on the network. (Paragraph 28)

The White Paper adopts a flexible approach to delivering capacity as and when demand requires. It is essential first to set a firm foundation of investment to use the existing rail network to its maximum capability. However, our transport planning is a continuous process, especially for complex propositions with long lead times.

The Government is looking at the need for new transport capacity as part of the new approach to planning set out in the October 2007 document *Towards a Sustainable Transport System*. The Department will consider all available options to provide the most efficient and beneficial solutions for passengers and taxpayers, taking account of impacts on the environment, the economy and social progress.

The Government invited Network Rail to begin work to develop longer-term options for the railway network. As the Committee notes, on 23 June 2008 Network Rail announced a strategic review of the case for new rail lines. It will consider five of Network Rail's strategic routes, north and west of London: Chiltern, East Coast, West Coast, Great Western and Midland Main Lines. The study is expected to be complete in July 2009.

Other organisations may also continue to come forward with future rail options. The Department welcomes their input and will consider their work alongside that from elsewhere.

Informed by this and other work, the Department will continue to communicate its position on the issue of new lines while developing its long-term plans for the rail network and will set out its views by 2012.

Electrification

5. As we have already noted in our annual review of the work of the Department in 2007, the White Paper dismisses electrification too easily. Even small-scale, infill electrification projects are not given the credit that they deserve. The case for electrification is strong, and it is based on both environmental considerations and improvements in capacity. Recent indications are that the Government is now changing its mind, and that an electrification programme may be initiated later this year. We are pleased the Government appears finally to have seen sense on electrification, and we recommend that a strategy for the gradual electrification of the rail network be developed as a matter of priority. (Paragraph 33)

The Government recognises the environmental and operational benefits that electrification offers, and that there may be a strengthening business case for electrifying more of the rail network. High oil prices will further improve the business case for electrification, and such factors are included in the Government's appraisal process. The Department and the rail industry are currently reviewing the business case for electrification, including exploring how costs can be reduced, with a view to agreeing priority schemes. We expect this work to be completed by the end of 2008.

Network Rail – up to the challenge?

The engineering overruns at New Year 2008

Site management

6. The management of engineering projects and work sites, together with the associated risks, are core responsibilities of Network Rail. The management of the three engineering projects, which overran at New Year, indicates that there are serious deficiencies in terms of central control and internal oversight mechanisms within Network Rail. It also provides evidence of flawed management of teams and of contractors, including the dubious practice of self-certification. (Paragraph 41)

7. The range of similarities between the Portsmouth overrun in 2007 and the overruns at London Liverpool Street and Glasgow Shields Junction at New Year 2007–08 is significant. The lack of discernible improvement in the intervening twelve months, despite the imposition of a significant fine for the Portsmouth overrun, is a clear indication that either Network Rail's management has failed to act effectively, or that their actions have not filtered down to the operational level. (Paragraph 42)

The delays that users of the railway experienced over the New Year period were not acceptable. The Office of Rail Regulation carried out a detailed investigation and recognised this through the imposition of a £14 million fine upon Network Rail. Network Rail has accepted that its management of the New Year engineering works was flawed and has set out a comprehensive range of measures that it is taking to improve the oversight mechanisms for future engineering works.

Supplier management

8. Network Rail needs to re-balance the distribution of risks between itself and its contractors as a matter of urgency. (Paragraph 44)

9. We remain to be convinced that Network Rail is any more cautious in handing out contracts to companies with a history of failure than other areas of the public sector. We conclude that the threat of future exclusion is an insufficient spur to effective discharge of contracts. (Paragraph 45)

10. The time has come for Network Rail to bring all strategic resources, such as overhead line engineering staff, back in-house. Network Rail should also ensure that it has a permanent programme to develop and maintain such strategic skills in order that a stable pool of core skills is maintained within the organisation at any one time. This should enable Network Rail to manage key resources with much reduced risks of crucial staff shortages which might cause overruns and endanger the viability of large scale projects such as the West Coast Route Modernisation. (Paragraph 47)

Network Rail's management of its suppliers is a matter for the company itself to decide upon and Government has no locus to intervene. The Department notes, however, that Network Rail has reviewed and amended its processes for managing its contractors since the New Year over-runs.

