

Cynulliad Cenedlaethol Cymru	National Assembly for Wales
Y Pwyllgor Menter a Busnes	Enterprise and Business Committee
Ymchwiliad i'r Blaenoriaethau ar gyfer dyfodol Seilwaith y Rheilffyrdd yng Nghymru	Inquiry into the Priorities for the future of Welsh Rail Infrastructure
WRI 35	WRI 35
Network Rail	Network Rail

## **Enterprise and Business Committee: Inquiry into priorities for the future of Welsh Rail Infrastructure**

### **Introduction**

Network Rail welcomes the opportunity to contribute to this Committee Inquiry. We feel the Inquiry is particularly timely in that it takes place as the railway industry and funders are shaping the priorities for the Initial Industry Plan for England and Wales in Control Period 6 (2019-2024). This is expected to be published around September 2016 and is a key step in the process that is currently anticipated to lead to High Level Output Specification (HLOSs) by governments in 2017 and, ultimately, the regulatory determination of funding and outputs for Control Period 6 in 2018.

Our written evidence is focussed on three key areas which we believe the committee should consider as part of its deliberations:

1. Devolution and the Wales Route
2. Wales Route Study – Planning for the future
3. Choices for Funders and the Initial Industry Plan for Control Period 6

### **Background**

Network Rail operates, maintains and enhances Britain's railway infrastructure. Our purpose is to generate outstanding value for customers and taxpayers. Our role is to provide a better railway for a better Britain.

Following the reclassification of Network Rail as an arm's-length public sector body in 2014, we continue to manage Britain's railway infrastructure, operationally and commercially, within our regulatory frameworks.

Our framework agreement with the Department for Transport sets out how we interact in terms of financial management and corporate governance.

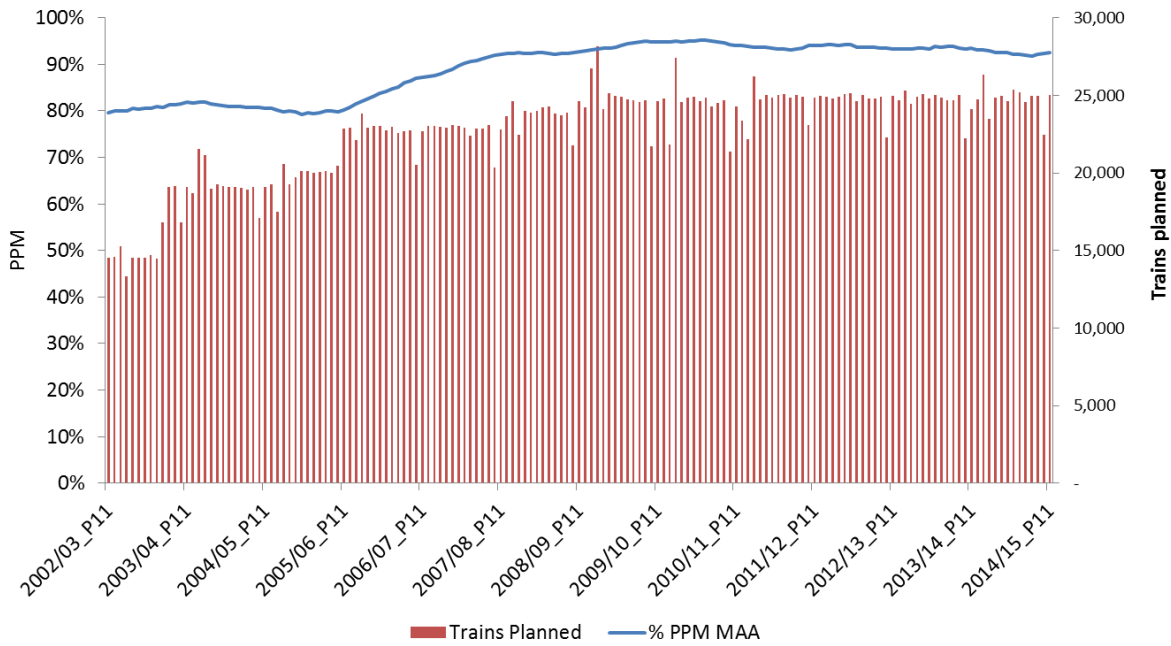
When Network Rail was formed in 2002 the railway was facing a number of challenges. Passenger numbers had been falling over previous decades, there were safety concerns and punctuality levels were falling well short of what passengers expect.

