

Response to the National Assembly for Wales’ Economy, Infrastructure and Skills Committee Inquiry: Rail franchise and Metro

Network Rail: the national System Operator

Great Britain relies on railways for economic growth, creating jobs and building sustainable communities. Across Wales and the English Borders the railway is the economic and social lifeblood of many towns, cities and rural communities.

Network Rail operates, maintains, renews and enhances Britain’s railway infrastructure. Following the reclassification of Network Rail as an arm’s-length public sector body in 2014, we continue to manage Britain’s railway infrastructure within our regulatory frameworks. As a public sector body, we are committed to delivering value to customers and taxpayers.

We have one of the safest and fastest-growing railways in Europe. The number of passenger journeys in Wales is at the highest point in modern times with over 30m journeys in 2015/16 - double the number travelling less than 20 years ago.

At the same time, over a half of Europe’s most congested infrastructure is found in Britain and Network Rail is responding by delivering our railway upgrade plan. Some recent examples include the £300 million Cardiff Area Signalling Renewal project, the upgrade of the Severn Tunnel as part of the electrification of the South Wales mainline, and the resignalling of the North Wales coast line currently underway.

Network Rail is a national business with devolved Routes running the railway day to day for the benefit of passengers and communities. The Wales Route was established in 2011 and is accountable for the safety, punctuality, operation, maintenance, renewal and improvement of the network. The devolved structure of the business in Wales means that Network Rail is prepared for further devolution of rail powers from Westminster to Cardiff, and we indicated our readiness in our evidence to the Silk Commission.

Our principal stakeholders are the Department for Transport, the Welsh Government and Transport for Wales, and our key customers are the Train and Freight Operators and the passengers and industries they serve. The Wales Route employs over 1,500 staff directly with thousands more skilled people employed through our local, regional and national supply chain. Across the Wales Route there are 246 stations, 1,545 track miles, 1150 level crossings and over 2,920 bridges.

Network Rail recognises the clear link between improving railway services for passengers and growing the economy. The railway will need further investment in order to modernise services and stations so that it is fit for the future. We welcome the Welsh Government’s ambitious proposals to invest in better services for passengers and the economy.

The Welsh Government owns the business case for the new rail service and the Metro. As custodian of the national rail network, Network Rail is supporting Welsh Government to understand the impact of the proposed rail service, as passengers and markets cross geographic and political boundaries.

As a public sector body, Network Rail wants to make sure the proposals are of value to all passengers and there is a benefit to taxpayers, as passengers elsewhere in the UK should be no worse off in terms of connectivity or cost of tickets. This is critically important because as System Operator for Britain’s railway, Network Rail must make sure that all of the plans and proposals fit together in the context of planning a reliable timetable that allows for journeys across Great Britain. The System Operator function is the glue that bonds the national timetable together.

Wales Route Study: dealing with growth across the route

Network Rail has a licence condition to forecast demand growth for the rail market (both passenger and freight), and present options to accommodate that growth for governments and other funders. Our Wales Route Study covers much of the geography of the new rail service, and was published in March 2016.

In that document, we showed that the route had experienced a 46% increase in passengers since 2003, and we predict an increase in rail commuting to the Cardiff city region of 68% by 2023 and 144% by 2043. In the long term market major growth is also expected from South Wales to London, from North Wales to the English Midlands and the English North West, and from the Cambrian routes into the West Midlands.

Network Rail has set out a number of solutions to meet this growing demand for rail travel and these are set out as Choices for Funders. We provided evidence to a previous Committee Enquiry about these and a summary of some of the Choices for Funders follows:

- To introduce longer trains or more frequent services on the Valley Lines;
- Upgrade the relief lines between Severn Tunnel Junction and Cardiff;
- Redevelop Cardiff Central station to improve capacity and experience;
- Lengthen selected trains on the Cardiff to Manchester route;
- Improve speeds and train intervals on the North Wales Coast line;
- Improve frequencies of trains from Wrexham;
- Continuation of hourly services on the Cambrian line.

Other recommendations were made for funders, and more detail can be found in the document which is available via the Network Rail website

Network Rail's aspirations for the new rail service

Network Rail has a number of aspirations for the new rail service, both tactical and strategic. They include (but are not limited to):

- Deepening collaboration between Network Rail and the ODP so that both organisations are driven to put passengers first;
- Aligning performance and punctuality incentives of both Network Rail and the ODP;
- Bringing Network Rail and ODP teams together to improve communication;
- Commitment to reliable timetables and joined up planning processes;
- Provision digital railway capability across the system, including rolling stock;
- Fitment of on-train infrastructure monitoring equipment;
- Preventing the uncontrolled discharge of effluent onto the railway from the toilets on older trains, improving station environments and our workers' welfare.