Communication within Network Rail and with operators and users

11. Communication within Network Rail as well as between it and the train operators is seriously deficient. This is, in part, a consequence of the separate ownership of trains and track. The failure of internal communications within Network Rail makes it impossible for senior managers to take appropriate action and resolve problems as quickly as possible. The failure to communicate adequately with train operators is likely to be, at least in part, a consequence of poor internal communication. Both failures have serious consequences for passengers. (Paragraph 49)

This is a matter for Network Rail. We note that the ORR's report into the New Year overruns produced a number of recommendations for improving communications processes and that Network Rail is acting upon these.

Leadership and management at Network Rail

12. The engineering overruns over New Year were quite simply unacceptable. Much excellent work is done by a large workforce of good and dedicated staff at Network Rail, but the lack of clear procedures, consistency, communication and management controls combine to undermine all these undoubted achievements. The ORR's careful analysis of events exposes serious management failures. (Paragraph 52)

We agree that the delays experienced by users of the railway over the New Year were unacceptable. We welcomed the publication of the ORR's report and are pleased that Network Rail is implementing the recommendations.

13. The Government along with the ORR must ensure that the risk of this kind of overrun occurring again—ever—is minimised. The Government, along with the ORR, must monitor closely the progress made by Network Rail over the next year, and examine what structural changes might be required to ensure that Network Rail is capable of managing its projects effectively and consistently. (Paragraph 54)

Network Rail and the ORR have both examined processes for managing engineering works since the New Year overruns. We are confident that improvements have resulted from this process. We do not believe that the Department for Transport has either the remit or the experience to advise Network Rail on its management of engineering works.

The White Paper challenge for Network Rail

Governance

14. It is quite extraordinary for Network Rail to reward its senior managers with huge financial bonuses in a year where passengers have been humiliated and inconvenienced by three separate major engineering fiascos, where an entire catalogue of management failings has been laid bare for all to see, and where a record fine has been imposed for breach of the Network Licence. It is a gesture which adds insult to injury for the long-suffering passengers who have had to struggle with the consequences of the company's failings. If Network Rail's members cannot, or will not challenge and block such a move, they are not a body worth having. (Paragraph 63)

The remuneration of Network Rail's staff, including senior executives, is a matter for the company's remuneration committee. Network Rail is a private sector Company Limited by Guarantee and government has no locus to intervene in these matters.

15. We support the ORR's proposals to alter Network Rail's licence so as to change the incentives policy. Greater transparency about financial incentives, paid for by tax payers and passengers, is welcome. So is the proposal that incentives should take account of all aspects of Network Rail's performance against its licence. This should prevent generous bonuses being handed out for good performance in some areas against a background of catastrophic failure in others. Such changes to the framework would not, however, be a substitute for scrutiny and tough questions by Network Rail members. (Paragraph 64)

The Government has noted the ORR's consultation on changes to Network Rail's licence, and the ORR's aim to have a revised licence in place for the start of the next control period on 1 April 2009.

16. We do not agree with the Minister and the ORR that the governance structure of Network Rail is adequate. The range and seriousness of management failings identified above will only be rectified through very strong leadership from the Board combined with robust oversight and challenge by members. This would require a structure that brought accountability for passengers and the public and created a smaller, independent group to whom the Board was answerable for operational matters. Passengers, Government and train operators all have a significant stake in the success of network Rail. The current system where members are effectively approved by Network Rail's Board, albeit indirectly, is inadequate. We recommend that the Government consider alternative options for a more effective governance and scrutiny of Network Rail. (Paragraph 66)

Network Rail's corporate governance is a matter for the company's board and members to decide upon; not for Government. We note that Network Rail's members are undertaking a review of the company's governance processes and that the ORR has recently produced a report on options for governance, which may be of use to the members in their deliberations.

The West Coast Route Modernisation Programme

17. The completion of the current phase of the route modernisation on the West Coast Main Line in time for the introduction of the new timetable in December 2008 will provide a final test of the ability of Network Rail to plan and manage major infrastructure projects, as well as of the ability of the Office of Rail Regulation to regulate Network Rail adequately. If this project fails, we would expect the Government to intervene and take responsibility for the integrity of services as well as the introduction of the new timetable on the West Coast Main Line. (Paragraph 70)

The Government expects that Network Rail will successfully deliver the upgrade of the West Coast Main Line so that passengers can enjoy on time the significant journey time, capacity and frequency benefits that the December 2008 timetable will deliver. So far this year, Network Rail continues to deliver infrastructure on time against agreed deliverables

including very significant works at Rugby, four tracking along the Trent Valley route, improving line speeds at locations across the route such as at Stoke and major works at Milton Keynes. The ORR's Network Rail Monitor published on 28 August 2008 noted that delivery to programme is achievable by Network Rail, providing the project team continues to manage diligently the delivery of the work scope and mitigation of the delivery risks.