Today more people travel by rail than at any point since the 1920s - when the rail network was around twice its current size. One consequence of this is that half of Europe's most congested rail infrastructure is now found in Britain.

We should celebrate the fact that more passengers than ever are now choosing to travel by rail; that we now boast one of the fastest growing networks in Europe and the second most intensively used.

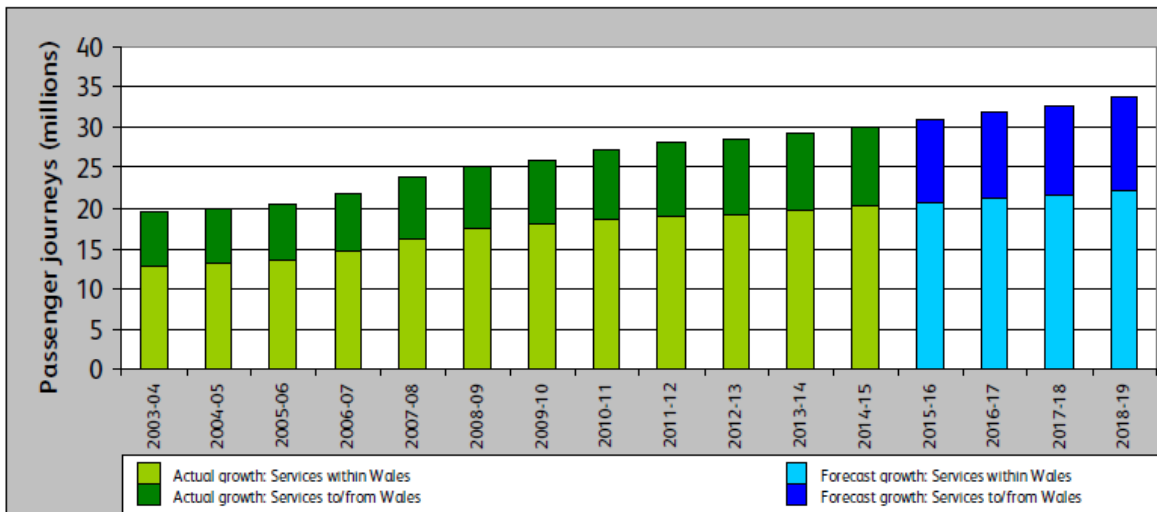
Moreover, it is remarkable that despite this unprecedented growth, our railway is now the safest and amongst the most efficient in Europe, and our punctuality levels are over ten percentage points higher than they were in 2002

The graph below shows that Public Performance Measure (PPM) in Wales improved significantly from 80% in 2002 to a level of 93%. The graph also shows that the number of trains has increased by over 50% over the same timeframe.



At the same time, a historic underfunding has meant that significant investment is required to upgrade the railway and ensure that it is fit for purpose in the twenty-first century and is able to accommodate the demands of passengers.

In Wales, the rail renaissance has seen passenger journeys grow by 50% over the past decade and they continue to rise by around four % year on year.



We have been responding to this growth in passenger numbers with the biggest investment in the Welsh railway since Victorian times. Our modernisation programme includes electrifying the railway, improving stations and installing modern signalling to help deliver improved reliability and the potential for more and faster journeys.

We are also investing in technology to help us to improve the way we manage and maintain the railway. We're developing new ways of inspecting the railway and adopting technologies so that we can 'predict-and-prevent' problems before they happen.

Providing the capacity that is required to meet the unprecedented growth in demand; delivering ever higher levels punctuality and passenger satisfaction; against a backdrop of reducing public subsidy – there can be no underestimating the scale of the challenge facing the rail industry in the years ahead.

