Government Response to the Transport Select Committee's Report into Priorities for investment in the railways

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Introduction

The Government welcomes this report from the House of Commons Transport Select Committee, which makes a valuable contribution to the debate on future rail investment. The Government is committed to investing in the railway, to ensure that the needs of passengers and freight customers can be met into the future.

The Government welcomes the report's recognition that we are committed to investing in rail and that the current investment programme is producing real benefits. We appreciate the Committee's recommendations, many of which bear similarities to views we have heard from other stakeholders.

Response to the Committee's Recommendations

The value of rail enhancements

1. There are differing views on the economic and environmental benefits of investing to enhance the railway network. It is clear, however, that enhancements to the railway network provide good value-for-money in many cases and are a worthwhile investment of public funds. Rail network enhancements can have important economic benefits and help to regenerate, and connect, local communities. If extra transport capacity is needed, rail is also more environmentally friendly than road or air. The UK's challenging climate change targets increase the attractiveness of investing in the network, to encourage modal shift in terms of both passenger and freight transport and to make the railway network itself greener. (Paragraph 27)

The Government recognises the social and economic importance of the railway; an understanding which underpinned our programme of investment for the 2009-2014 Control Period. We also recognise the important role of the rail network in delivering the low carbon transport system that we need to meet our climate change targets. We recognise also that rail generally performs better than other modes from an environmental perspective. However, there is certainly no room for complacency and, for this reason, the Government is working closely with the rail industry to improve still further rail's environmental performance, for example through a greater focus on energy efficiency in new train procurements and rail franchises, as well as taking forward plans to electrify more of the rail network.

2. We welcome the scale of the current investment programme and we commend the Government for its commitment to the railways. The Government is right to prioritise increasing capacity during the current control period, and we are pleased that the Government is investing in growth. We call for this to continue across the country in the next period. (Paragraph 28)

The Government has started the process of determining the output metrics that will be specified for Control Period 5 (2014-2019). The expected growth of the railway, and the economic situation at the time will be key factors in the decision making process. In order to continue to accommodate a growth in rail traffic, while ensuring that rail investment represents good value for money, the Government has recently launched a study that will examine options for reducing the costs associated with the rail industry and improve efficiency. This study will report by the end of March 2011.

Improving the process of investment decision-making

3. Prioritisation methodology can never take account of all the economic and other impacts of transport schemes. There are always likely to be some social, environmental and economic impacts that are hard to monetise. Too often, however, the Government prioritises its spending on rail projects based on current and forecast demand, which has contributed to a disproportionate increase in the ratio of investment into London compared to the regions. If this continues, the effect will be to increase disparity between spending in London and the South East and other regions, creating a 'vicious cycle' of demand-led investment. The Department needs to develop its methodology to make its appraisal of projects more dynamic to integrate wider social, environmental and economic considerations, including the impact of transport investment on the GDP of regions and secure better integration with regional economic and social objectives. (Paragraph 34)

The method used by the DfT to prioritise transport schemes is aimed at taking account of those impacts that are hard to express in money values. The benefit cost ratio includes only impacts that can be monetised, many of which are elicited through market research using stated preference techniques or through other price based analysis. Before prioritising any project, the benefit cost ratio is reviewed in the light of the unquantifiable impacts. These impacts are described and scored as part of the appraisal process and set out in the Appraisal Summary Table. (reference; http://www.dft.gov.uk/webtag/documents/expert/doc/unit3.2-as-table.doc)

The method used is described in
http://www.dft.gov.uk/about/howthedftworks/vfm/guidanceonvalueformoney
Decision-makers are asked to consider whether, in the light of all of the information provided through the application of the DfT Webtag guidance and the Appraisal Summary Table and other supporting evidence, this additional information is likely to have an impact on the scheme that changes the priority ranking from the ranking when based exclusively on the monetised benefit cost ratio.

The estimate of the value for money of a project is only one of the several considerations that influence its ranking. As the note referred to above makes clear, other considerations include affordability, the strategic fit of the project with other policy requirements and any potential social and distributional impacts.