The seven day week challenge

18. We welcome the commitment of both Network Rail and the Government to the seven-day per week railway, where engineering works are done overnight, avoiding major engineering possessions at weekends and Bank Holidays. Network Rail will need to implement many changes to the network, such as rerouting and double tracking before the seven day per week railway can become anything more than a distant dream. It will also be crucial for Network Rail to make very significant improvements in the efficiency of its renewal and maintenance operations. (Paragraph 74)

The Government welcomes the work that Network Rail and the wider industry are doing to develop proposals for the seven-day railway. It is important that the seven-day railway produces benefits for all users of the railway; both passengers and freight customers.

19. No other organisation is more important than Network Rail to the achievement of the targets and objectives contained in the Rail White Paper and the High Level Output Statement. If Network Rail fails, the industry as a whole will fail. The Government and the ORR, in collaboration with Network Rail itself, must take action to ensure that it is equipped to meet the challenges ahead. (Paragraph 75)

The Government is committed to working with Network Rail, the ORR and all other sectors of the industry, to ensure that the railway delivers the improvements, in terms of safety, reliability and capacity that users will require over the coming years.

Capacity – accommodating growth?

The Government's plans

Regional and rural services

20. We are pleased that the Government has recognised the need to plan for growth on the railways, and we congratulate Ministers on the development of the first structured plan to develop our railways in many decades. We hope this will be the first of many such plans. (Paragraph 84)

The Government notes and welcomes the Committee's comment. The Railways Act 2005 gives the Secretary of State strategic responsibility for the railway and provides for regular reviews of the Government's plans for railway outputs, with a costed plan in response to each notification by the Office of Rail Regulation of a review of Network Rail's access charges.

Forecasting and planning for growth

Geographic differentiation

21. In an industry where the development and procurement of infrastructure takes many years, or even decades, it is crucial that forecasting is as accurate and sophisticated as possible. We are concerned that the Government is failing to take the concerns of the industry seriously, and that the Department appears to be working in isolation when it comes to predicting future rail patronage. We recommend that the Department revise its method for predicting developments in rail patronage, in collaboration with other Government Departments as well as local and regional authorities. (Paragraph 95)

Very long term demand forecasts are uncertain and so the White Paper adopts a flexible approach to delivering capacity as and when demand requires. This approach is based on utilising existing capacity better, running longer trains, simplifying service patterns, and finally investing in a step change in infrastructure. The Government's approach delivers improvements in carrying capacity and reduced load factors into all major cities – despite significant growth.

The Government has not worked in isolation when it comes to demand forecasting. The Department uses the standard rail industry approach to demand forecasting presented in the Passenger Demand Forecasting Handbook (PDFH), widely regarded as the best forecasting tool based on current understanding. The PDFH-based forecasts produced for the White Paper were compared with recent growth rates and with forecasts produced by independent consultants and Transport for London. These approaches produced a consistent picture for demand on inter-urban corridors, in London and the South East and for regional travel other than commuting into major cities.

In the major cities, the Department and the industry recognise that PDFH produces forecasts much lower than the five per cent per annum seen in recent years. To predict demand in non-London cities an alternative forecasting methodology was developed in consultation with the relevant Passenger Transport Executives and, in the case of Cardiff, the Welsh Assembly Government. The White Paper assumes generally higher growth rates in these areas for the HLOS period.

To ensure that Government forecasts are based upon the best evidence available, the Department is working closely with the Passenger Demand Forecasting Council to produce a revised version of the PDFH that takes into account the latest research results. The Council includes representatives from Train Operating Companies, Network Rail, Transport for London, Transport Scotland and the Office of Rail Regulation.

In addition, a series of industry-led reviews of the Passenger Demand Forecasting Handbook have been carried out over the past year, supported by the Department. Where specific weaknesses are identified they have been noted and a prioritised programme of remedial analysis will be carried out during 2008–09, with close cooperation between the Department and the rail industry.