Our railway network is being transformed at a faster pace than has ever been achieved before and we are putting in place a clear strategy for delivering the huge growth that we expect in the future. Wales relies on rail - it helps create and sustain jobs, moves millions of people every year for work and for leisure, transports freight and connects our communities. The railway is essential for modern Wales.

Working with our industry partners, with passengers and communities, with elected representatives and governments in Westminster and in Wales – Network Rail is determined to play our part in delivering a railway to meet Wales' future needs.

## **1. Devolution and the Wales Route**

The Wales Route was established in 2011 (from the London North Western and the Western Routes) as part of the devolution of responsibilities to Network Rail's routes. The move was part of the company's drive to increase its responsiveness at a local level and created a Wales route for the very first time in railway history.

The route now employs almost 1400 employees across the country. Our teams, across a number of different business functions, are responsible for operating (including signalling), maintaining and renewing the railway. We also created an asset management team on the creation of the route and they work seamlessly with the delivery organisation to ensure we deliver a safe and reliable railway.

The creation of the Wales route and the devolution within Network Rail has enabled us to make faster and better decisions as well as driving performance improvement for the benefit of our customers and ultimately passengers. It has also enabled us to react quickly to unforeseen events, such as the extreme weather that impacted on the Cambrian Line in January and February 2014.

Despite the incredible levels of storm damage, we were able to re-open the line to Barmouth within six weeks. The line beyond Barmouth was then fully re-opened in early May, just three months after the second storm event in February. The £10m programme to repair the severe damage to the rail infrastructure and sea defences north of Barmouth was delivered two weeks ahead of schedule. The work involved removing 40 tonnes of debris and reinstating 6,000 pieces of 'rock armour' that form the sea protection. More than 1,000 sleepers, 2,500 tonnes of ballast and 1,400 metres of track were also installed to enable passenger trains to resume once more.

Since 2011, an increasing devolution of responsibility to the 8 route businesses has brought us closer to the many stakeholders we rely on to run our business effectively, and those who rely on us: passengers, train operating companies and freight operating companies, our lineside neighbours, businesses, local authorities and of course in Wales, the Welsh Government. As is often the nature with devolution, the process is continuing. Network Rail is currently strengthening accountability and resources to the routes to support better delivery for our customers, passengers and stakeholders.

This continuing devolution will allow the Wales route to focus on the initiatives needed to deliver continued improved performance, while also allowing us to reduce costs.

While the devolution process continues, there remain a number of activities that are best undertaken at a Britain-wide level in order to achieve economies of scale, promote best practice and to operate and develop the network in a way that takes into account connectivity across the geographical and route boundaries. We believe this helps ensure that the companies that run, or seek to run, trains on the British network are treated fairly when doing so.

The new largely devolved structure, with a much smaller corporate centre, means that the railway will be better organised for further devolution of rail infrastructure powers from Westminster to Cardiff Bay. Indeed, we were supportive of this approach in the evidence we submitted to the Silk Commission.

Although the statutory responsibility for rail infrastructure is reserved to UK Government, Network Rail recognises the importance of demonstrating accountability in Wales to the Welsh Government.

We meet with the Minister for Economy, Science and Transport on a regular basis. Additionally, we meet Welsh Government officials at monthly project boards and planning meetings. We also host a quadrilateral meeting around preparations for Control Period 6. These meetings involve the Welsh Government, the Department for Transport, the Rail Delivery Group and Network Rail.

We are also working very closely with the Welsh Government on their plans for the Welsh rail refranchising and their proposals for the South Wales Metro. Wherever possible we want to support ministers and elected representatives to help them to deliver the best possible outcomes for rail passengers in Wales.

There are clearly opportunities for Wales to learn from the experience in Scotland, where rail infrastructure powers were devolved through the 2005 Transport Act. Indeed, the Committee will be aware that Scotland has its own Initial Industry Plan and High Level Output Specification, which is consistent with the responsibilities for strategy and funding that the Scottish Government has had since 2006.