The Department has issued advice on the wider economic impacts of transport schemes at;
http://www.dft.gov.uk/webtag/documents/expert/pdf/unit3.5.14c.pdf
While this advice is not mandatory because it is still being refined and a method for applying the advice being developed by taking outputs from the appropriate transport model, it has been used in the case of several major projects including HS2. The advice is restricted to agglomeration benefits, the effect on a scheme of markets which operate under imperfect competition and the impact of a scheme on labour supply and labour productivity. The methods set out in the guidance are based on recent research by academics on the relationship between urban density and productivity and the role of transport in increasing effective density.

The Department's forecasting methods take into account planned changes in the spatial distribution of households and employment and thus are built on the land use planning assumptions that underlie the Government's regional policy. This approach is adopted because transport cannot on its own drive regional or local economic development. But the method of factoring in to the transport forecasts the land use changes in the regional economic plans ensures that transport needs are assessed as part of the regional economic development programme and do not constrain growth. Details of this database and the computer programme to access it are given at;
http://www.dft.gov.uk/tempro/

4. The last High Level Output Specification (HLOS) and Periodic Review processes generally worked well. We welcome and support the Office of Rail Regulation's recent commitment to improving the representation of passengers, freight users and regional representatives in the next Periodic Review. The Government must, however, go further. It needs to set out a clear plan for improved consultation with regional representatives in advance of the next HLOS. (Paragraph 40)

The next HLOS will take account of the multi-modal studies of both national and city & regional networks that have been commissioned by the Department and regional stakeholders under the Department's 'DaSTS' programme. These studies involve full regional engagement. The Department has also established an industry working group, which includes representatives from both the Welsh and Scottish administrations, the Passenger Transport Executive Group, Centro and Transport for London, to advise on the development of the next HLOS.

Security of the current investment programme

5. Given current levels of overcrowding on parts of the network along with passenger demand forecasts, it is vital that current and planned projects to increase capacity continue to the present timescale. We welcome the strong assurances from the Government and the Office of Rail Regulation that the Control Period 4 funding settlement for the next four years is secure. Cuts in transport investment are easy to make, but

are costly in the long term, undermining future growth prospects and depriving future generations of a lasting legacy of good transport services. Investment in improving transport infrastructure should be based on the long-term needs of the economy and society, not directed by the need for immediate public expenditure savings. (Paragraph 47)

The Government remains committed to the planned programme of investment for Control Period 4 (2009-2014) and has no plans to make cuts to the agreed funding settlement.

6. The Government was right to revise its rolling stock plans in light of its electrification announcement. We are concerned, however, by the postponements in issuing the plan and by the uncertainty and confusion caused by the delay within the industry. Rolling stock is required urgently in several parts of the country. We urge the Government to set out its revised rolling stock proposals as soon as possible to provide the industry with certainty about future capabilities and to improve the travelling experience of passengers on overcrowded parts of the network. (Paragraph 50)

The Government recognises the need for additional rolling stock across the network, and remains committed to providing an additional 1300 carriages by mid-2014. However, any updated version of the rolling stock plan will be critically dependent on the determination of the Thameslink rolling stock contract. Until commercial negotiations on the Thameslink programme are completed, the Government is not in a position to update the rolling stock plan. However, the Secretary of State has recently announced additional vehicles for First Capital Connect, East Midlands Trains and Northern Rail subsequent to his written ministerial statement of 14 December 2009.

Priorities in the medium to long term

7. London has benefited greatly from the Control Period 4 package, and is likely to benefit further from projects such as Crossrail which has received the go-ahead in the last few years. London's rail network will continue to require investment in Control Period 5, especially to increase capacity on certain commuter routes. However, projects to enhance capacity elsewhere on the network, particularly in the North, are long overdue, and the balance between investment in the South East and elsewhere needs to be realigned. (Paragraph 57)

In the High Level Output Specification (HLOS), DfT sets out the outputs it requires from the railway and it is for the industry to propose value for money solutions to meet these outputs. In terms of capacity, the railway network in London is full and on some routes it is not possible to lengthen trains or provide longer trains on the existing network and consequently major expenditure is required to add capacity to the transport network as a whole. This has included new sections of railway.

By contrast, in other parts of the country, there remains the option to provide additional capacity by lengthening trains or in some cases running additional trains on the same tracks. This is less costly than building new sections of railway and, therefore, the interventions required to deliver capacity outputs elsewhere in the country will not require the same level of investment as they do in London.