Network capacity

Building new infrastructure

22. The Government's approach to increasing capacity on the rail network through investment in infrastructure is over-cautious. While we welcome the small-scale measures such as platform lengthening and station re-modelling included in the High Level Output Statement, we are convinced that significant investment in new rail lines will be essential, and the Government must join Network Rail to plan for significant expansion of the network sooner rather than later. An investment plan to remove those among the 15 pinch points, identified in the 1998 White Paper, which have not already been remedied, should be produced urgently. (Paragraph 98)

Capacity is the Government's big priority. Our plans are ambitious and deliver early improvements for rail users. The White Paper makes this clear by committing £10 billion, out of the total Government spending on rail of £15 billion, specifically to measures to increase capacity. The 1,300 additional vehicles, major upgrades at Reading and Birmingham New Street, capacity improvements in most other major cities and specific capacity requirements for each Network Rail strategic route will amount to the single biggest increase in capacity for a generation.

As noted in response to recommendation 4 above, the Government has already invited Network Rail to begin work to develop longer-term options for the railway network. Network Rail's strategic review of the case for new rail lines will consider five of Network Rail's strategic routes north and west of London: Chiltern, East Coast, West Coast, Great Western and Midland Main Lines. The study is expected to be complete in July 2009.

Line closures and the reopening of disused rail lines

23. We welcome the Government's commitment not to close railway lines. However, we find the Minister's argument against the possibility of re-opening disused lines less than convincing. The notion that the immediate availability of rolling stock should dictate whether a rail line is reopened puts the cart before the horse. If there is sound justification for reopening a line, either because extra capacity or a diversionary route is required, then rolling stock will simply have to be acquired for it. (Paragraph 99)

The immediate availability of rolling stock will not in practice dictate whether a rail line is reopened but the cost of rolling stock is a substantial part of overall operating costs. The Department has not identified any demand up to 2014 that could justify investment in reopening a line and funding a new rail service. We will be looking at the need for new transport capacity as part of our new approach to planning. We will consider all available options to provide the most efficient and beneficial solutions for passengers and taxpayers.

In the meantime, our priority for the railways is to invest £10bn in increasing capacity between 2009–14, and to drive forward improvements that benefit passengers now. However, this does not stop local authorities and PTEs promoting re-opening schemes if they believe that this is the best way to address local and regional transport issues having investigated other options. Such schemes would be included in the Local Transport Plan and, assuming public funding is required, would need to be prioritised for funding from

the region's Regional Funding Allocation. Any scheme prioritised as such would have to be deliverable engineering and operational terms and demonstrate a business case.

24. The time and cost involved in developing new railway lines from scratch is vast, compared to the cost of preserving and maintaining the large network of disused lines for possible future use. The Government must make a commitment that all disused lines with any potential for future rail use, be it as part of the strategic rail network or as diversionary routes, should be preserved. Where such lines are put to other uses, this must be reversible so that they can be re-commissioned, should the reopening of the railway become an option. (Paragraph 101)

Local planning authorities' development control and development plan processes are key to ensuring that provision of land for transport purposes is protected. The Government's planning guidance already requires that local planning authorities should consider the potential of disused railway track beds and routes for possible future transport schemes, including rail, and apply appropriate protective policies where justified.

In addition, we have used our national safeguarding powers in cases such as Crossrail. We are keeping an open mind on whether more specific use of these national safeguarding powers is desirable as our long term transport planning advances. Meanwhile, there are already sufficient controls on the disposal of railway-owned land (whether owned by a DfT subsidiary company or Network Rail).

But we have no plans for a blanket approach to safeguarding all potential alignments or disused lines. We need to balance the public interest in releasing land for development with the interest in safeguarding land for future transport use.

Rolling stock

25. The 1,300 new carriages pledged in the High Level Output Statement are much needed and very welcome. But it is clear that, due to the growth in rail patronage, the new stock is unlikely to relieve overcrowding significantly. (Paragraph 107)

The HLOS capacity metric sets out the total demand to be accommodated on the network and sets out the additional peak three hour and high peak hour passenger capacity in London and other main urban areas to be provided by 2014. The White Paper noted that accommodating this demand was likely to require around 1300 additional vehicles for English franchises by 2014 although this number will be firmed up in discussions with Train Operators in the Design Solution stage which is taking place now. It should be noted that it is expected that some of the vehicles required for Thameslink Key Output 2 service in 2015 will also be introduced during Control Period 4, which will allow a cascade of existing rolling stock.