In response to the Committee's request for information about the arrangements in Scotland we have set out an explanatory note in **Annex 1**. Additionally, we would be pleased to assist the committee with any queries that may arise during the inquiry, so that we can help inform the wider debate about the further devolution of railway powers for Wales in the future.

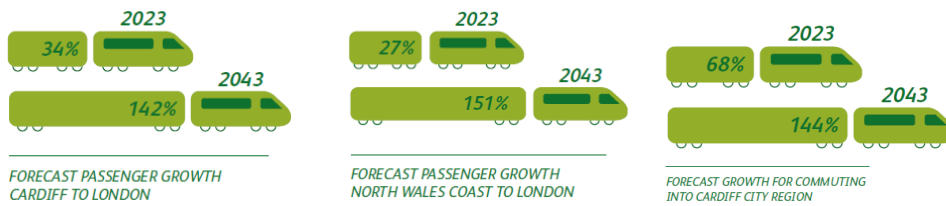
## **2. Wales Route Study – Planning for the Future**

The Wales Route Study examines options to respond to the expected rise in passenger numbers and to build a bigger and better railway for Wales and the Welsh borders. The draft study, which we launched for consultation at the Senedd in March 2015, is now in the process of being finalised and will be published shortly.

Network Rail is leading the development of the study on behalf of the railway industry and our funders. Above all, it is a collaborative and cross-industry piece of work that reflects the priorities of Network Rail, the train and freight operating companies and our funders, so that we can develop the best possible railway for rail passengers in Wales. In many ways, the main strength of the study is the quality and breadth of the evidence that has contributed to its development.

It is one of a number of Route Studies that have been commissioned across the country, and it has been developed using a range of economic forecasting tools, demand analysis techniques and business case appraisals that are consistent. This approach will allow funders to compare the outcomes and options on a consistent basis, which is clearly important in the context of the national network.

Some examples of how demand for rail could grow on key Welsh rail corridors follow:



The Study sets out a long term strategy to cater for the rising demand on the railway in Wales predicted from 2019 onwards. The document outlines opportunities to meet this future demand, and presents choices for funders. These include a major redevelopment of Cardiff Central station and the modernisation of the railway across North Wales - including the electrification in North Wales.

We believe it sets out a clear vision that responds to the much busier railway we will see in Wales over the next ten to thirty years, with targeted investment that will deliver faster, more frequent and more reliable journeys. The approach we have taken with regard to the consideration of new stations and new lines is set out in **Annex 2**.

The benefits of further investment to meet growing demand will flow far beyond the rail network itself. The railway in Wales supports economic growth and creates jobs, reduces the environmental impact of the wider transport sector and helps to connect and regenerate communities. Wales relies on a safe and punctual railway and the study sets out proposals to meet future demand so the railway continues to make a positive difference to the economy, to the environment and to people's everyday lives.

The study seeks to deliver a railway that offers value to taxpayers and funders. It has been developed collaboratively with our partners and through a process of close engagement with the Department for Transport and the Welsh Government.

### 3. Choices for Funder's and the Initial Industry Plan for Control Period 6

The Welsh Route Study will help inform the Initial Industry Plan for England and Wales in Control Period 6, which will be published around September 2016. In turn, the Initial Industry Plan will inform the High Level Output Specification for England and Wales in Control Period 6, which is likely to be announced in summer 2017.

The Initial Industry Plan for England and Wales will examine the key choices and options facing funders in specifying the future outputs of the railway and the level of funding required. The Wales Route Study will set out a number of 'Choices for Funders' for consideration in the Initial Industry Plan. These describe the interventions required for the railway to meet the growth in demand in Control Period 6 (2019-24).

Many of the choices are focussed on enhancing the capacity or connectivity of the railway infrastructure as a precursor to operating more train services. There are other choices that primarily relate to the operation of longer trains or more frequent train services without the need for additional infrastructure - these could be delivered through the franchise process which we understand is being devolved to the Welsh Government.

A number of choices also reflect the role that rail can play in connecting communities and supporting economic growth: by providing improved access to employment, educational facilities and other social infrastructure. These choices set out how connectivity might be improved by improving journey times and/or enhancing service frequencies.

