Transport Committee inquiry on rail infrastructure
December 2017

1. The Associated Society of Locomotive Engineers and Firemen (ASLEF) is the UK's largest train driver's union representing approximately 20,000 members in train operating companies and freight companies as well as London Underground and light rail systems.

2. This submission outlines ASLEF's views on the impact of postponing renewals and about the decision to remove enhancements from the control period process. We raise our concerns about the lack of clear vision for long-term rail infrastructure and explain why we oppose the government's policy of increasing private sector investment in rail infrastructure.

3. ASLEF welcomed the DfT's announcement in October that a budget of £47.9 billion has been allotted in the Statement of Funds Available (SoFA) for Control Period 6 (CP6), of which £34.7 billion will come in direct government grants, to be spent on operations, maintenance and renewals on our railway infrastructure between 2019 and 2024. This is a much needed increase from the budget for the previous control period, reflecting inflation and the fact that a higher volume of renewals activity will be required in CP6.

4. Since the ORR last reviewed Network Rail's charges and funding, the infrastructure manager has been taken under direct government control, with the reclassification of its debts onto the Treasury's balance sheet. ASLEF welcomed the decision to bring Network Rail into public ownership so that, as a public sector body, it can benefit from paying lower interest rates on its debt. Although the Treasury curtailed Network Rail's borrowing after 2015, its debt has still risen another £4.6bn to £44.8bn in the last year and is predicted to reach £51 billion by the end of the current 2014-2019 Control Period. Clearly this is a subject that must be addressed and Network Rail needs realistic and accurate spending plans. Network Rail is now subject to strict borrowing limits and the transport secretary has stated that he doesn't intend for Network Rail to obtain any further loans but worryingly, the ORR's annual assessment warns that plans to

raise cash will probably not reach the target figures. Only £34.7 billion of the budgeted £47.9 billion for CP6 will come in direct government grants, and the remaining £13.2 billion is expected to come from income Network Rail receives in track access charges from TOCs and FOCs and its commercial activities (e.g. property income). The transport secretary's vision for rail outlines a move towards public-private partnerships, backed with private investment, but at the moment there is no secure funding for this proposal and there is a lack of clarity regarding whether and when passengers would perceive any benefits.

5. It has long been the view of ASLEF that serial governments have failed to look at the needs of the national railway system on a long-term basis and failed to accomplish strategic priorities. Network Rail and all other stakeholders in the industry need stability and certainty about future direction, programmes and spending levels if they are to plan efficiently and make decisions about investing in skills, technologies and innovation for the future. They experience difficulties when approaching the end of control periods because their funds are running low and there is too much ambiguity about where efforts and funding should be focused. Network Rail needs to make a series of assumptions in order to produce plans for maintenance, renewals and enhancement activities and how much track access they will require to undertake the necessary work, but the government's long-term vision for investment and innovation is still unclear, making this difficult to achieve.

6. The HLOS document for operations, maintenance and renewals in CP6 gave no information about the transport secretary's plans for new infrastructure enhancements, new investments and major upgrades, which are now be set out in a separate process from the periodic review cycle, or how much funding will be allocated to enhancements. The final SoFA wasn't published until October and the DfT's Vision Paper wasn't shared until the end of November. This rail strategy plan outlines the 'next generation' of schemes for rail sector but much of the expansion work – Crossrail, the Thameslink programme, the Great North Rail project, HS2 – is already underway and running behind schedule. The potential benefits of other projects are currently limited by the impact of delays and downgrades. Vast amounts of funding have already rightfully been invested in the digital railway programme but pledges to introduce digital rail technology across more of the country have now been pushed back to the 2024-2029. Past promises on electrification have been reneged on and abandoned due to cost, but now the transport secretary is proposing to reopen closed lines and invest millions in developing rail innovation for other projects. Network Rail's strategic business plans (SBPs) with forecasts of

expenditure and income for CP6 and beyond are due in December, even though we still don't have a full picture of what we can expect in terms of investment in the railways over coming years. So long as planning within the railway sector is short-term and reactive, it is difficult to imagine innovative developments thriving.

7. The decision to remove enhancements from the control period process was based on the recommendations of the Bowe Review. Dame Bowe commented that "*highly complex schemes, which in planning and delivery may extend well beyond the duration of a control period, would benefit from focused and bespoke governance, such as with Thameslink and Crossrail.*" ASLEF supports the initiative to change the way Network Rail develops and delivers projects since the current planning process is demonstrably not effective. Despite successfully delivering some major projects, some of the projects promised in CP5 have been scrapped and there is an increasing backlog of renewals work to be completed. Major, first-of-a-kind projects need careful planning and management and can't be rushed or squeezed to fit in with control periods or political deadlines. Unfortunately, some projects – like the electrification projects which were inserted late in the periodic review process for CP5 – were committed to at very early stages of development based on uncertain cost estimates and delivery timescales which transpired to be inaccurate. ASLEF hopes that the transport secretary's decision to take Dame Bowe's recommendations on board and to remove enhancements from the control period process will bring about a more effective funding process, based on achieving the best possible public transport service and without disruption by interruptions to funding and last-minute changes in priority made for political gain. There can be no excuse for scrapping pledges and cancelling planned improvement work on a railway system that carries more passengers now than ever before and is of such vital importance to our national economy and the communities it serves.