26. We note how little new rolling stock is going to be available to areas outside London and the South East. We expect the Government to address this imbalance through the cascading of rolling stock throughout the system. It is essential that all rolling stock is well matched to the circumstances and requirements of individual lines and that old rolling stock is not replaced by newer, but less suitable cars. (Paragraph 108)

The Government is working closely with the industry and the Train Operators to optimise the cascade opportunities throughout the system.

Procurement and management of rolling stock

27. It is entirely appropriate that strategic decisions about rolling stock procurement and specification should be taken centrally. Given the level of fragmentation of the industry, there is no other way to ensure sensible use of tax-payers' money for long term investments such as rolling stock. However, we are concerned that the Department may not have adequate and appropriate expertise to handle such vital strategic decisions in-house, and to do so efficiently. Matters of such importance should not be left to expensive external consultants. (Paragraph 111)

The Department's Rail and National Networks Group has a number of well experienced managers originating from the public transport, railway operating and manufacturing industries. As such it is very capable of making decisions "in house" and efficiently. However, the Department is also keen to harness the wider skills and knowledge within the industry, in order to ensure that investment is targeted to achieve the best possible return for the taxpayer. Additional skills are required from time to time and targeted external support can be an efficient way of obtaining them.

An example of this blend is the programme to specify, procure, manufacturer and manage the introduction into service of a very substantial fleet of Intercity Express trains (IEP). These new trains will potentially have a life of over 30 years and cost many billions of pounds. It is essential that all the technical and operational issues are resolved at this early stage and that the strategic decision is an informed one. That requires the advice and support of experts over a range of professions, some of which is being provided by the Department and some by the industry itself.

Feast and famine procurement patterns

28. We look forward to the Competition Commission's report on the rolling stock market in the UK, due in 2009. In the meantime, the Department must improve its rolling stock procurement strategy so as to create a stable and consistent pattern of procurement. By doing so, it will achieve the best value for money for tax payers, and it will ensure that Britain can continue to have a rolling stock industry. (Paragraph 113)

The Government recognises the benefits to the manufacturing industry of having a stable production line. It should be noted that the 'feast' of rolling stock was created by the statutory need to replace the Mark 1 slam door rolling stock by 2004. In the last 10 years over 5,000 new vehicles have been ordered which has provided replacement of old rolling stock and vehicles to meet passenger growth. The Department will secure the provision of around another 1300 vehicles by 2014. Together with the Inter City replacement programme and the Thameslink and Crossrail rolling stock procurements, this demand will ensure a healthy competition between the rolling stock manufacturers which should deliver best value for money and provide opportunities for the UK railway supply industry. However, there is always likely to be some lumpiness in orders because of the age profile of the fleets and it is up to the international manufacturers to manage this profile.

Station capacity

29. We welcome the Government's commitment to re-modelling stations that are significant pinch points on the strategic rail network. We acknowledge the importance of improving the serious passenger overcrowding at Birmingham New Street Station, but we are not convinced that the current project is adequate. The Government must address the issue of whether Birmingham New Street is ever going to be able to accommodate the throughput of trains required in two or three decades, when the number of services might have doubled. If the station cannot be adapted to such throughputs, then the Government must look for alternative solutions now. (Paragraph 117)

As the Committee acknowledges, there is an urgent need for improvements to Birmingham New Street station. The station is being remodelled to improve passenger flows, and the works will especially benefit disabled and elderly people, and passengers with luggage. The Birmingham New Street rail scheme is being built on with funding from other Government and third party sources to meet the aspirations of Birmingham City Council for a gateway scheme, enhancing the station as a focal point for the city.

The rail scheme will provide passenger handling capacity for decades to come and offers a range of other benefits to passengers using the station. It has a good business and offers excellent value for money.

The Department has led an industry study of regional rail capacity which confirmed that the enhanced station will also accommodate forecast long distance throughputs until around 2025. The first such increases are already planned, including a significant step up in inter city services from December 2008.

Growth in long distance demand is expected throughout the rail network and cannot be dealt with on a regional basis alone. It will affect the West Coast route as a whole and other parts of the network. Solutions for addressing rail capacity across the network in the longer term will be developed as part of the Government's wider transport strategy (see also the response to recommendation 4 above).