8. The problems of the Manchester Hub can not be ignored any longer. The current capacity constraints of the Hub are constraining rail growth across the whole of the North of England. The case for making the Manchester Hub the top priority capacity scheme for the next control period appears very persuasive. We welcome indications from Network Rail, the Government and the industry that it will be considered a high priority after 2014. (Paragraph 58)

Network Rail published its report on the Manchester Hub (Northern Hub) in February 2010. The Government welcomed this report which sets out a future strategy for improving rail services across the North of England through increasing capacity and tackling bottle-necks around Manchester and key routes across the Pennines. We have encouraged Network Rail to carry out further development work on the preferred option so that a decision can be made in 2012 as to whether this scheme is a priority for funding during the period 2014-19 and beyond.

9. We have previously supported electrification of the network, and we welcome the Government's change of position on this matter. The electrification of the Great Western Main Line and four lines in the North West should be considered only important first steps in the electrification of the network. Funding for Control Period 5 is likely to be under pressure. However, further electrification of the network should be considered one of the top investment priorities for the period. We would support electrification of the Midland Main Line in particular as a major electrification project to be undertaken in Control Period 5. (Paragraph 63)

10. Prior to the 2009 change in policy, we had criticised the Government for not giving small-scale infill electrification projects the consideration they deserve. In the current financial climate, the attractiveness of such schemes is even greater as they are often relatively cheap and represent particularly good value-for-money. The Government should ensure that the next stage of its electrification strategy gives priority to a range of small-scale infill schemes over the short to medium term. (Paragraph 64)

The Government recognises the advantages of rail electrification, and last year's announcements concerning the Great Western Main Line and lines in the North West represent the largest programme of electrification for a generation. The Government is considering the costs and benefits of further electrification on a case-by-case basis, notably on the Midland Main Line. However, as well as offering value for money, any such work would have to be both affordable and consistent with rolling stock requirements. In particular, carefully targeted main-line or infill schemes may obviate the need to procure further diesel rolling stock as some existing diesel trains reach the end of their useful lives.

11. We welcome the Government's change of policy on high speed rail. Nevertheless, new high speed lines will not be operational for a decade or more. It is essential that investment in a high speed rail network does not detract from necessary medium term investment on the "classic" network. Capacity constraints on the classic network look set to worsen in the next decade and we must continue to invest to address these problems. After all, the majority of passenger and freight rail journeys will continue to be made on the classic network. The bulk of funding needed for new high speed rail line is, in any case, unlikely to be invested before Control Period 6, or later. (Paragraph 71)

A key priority of high speed rail in the UK would be to improve the links between Britain's largest and most productive urban economies. This will mean, in particular, tackling crowding and congestion and improving the performance of transport links between London and the major conurbations in the Midlands and further north, where current networks are likely to be most stretched in future.

The recommended new line would add significantly to our transport networks as a whole, releasing capacity on the existing classic lines which could be used for more local, regional and freight services.

The most significant capacity benefits of this network would be felt on the three principal rail corridors heading north from London, and particularly the critical London-West Midlands corridor, whose rail capacity would be more than trebled. This would address the substantial demand growth expected on these key strategic routes, which serve extensive long distance, commuter and freight markets, as well as providing the foundation for journeys to a wide range of destinations further north, on both sides of the Pennines.

There is no intention to reduce necessary investment in our existing networks. What the proposed high speed rail core network (the 'Y') may mean is the cost of upgrading the existing network could be reduced, as some expensive schemes that may have been necessary on the classic lines to address future growth, in the absence of High Speed Two, at likely great disruption to passengers and services, will no longer need to be implemented.

12. The Government cannot be expected, at this stage, to explain precisely how it would balance the funding between investment in high speed rail and the maintenance of existing investment levels on the classic rail network. In its response to the High Speed Two study, however, the Government must explain how this balance will be struck, the mechanisms by which a high speed line would be funded, and how investment on the classic network will be maintained at an appropriate level. (Paragraph 72)

Whilst these costs are clearly significant, they would be spread out over a period of 15 or more years and the largest sums would not begin to be spent until during construction. The estimated design and preparation costs prior to the commencement of construction, along with the costs associated with the introduction and passage of a Hybrid Bill, are very significantly lower, and would depend heavily on factors such as the duration and complexity of the preparatory work and the amount of controversy and amendments encountered.