8. Network Rail's plans to operate, maintain and renew the rail network between 2019 and 2024 have been declared 'robust' by the risk and assurance experts contracted by the Office of Rail and Road (ORR). The regulator's consultants looked at maintenance plans, target setting and plans for renewals and declared that Network Rail's spending plans for CP6 are 'clear, consistent and well-developed'. What concerns ASLEF is that no commitment has been made as to what timescale the projects postponed under CP5 will be completed by. Not all of the work required in CP5 to maintain a safe and reliable network has been completed, due to problems with cost and delivery, and now budget overruns of £3.4 billion for projects that

lapsed have been deferred into CP6. Pushing back chunks of work from one control period to the next in order to remain within budget impacts those projects and has a knock-on effect on other projects. Failing to meet deadlines puts an already creaking system under strain and has implications for passengers because poor infrastructure affects service quality and reliability.

9. In 2011 McNulty highlighted that a large part of the lack of communication between Network Rail and train operators results from the lack of alignment between control periods and franchising schedules. This is something that has not been adequately addressed. The HLOS for 2019 – 2024 sets out that Network Rail must pursue the implementation of route devolution and must work with TOCs and end-users through devolved structures to determine future plans. In Network Rail's Transformation Plan, chief executive Mark Carne states that everything should be devolved to route businesses, unless it demonstrably needs to be carried out centrally. The expectation is that Network Rail will transform into devolved businesses, and hand route managing directors the authority to approve 99% of all work as part of the devolution of accountability and authority. The managing directors of the nine routes will be responsible for making decisions about the work undertaken in their area, but it is not clear what the budget for each route will be, and how equitable the distribution of funding will be, between the regions.

10. Historically the regional disparity in rail infrastructure funding has been down to the greater population density in the South East and associated political and business influence. Figures from the Treasury's Country and Regional Analysis document show that expenditure on transport in Wales was £320 per head in Wales in 2014-15. This compares with £514 in Scotland and £600 in London. Think-tank IPPR North have calculated that £59bn more has been spent on transport in London and the South East over the past decade than in the north. Business leaders and lobbyists have again been calling for an end to the north-south divide in investment in rail since the government reviewed projects that were part of the Northern Powerhouse plan and cancelled the electrification of part of the Midland main line along with the lines from Kettering to Sheffield, Oxenholme to Windermere and Cardiff to Swansea, but at the same time offered support to London's £26bn Crossrail 2 scheme. But the huge disparities in regional transport spending are likely to continue because private investors will only be interested in programmes that offer good value for money because shareholders will not want their capital to be put at risk. It is ASLEF's view that the only way to achieve long-term country-

wide investment would be through all elements of the railway coming back together under a vertically-integrated system.

11. ASLEF believes that the lack of vertical integration between track and train brought about by privatisation has been a mistake and we support efforts to develop more collaborative working practices between Network Rail, TOCs, FOCs and other stakeholders, and plans to invest in new technologies and innovations. However we do not support the move to devolution combined with opening up the financing and delivery of investment projects to third parties. Bringing together track and train under private ownership and allowing a profit-driven private sector to have a say in decisions about how the railways are run is a mistake. The Shaw Report rejected the wholesale privatisation and breakup of Network Rail, but we believe that bringing private finance into running the railways at local level is still pathing the way to further fragmentation and privatisation. Instead ASLEF would like to see a single unified, vertically integrated system that does not enable money to be taken out of the industry in the form of dividends to shareholders, and instead reinvests all profits to finance maintenance work and enhancement schemes.

12. We already know from experience that privatisation inflates costs on the railways: The complex supply chain of manufacturers, operating companies and train companies, contractors and sub-contractors, each wanting to make a profit, leads to inefficiencies and pushes up interface costs. Most rail infrastructure funding in Britain is currently channeled through Network Rail and private sector investment is concentrated on rolling stock with only a small proportion being spent on rail infrastructure. This is a system that ASLEF has argued against in the past, because it means that the public sector finances infrastructure upgrades that private franchises benefit from without having to invest. The McNulty Report noted that the fragmentation of structures and interfaces has meant that train operators have little motivation to help the infrastructure manager to reduce costs – particularly since they benefit from compensation for delays attributed to the infrastructure manager. Part of the reason for train operators not investing in the railway is that there is no incentive for them when franchises are so short in length. The World Bank report on railway reform states that *'concession contracts that include rail infrastructure are typically 25 to 40 years, to allow the concession operator to invest in long-term assets to improve its performance'*. The transport secretary is now looking at lengthening franchise terms which would assist with planning, but is incompatible with the objective of increasing competition on the railways.