The Wales Route Study also considers how the growth in freight markets will be accommodated on the rail network in the future and what this means for the rail network in Wales. The ‘Choices for Funders’ that will be set out in the final version of the Welsh Route Study in early 2016 are as follows (in no particular order of priority):

Choice	Description	Outputs
1	More passenger capacity on Valley Lines – operating more frequent trains and/or longer trains	More seats for passengers & more services
2	Phased programme of enhancements on Valley Lines – linked to Metro	More frequent services and faster journey times
3	Upgrading Relief Lines between Cardiff and Severn Tunnel Junction to create a 4 track passenger railway	More services and faster journey times
4	Redevelopment of Cardiff Central Station to <i>create a station fit for a capital city</i>	A better customer experience with more space and more services
5	Continued programme of Level Crossing Closures	Public safety and faster journey times
6	Improved generalised journey times on Heart of Wales Line	More services and faster journey times
7	Selected train lengthening on Cardiff to Manchester services	More seats for passengers
8	Modernisation of the North Wales Coast Main Line	More services and faster journey times
9	Improved line speeds on the North Wales Coast Main Line	Faster journey times
10	Improved connectivity to Deeside	More services with better connections between trains & buses
11	Further programme of capacity improvements between Chester and Wrexham	More services and faster journey times
12	Improved line speeds between Wrexham and Bidston	Faster journey times
13	Improved all day frequency on the Cambrian line	More services
14	Improved frequency in the Ebbw Vale line with connectivity to Newport and Abertillery	More services to new destinations and new line opening

These choices will need to be funded if they are to be taken forward to the next stages of project development (in the current Control Period 5) and then project delivery (in the next Control Period 6). This is an important point for the Committee to note as Network Rail is not currently funded to develop these enhancements – that is why we consistently refer to them as ‘Choices for Funders’.

Some examples of the choices that require funding in the current Control Period 5 and the next Control Period 6 are the redevelopment of Cardiff Central Station and the modernisation of the North Wales Coast Main Line.

We particularly welcomed the Committee’s report into Rugby World Cup Planning and the recommendation that Cardiff Central needs to be modernised in order to create a station that is fit for a modern capital city and the major events that increasingly take place in Cardiff.

We also welcomed the North Wales Rail Summit on 12 November 2015 and the consensus that emerged that more should be done to improve connectivity between North Wales and Liverpool, Manchester and London.

In both cases these important schemes will require funding from governments or other funders if they are to be taken forward – funding will be required now in Control Period 5 for further development work and funding will be then required in Control Period 6 for delivery.

With preparations for Control Period 6 well underway, we have reached a critical moment in the funding cycle for the railway. Positive and timely decisions from funders will be needed if we are to maintain momentum on the delivery of the key enhancements that are needed to build a better railway for Wales



## Annex 1

### CURRENT NETWORK RAIL FUNDING – SCOTLAND (JANUARY 2016)

#### PURPOSE

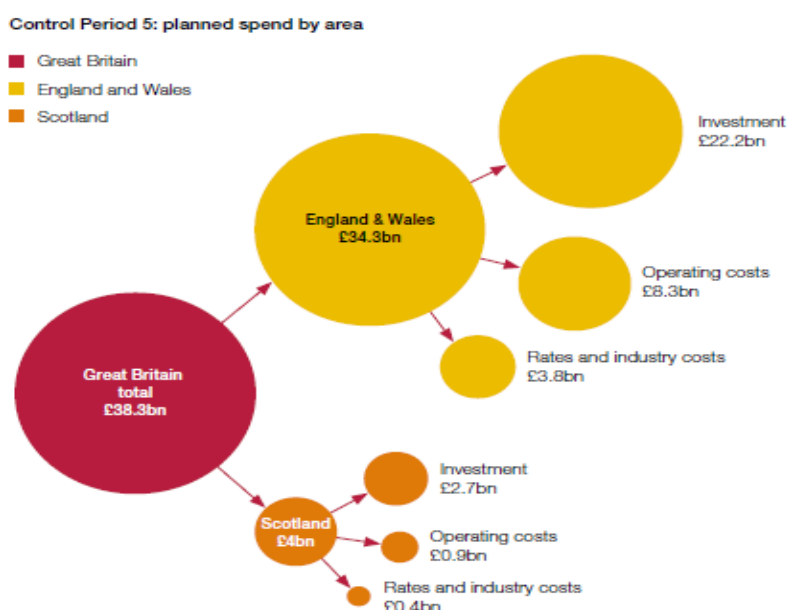
The purpose of this note is to provide a brief overview of how Network Rail is currently funded to operate, maintain, renew and enhance the railway in Scotland. It describes how these arrangements work in conjunction with those for England & Wales and the allocation of financial risk.