30. We welcome the Minister's assertion that the Government is looking at other major pinch points on the network such as Manchester, and that investments to remodel such stations might be forthcoming. We remind the Government that the elimination of such pinch points on the rail network in the north of England is vital to achieve the rail capacity improvements, which in turn will underpin efforts to drive up economic growth and prosperity in the region. We do not expect to wait till the next HLOS before action is taken. (Paragraph 118)

Network Rail is developing schemes for implementation between 2009 and 2014 to deliver capacity to accommodate a growth in demand of about 20% in the peak around Manchester. This is likely to consist of longer platforms to accommodate longer trains; additional depot capacity, turn-back facilities at key stations on the edge of the Manchester conurbation to improve the productivity of rolling stock and junction and line speed improvements to reduce journey times on the Liverpool–Manchester–Leeds corridor.

The Manchester Hub study will look beyond this period will provide a key input into the next HLOS in 2012 for the period 2014–19.

Station modernisation

31. We welcome the HLOS commitment to modernise and upgrade 150 stations. We expect the Government to ensure that the process of selecting stations is fully transparent, and we encourage Network Rail’s drive to secure additional funding from other sources for the station refurbishment programme. (Paragraph 119)

The National Stations Improvement Programme (NSIP) is managed as a joint programme between Network Rail as the landlord and the train operators as lessees and operators of the stations.

A National Programme Board provides a high level strategic overview of the NSIP. Its remit includes addressing and determining priorities between each train operator. The Board, which is chaired jointly by a representative of the train operators and Network Rail, includes senior representatives from all train operator owning groups, Network Rail, ATOC, the ORR and the DfT.

Local Delivery Groups, which are also jointly chaired by the train operator and Network Rail, focus on the portfolio of stations for a specific train operating company. Their remit includes determining priorities for the NSIP at each station and between stations taking into full account pre-existing train operator commitments and other initiatives.

The National Programme Board agreed that the £150m NSIP funding would be allocated in two tranches. The first tranche of £100m has been allocated by train operator estate based on the criteria of high footfall, low passenger satisfaction and a fair geographical spread. The selection exercise for the second tranche of NSIP funding, which will be determined in April 2010, will be based on the same criteria as the first tranche, but will also seek to reward those who have demonstrated efficient delivery and been most successful in securing third party funding in the first tranche of schemes.

The ability of the industry to leverage-in additional third party funding from both the public and private sectors is a key element of the programme. Although there has already been some good work on securing third party contributions, the industry acknowledges that this is a continuing process.

Encouraging modal shift

32. The Government should encourage modal shift. Amongst arguments for embracing a policy to promote a modal shift away from roads and air and towards the railways, environmental impacts along with congestion management are the most compelling. We expect the next High Level Output Statement to include detailed plans and targets for significant increases in the share of journeys made using the railways. (Paragraph 124)

Rail is already a natural choice for certain types of journey such as city commuting and for journeys between city centres. People are now travelling further by rail than in any year since 1946.

Rail plays a significant role in certain freight markets such as coal and aggregates. There has been a 47% increase in the amount of freight moved by rail since 1996/97.

The Government agrees that modal shift to lower-carbon forms of transport is going to be increasingly important. But it sees modal shift as a means to an end (producing a better outcome in terms of climate change, health, safety and quality-of-life), not as an end in its own right. For this reason we are not proposing to include a modal shift challenge as part of our new transport planning process.

Shifting passengers and freight to rail from more carbon intensive modes can make a useful contribution to our carbon targets. For example, on average rail emits around 60 grammes of carbon per passenger kilometre which is significantly lower than the average emissions of petrol and diesel cars (109 and 96 grammes per passenger kilometre respectively).

But there are limits to how much modal shift rail can accommodate. For example, rail only accounts for about 7 per cent of passenger movements (and 12 per cent of surface freight movement). So even doubling rail's capacity would, at best, only reduce UK carbon emissions by about 1 per cent.

Financial sustainability

Controlling costs

33. We have little doubt that cost control has been weak across the industry, and we believe controlling costs needs to be the Government's top priority in terms of funding for the railways. The current funding discussions between the ORR and Network Rail may go some way towards controlling costs at Network Rail, but as we have said in the past, the Government needs to do more to ensure that franchises also control their costs tightly. As we have shown on several occasions past, the sheer complexity of the industry has made it prone to unnecessary cost escalation and waste. (Paragraph 132)

The Government agrees that cost control is an ongoing priority. Network Rail is on course to deliver cost efficiencies of 31 per cent by 2009. Further targets will be set by the Office of Rail Regulation for the period 2009–14.