13. As mentioned above, ASLEF was never in favour of splitting up running trains, track and signals. Better coordination between Network Rail and TOCs and FOCs is obviously needed on a day to day operational basis as well as planning work on the network, but we have seen that experiments with alliancing and deep alliancing have not been successful. The only current substantive alliance is that on the NR Scotland Route, which begun in May 2015. The Transport Committee concluded that Network Rail's alliancing programme "has not achieved the desired benefits that were initially envisaged for this programme". The new strategy means that in future regional partnerships between Network Rail and a private partner will be overseen by an Alliance Director, responsible for a joint operating the trains and tracks. ASLEF's concern is that the whole plan is an experiment that could go badly wrong. Devolution to sub-national authorities can be suitable for services run by a single operator – like Transport for London operating the underground train network – but generally becomes complex and unworkable when different operators are competing on the same route. In a situation where many stakeholders are involved, it is challenging to reach consensus over which improvements and investments are necessary, how much each stakeholder should contribute, and who should get priority in access and timetabling - particularly when stakeholders' main motive is to make a profit and all are accountable to different shareholders. Local Councils and business have been encouraged to submit proposals for re-opening railway lines but a huge amount of guidance and ongoing support will need to be provided to any applicants, and there is a very real danger that the proposals for devolution and private investment could just make an overly-complicated system worse, not better. The recent downgrading of responsibilities of Rail North demonstrates that devolution of routes and responsibilities currently does not work and has achieved nothing for the constituencies represented.

14. The industry has in the past suffered greatly from failed PPI or PPP projects. We believe that cooperative or mutual models could be adopted to promote investment but we would need to look very carefully at how standards and protections were to be monitored if third parties begin to take on responsibility for the funding, design, and build of a particular project. Instead of setting national top-down performance targets, Grayling is asking that the ORR regulate Network Rail in a different way, looking separately at its national and local responsibilities to determine appropriate targets for each part of the network. Each route will have separate regulatory settlements by the start of CP6. ASLEF is concerned about the experimental nature of this approach to setting standards and developing route-level performance targets.

Furthermore, there are some matters that simply can't be devolved, such as safety, where the strategy for addressing threats of terrorism and cyber-attacks, for example, needs to be national rather than route-based. Striking the right balance between devolving responsibilities and retaining cohesive national standards where necessary, is a challenge.

15. Under the new system each geographical route is preparing its own strategic plan, and there will be a separate plans for the freight and national passenger operator (FNPO) route, for the national system operator (NSO) and for Network Rail's central functions. FOCs can take some comfort from the fact that there is some money for freight in the SoFA, but there is no clarity on the level of funding and how to bid for it, which could affect confidence in the industry and willingness to invest. ASLEF campaigns for lower rail freight track access charges and continued upgrades to key rail freight routes, so we welcomed the DfT's guidance to the ORR (July 2017) which states that the ORR should support the growth and development of the rail freight sector. In the context of devolution, we call for assurances that more profitable passenger services will not be given priority over freight services. Demand for more consumer and construction rail services is already constrained by the lack of space on the network and any further reduction to access could force freight from rail onto roads. Nationwide freight services cross over regional boundaries but it is unclear whether the FNPO and NSO will have the authority to protect the rail freight services on key corridors without formal incentives or instructions to route operators. There are many practical and environmental arguments for keeping freight on rail but also, importantly, it is freight operators who do ballast and infrastructure work and without them the maintenance of the whole network would be threatened.

16. As a union fundamentally opposed to privatisation of rail infrastructure we are against Sir Peter Hendy's recommendation to sell Network Rail assets, such as overhead lines, car parks, freight yards, land and properties, to raise funds. This is a short-term, short-sighted solution to raise quick cash. Income from commercial property is one of Network Rail's three income streams, so to sell off assets means that in the long-term Network Rail's income will fall.

17. In conclusion, it is ASLEF's view that the government's lack of long-term linked-up infrastructure strategy under the current model has meant that investment has not been sufficiently prioritised. Devolution and further privatisation are likely to exacerbate the fragmented lack of cohesion and strategy for our network as a whole, only to drive up costs and

impact negatively on service quality and connectivity. The decision to make short-term savings by downgrading plans to invest in electrification of lines was a shameful example of the transport secretary's short-term thinking and does not offer the same value for money, and as long as deadlines are missed and government commitments to projects are not fulfilled, Britain will not get any closer to the environmentally-friendly, modern, integrated rail network that commuters and the economy need. ASLEF's view is that the best way to create a sustainable system is to end the fragmentation of rail which creates inefficiency and prevent profit from leaving the industry.

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