#### FUNDING PROCESS

Network Rail is funded for five year periods, known as ‘control periods’. Control Period 5 started on 1 April 2014 and is due to run until 31 March 2019. The funding for these five year periods is set as part of a process known as a ‘periodic review’.

As part of the periodic review process Department for Transport and Transport Scotland set out, at a strategic level, what they would like the railway to achieve in the forthcoming control period and the funds available for delivery. These statements from Governments inform Network Rail’s Strategic Business Plan for the same period, which is reviewed by the independent regulator, the Office of Rail and Road (ORR). Toward the end of the periodic review process, ORR publishes a decision document, known as the ‘Final Determination’, which sets out the outputs (e.g. levels of train performance) to be delivered by Network Rail, the funding it will receive through access charges and grants, and the assumed level of expenditure to deliver these targets. Network Rail, however, has the flexibility to spend more or less money than assumed by ORR in order to deliver the outputs, and can also reallocate funding between expenditure categories (e.g. track renewals and signalling renewals) as it considers appropriate (subject to it being able to borrow more).

The diagram below, based on ORR’s Final Determination, sets out how Network Rail’s expenditure in Control Period 5 is split between England & Wales and Scotland. It shows that of the £38.3bn of expenditure determined for Control Period 5, £4bn related to Scotland (c. 10%).



Source: National Audit Office short guide to Network Rail, page 14, July 2015. All values in 2012/13 prices.

## NETWORK RAIL - SCOTLAND

Network Rail is a single GB-wide company running a GB-wide railway network. However, it prepares two Strategic Business Plans, one for England & Wales and one for Scotland. ORR produces one Final Determination document, however, this contains separate output targets, funding assumptions and assumed level of expenditure for England & Wales and Scotland. Scotland is, therefore, different to parts of England & Wales in a number of ways:

- **Transport Scotland fund Network Rail's activities and provides strategic direction**, rather than Department for Transport. Although Department for Transport continues to be responsible for some areas (e.g. safety).
- **Most franchised passenger train services are specified by Transport Scotland**, rather than Department for Transport.
- **The ORR sets separate output targets** and could take enforcement action against Network Rail if it failed to deliver Scottish outputs, irrespective of performance in England & Wales.
- **Scotland has its own Regulatory Asset Base** to which allowable enhancement and renewal expenditure is added for the purpose of calculating Network Rail's funding requirements in Scotland.
- **Scotland has a separate borrowing limit** from England & Wales which ultimately constrains the maximum level of expenditure in Scotland.

However, because Network Rail is a single GB-wide company, Scotland is also the same as parts of England & Wales in many respects:

- **Its activities are ultimately overseen by the Network Rail Board**. At present there is an Alliance between Abellio ScotRail and the Network Rail Scotland Route. This means that whilst remaining separate companies, both organisations will work to achieve common aims and objectives led by a single managing director and senior management team.
- **Its income, expenditure, assets and liabilities form part of Network Rail's GB-wide Income Statement and Balance Sheet**. Network Rail does, however, produce Regulatory Accounts which include analysis for each of its operating routes, including Scotland<sup>1</sup>.
- **Activities in Scotland must comply with the conditions of Network Rail's GB-wide Network Licence**, including a limit on the maximum level of debt the company as a whole is allowed to incur relative to the value of its Regulatory Asset Base.
- **Network Rail is the Network System Operator** and the same processes govern timetabling and providing access to the network in Scotland as the rest of GB.