Competition for franchises holds down costs to taxpayers. All recent franchise competitions have resulted in significant reductions in overall taxpayer subsidy.

The direct procurement costs incurred by the Department during franchise competitions have fallen. The Department is also making efforts, in consultation with the bidding groups, to reduce the costs to the private sector of franchise bids. For example, advice is given on evaluation criteria so that groups can focus their bids; the number of options to be priced is rigorously controlled; and the size of bid documentation has been reduced significantly.

The industry estimates franchise bid costs to be between £3m–£5m per bidder. This perhaps is not excessive given the size of these businesses. Recently let franchises have annual turnovers of around £500m per annum. The costs of competition have to be set against the overall benefits of competition.

Since taking over the letting and management of franchises in 2005, the Department has reduced the costs to the taxpayer of managing franchises by around £1.5 million per annum.

Fares policy

34. We are deeply concerned that the rapid shift away from taxpayer contributions and towards passengers paying a significantly larger share of the cost of running the railways will be detrimental to passengers and the future of the railways alike. We accept that the level of subsidy now paid by taxpayers is probably too large for the longer term, but a rapid shift in this balance will counteract any efforts to encourage modal shift. Furthermore, if a full-scale economic downturn were to develop, passenger numbers are unlikely to grow as fast as projected in the High Level Output Statement. This situation could jeopardise the current hard-won level of financial stability. We therefore recommend that the Government review the planned shift between taxpayers' subsidy and the fare box with a view to pacing this transition over a significantly longer period of time. (Paragraph 138)

The Government welcomes the Committee's recognition that the current level of taxpayer support for the railways needs to be reduced. We said in the White Paper that we intended to continue the current fares regulation, with annual increases in regulated fares limited to RPI+1%, until 2014. We note the concern about that proposal, but we do not consider it unreasonable. Despite the regular scare stories in the press, regulated fares are no higher now in real terms than they were ten years ago, and the average cost to passengers of all fares – regulated and unregulated – has only increased by 4% in real terms during that period.

The White Paper delivers the biggest single programme of investment for a generation while maintaining the present policy on regulated fares and reducing the demands on taxpayers to more acceptable levels. In the past five or six years, the amount invested in the railway has risen and almost all that rise has been met by taxpayers. The White Paper anticipates that the rail industry will be funded approximately 70% by the fare payer, 23% by the taxpayer and 7% from other sources (e.g. freight) by 2014.

In response to the Committee's concerns about the impact of an economic downturn on this policy, the Government would expect to continue with the plans set out in the High Level Output Specification, but we would be likely to revisit other plans. Through the franchising process, the train operating companies are responsible for managing their costs and revenues. However, there is a revenue support mechanism if revenues fall below an agreed amount (which is set when the contracts are signed).

Conclusion

35. The White Paper, setting out the Government's objectives for the railways over the next 30 years, and the HLOS, providing a detailed five-year plan, were published as one integrated document. Our analysis of this document has demonstrated that the White Paper has very little to add to the five-year plan set out in the HLOS. If the two had been entirely separate documents, there would have been very little to publish as a White Paper, and the Department would have been forced to come up with a much stronger

and bolder vision for the long-term future of the railways. The Government should now seek to develop a genuine 30-year strategy. (Paragraph 141)

The Government does not accept the Committee's conclusion that the White Paper lacks vision. We have set out plans to increase the railway's capacity to carry 180 million more passengers over the next seven years – growth of more than 20%. Over the next 30 years, we are looking to double today's capacity. We are pressing on with Crossrail, Thameslink, the West Coast Main Line upgrade, and the procurement of the new generation of InterCity Express trains. In addition, we have specified demanding outputs for safety, performance and capacity. That is not a programme that lacks either vision or ambition.

However, it is important that the Government and the industry are prepared should demand grow faster than expected. We are therefore working with the industry to ensure that we are in the strongest position to make the right investment decisions in future years to continue growing the network. What matters is that we are planning properly for a railway which has been growing in recent years and which we expect to continue growing in years to come. That contrasts with former years when running the railway was an exercise in managing decline.