The rate of construction spend would depend significantly on decisions about the phasing of individual segments of the overall scheme. Under HS2 Ltd's proposed spend profile, the average annual spend during the construction period would be around £2 billion, with the highest spend in a single year totalling £3.9 billion. This is broadly consistent with planned spend during the construction period for the Crossrail project.

13. We recognise concerns about the potential competitive disadvantage faced by regions not served by the initial high speed line. It is helpful, therefore, that High Speed Two Ltd will be proposing options to extend high speed services, and high speed lines, to a range of areas in the North East as well as the North West. It is very important that, from as early a stage as possible in the development of high-speed services, new high speed rail lines are interoperable with the existing network. (Paragraph 77)

We recognise such benefits to other regions that may be delivered by running high speed services on to the existing network. In response to HS2's work, Government's assessment is that Britain's core high speed network – "the 'Y' network" - should link London to Birmingham, Manchester, and the East Midlands, Sheffield and Leeds. Government has asked HS2 to begin work on detailed route options for such extensions.

The initial core 'Y' high speed network would include connections onto existing tracks, including the West and East Coast Main Lines, so that direct high speed train services can be operated from the outset to other cities including Glasgow, Edinburgh, Newcastle and Liverpool.

14. We were not satisfied by the Minister's response regarding the proposals to "connect communities". For relatively modest costs, these schemes to open new lines and stations, and re-open old lines, can be of great value to communities and passenger usage has often exceeded expectations. The Government should take a more positive and pro-active policy position to encourage local authorities to seriously consider these schemes and align them to regional economic and social objectives and strategies. The Government should fund schemes where it is confident about high passenger patronage directly through the national rail investment programme. Alternatively, where the opportunity

exists, it should encourage private investment through the franchise system. (Paragraph 82)

The Government recognises that new or re-established rail connections could be important to communities and add to local or regional transport networks. Funding is available for re-openings through the Regional Funding Allocation and if a region believes that a scheme is important when compared with other potential transport projects in their area, they can identify it as such in their advice to the Department. It is important to recognise that reopening railways is not cheap and there are ongoing costs to be covered as well as capital expenditure. The Government has recognised that local promoters are not in a position to give open ended commitments in respect to these ongoing costs and as a result has now agreed to consider funding new services after an initial period of sponsorship from local sources. It does not consider that adding new routes will generally be a national priority and as a result does not believe that a national programme is appropriate.

15. The need to invest in UK rail freight is more clear and pressing than ever in the context of the UK's climate change targets. We would expect the funding committed to the Strategic Freight Network to be, at the very least, maintained by the Government in the next control period. The current proposals to develop the Strategic Freight Network after 2014 should be given a high priority and must be aligned with economic and environmental objectives. (Paragraph 85)

The Government agrees with this recommendation - In October 2009 we published a paper "*Strategic Rail Freight Network: The Longer-Term Vision*", this sets out ways in which we envisage that further development of the SFN and enhancement of freight operations will enable UK's intensively utilised mixed-traffic network to accommodate rail freight growth forecast to 2030. SFN schemes for Control Period 5 (CP5: 2014-15 to 2018-19) and beyond will be developed as an integral part of the network planning process which will underpin the next HLOS and the emerging strategies for dealing with future passenger demand on the main line routes.

16. It is unacceptable that investment in schemes and projects that integrate rail with other transport modes has not always matched the Government's rhetoric. The Government must ensure that investment in rail takes into account good integration with other modes of transport. The recent strategy to increase the use of smart and integrated ticketing outside London is a step in the right direction. The Government must, however, make faster progress in this area. This is the only way to achieve a genuinely convenient and accessible public transport system for passengers which presents a real alternative to the car. (Paragraph 89)

The Government agrees that integration between rail and other modes of transport can produce benefits for the travelling public. We have transferred over £40m from Regional Funding Allocation (RFA) to Integrated Transport and Maintenance for the current financial year, enabling local authorities to bring forward more improvement and maintenance schemes.

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