---

<sup>1</sup> Network Rail's Regulatory Accounts are available [here](#). Information in relation to Scotland is set out on pages 212-292. Information in relation to Wales is set out on pages 669-729.

- **There is a GB-wide methodology for charging train operators** for use of the network.

## **RECLASSIFICATION AND FINANCIAL RISK**

Prior to Network Rail being reclassified as a public sector organisation it funded its activities through track access charge income from train operators, grant income received from Department for Transport and Transport Scotland, income from other sources (e.g. its property assets) and debt which it borrowed as a single company from the capital markets. Although Network Rail raised debt in its own name, this debt was underwritten by the UK Government who ultimately bears the financial risk. As noted above, the maximum level of debt that the company could incur, relative to the value of its Regulatory Asset Base, is set out in its Network Licence. This limit is GB-wide and does not distinguish between England & Wales and Scotland.

Following its reclassification to the public sector in September 2014, Network Rail now only borrows money direct from the UK Government and does not issue debt in its own name. On 4 July 2014 Department for Transport and Network Rail signed a £30.3bn loan facility to cover Network Rail's financing requirements for Control Period 5. When Network Rail was reclassified Scottish Ministers and Department for Transport also entered into a Memorandum of Understanding regarding how the £30.3bn borrowing limit should be split between England & Wales and Scotland. Network Rail is not able to exceed this borrowing limit even if it has not reached the maximum debt to Regulatory Asset Base limit specified in its Network Licence.

The separate debt limits for England & Wales and Scotland set out in the Memorandum of Understanding mean that although the UK Government continues to ultimately bear the financial risk, debt funded expenditure in Scotland is ring-fenced from that in England & Wales. Therefore, any overspend in England & Wales cannot be financed using the proportion of the loan facility allocated to Scotland and vice versa.

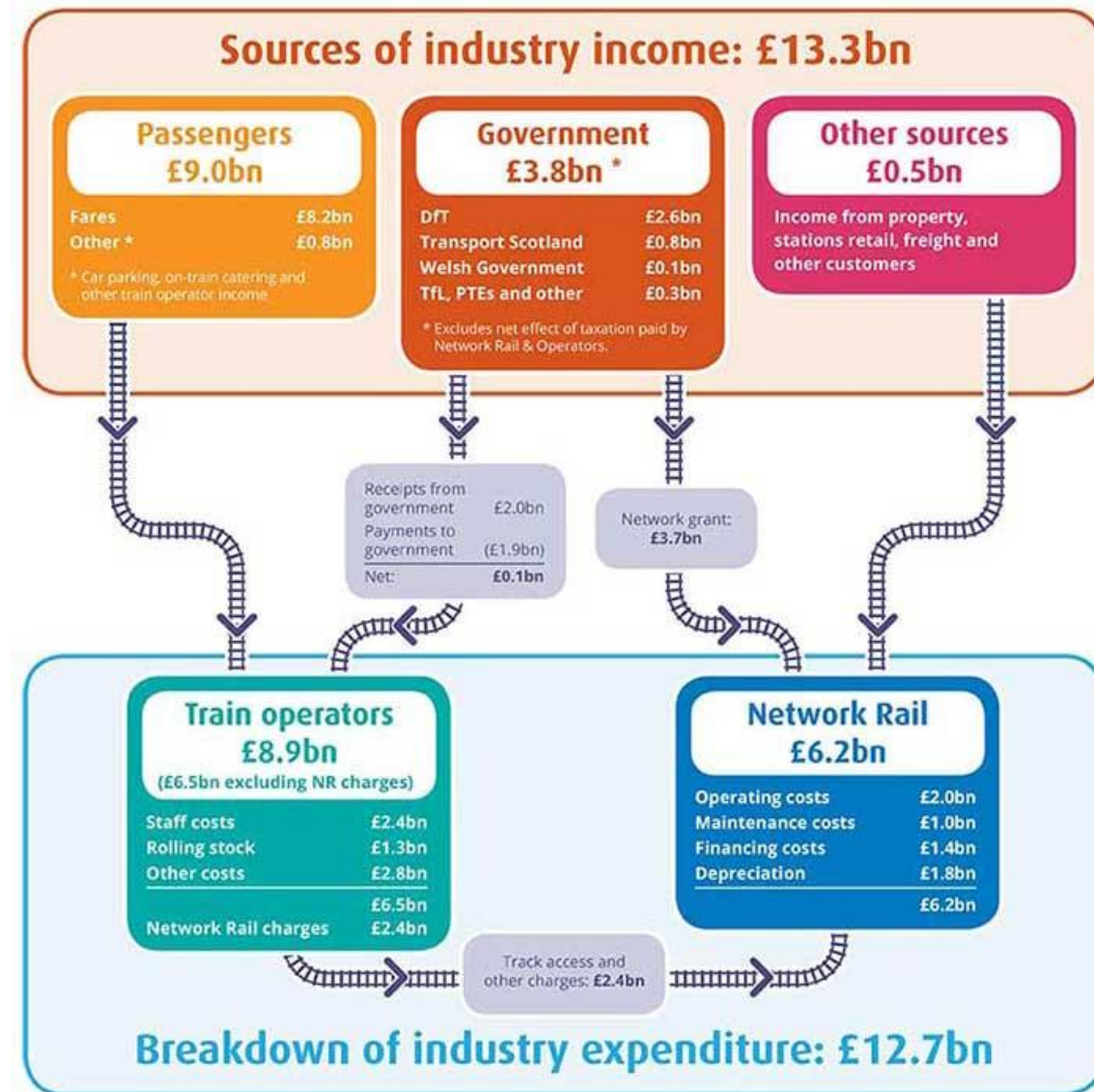
## **SUMMARY**

In summary:

- Network Rail is a single GB-wide company running a GB-wide railway network.
- However, it has two funders (Department for Transport and Transport Scotland) which provide strategic direction in England & Wales and Scotland respectively.
- Network Rail produces two Strategic Business Plans and ORR determines separate output targets, funding assumptions and assumed expenditure for England & Wales and Scotland.
- The UK Government underwrites all of Network Rail's debt and ultimately bears the financial risk associated with this.

## RAIL INDUSTRY INCOME AND EXPENDITURE

The diagram below sets out the flow of funds in the GB rail industry during 2013/14, the latest year for which the information is available. It includes Network Rail, train operators, Governments and passengers. The diagram is based on ORR analysis of financial information provided by Network Rail, train operators and Governments.



Source: ORR GB rail industry financial information 2013/14, published February 2015.

## **Annex 2**

### **Welsh Route Study - Approach to New Stations and to New Lines**

#### New Stations

The Welsh Route Study has not specifically considered demand for new stations on the network as these schemes are promoted by funders and third parties who are best placed to assess these requirements. This approach is consistent with the other Route Studies across GB.

Network Rail does provide guidance for funders and third parties about developing and delivering new station schemes and we are proud of the achievements in Wales.

Where new station aspirations are known, the Welsh Route Study does take a view on how these might accord with the longer term strategy and what impact, if any, they may have on future network capacity.

#### New Lines

The Welsh Route Study does not specifically consider new lines unless they are a potential solution to accommodate known future demand or are already being considered as a potential intervention. This is consistent with the other Route Studies across GB.

The starting point for the Welsh Route Study is to assess how the use of the existing network capacity can be optimised as this offers best value for money.

Nevertheless, the Route Study sets out a Choice for Funders for reopening the branch line to Abertillery as this is already under investigation in partnership with our funders and there is strategic fit with committed and other potential enhancements on the Ebbw Vale line.

There will be reference to the Aberystwyth to Carmarthen railway in the Stakeholder Aspirations section of the final Route Study and, at this point in time, Network Rail is supporting work being carried out by the Welsh Government to assess the feasibility of this.