Network Rail believes the new rail service provides a great opportunity for the infrastructure provider and the train operator to work more collaboratively in order to improve the public transport offer to passengers in Wales and the English borders. We have spoken with bidders about the potential for deepening our mutual incentives through the duration of the rail service grant to better align both partners in delivering for customers.

In the opportunities presented by Welsh Government's procurement approach we continue to work with both bidders and Transport for Wales to progress these aspirations, many of which require integration with a rolling stock strategy.

Network Rail's assistance in the procurement of an Operator & Development Partner (ODP)

Welsh Government is procuring an ODP to provide passenger service throughout the Wales & Borders network, as well as propose infrastructure changes on the Core Valley Lines and potentially operate those routes as an Infrastructure Manager for Welsh Government.

Network Rail is assisting the procurement through the following activities:

- Providing information to bidders directly into the procurement data room and through the Clarification Question process managed by Transport for Wales;
- Meeting directly with bidders in Competitive Dialogue sessions overseen by Transport for Wales, helping bidders develop their proposals through meaningful exchanges;
- Assisting Transport for Wales in developing proposals to further devolve management of the Core Valley Lines (as below).

It should be noted that this is a live procurement exercise, and at the time of writing Network Rail has been given neither outline nor detail of what the bidders are proposing.

This is a novel procurement, both in terms of programme and award, which provides Welsh Government a vehicle to enable transformation of the Core Valley Lines. The procurement programme is driven by two determining factors: the expiry of the current franchise (October 2018) and the bringing into service of Core Valley Lines service enhancements to meet European Funding deadlines (2022/2023). Challenges also exist in the wider rail service geography, including the introduction of new rolling stock accessible to people of reduced mobility (2020 unless deferred).

Network Rail's view is that the procurement timeline is both understandable and very challenging, particularly in relation to the delivery of interventions in the Core Valley Lines. Wherever possible, Network Rail is planning its own activities to facilitate Welsh Government's programme.

Further devolution of the Core Valley Lines

Since January 2016, Network Rail and Welsh Government have in place a Memorandum of Understanding regarding the parties' aspirations to further devolve parts of the Welsh rail network (the 'Core Valley Lines' from Cardiff Bay to Cardiff Queen Street and all points North thereof – see Figure 1 below). Our main relationship in delivering this further devolution has been with Transport for Wales.

Network Rail will support Welsh Government's aspirations provided there is no net adverse impact on Network Rail's business, and that the programme demonstrates a positive whole-industry business case. Network Rail has made further in-principle commitments for the comfort of Bidders in the procurement exercise, to the extent that it will facilitate a wide variety of outcomes including:

- the retention of the Core Valley Lines as part of Network Rail's infrastructure;
- the divestment of the Core Valley Lines to Welsh Government;
- the amendment of Network Rail infrastructure to facilitate interconnected services on a different pattern to present;
- the complete segregation of the Core Valley Lines and facilitation of the impact on Network Rail infrastructure.

Network Rail has an obligation to the Government to demonstrate the realisation of value from either transaction according to Treasury Green Book rules through the development of a Five Case Model business case. Any of the options above will need to satisfy a Network Rail business case which will be predicated on a commercial arrangement to hold Network Rail harmless from:

- inefficiencies incurred as a result of a changed geography for Wales Route;
- a reduction in our income which is not matched by a reduction in our costs;

- effects on our current or future Control Period settlements that cannot be renegotiated with the Office of Rail and Road;
- liabilities related to the Core Valley Lines, principally the value of the debt associated with the assets but also including obligations relating to the infrastructure.

Network Rail manages assets by class rather than on a line-of-route basis. Nevertheless it has tried to estimate the likely costs and benefits arising from the Core Valley Lines infrastructure (as part of the national rail network) to inform both Welsh Government and the Bidders of the scale of Network Rail's business in the Core Valley Lines.

Network Rail will assist Welsh Government in identifying the obligations currently met by Network Rail which may need to be undertaken either by the future owner of the asset, or the future Infrastructure Manager. It is helpful to think about the further devolution of the Core Valley Lines as being formed of two distinct elements:

- 1) Transfer of the Core Valley Lines' assets from the ownership and control of Network Rail to Welsh Government; and
- 2) The relinquishing of Network Rail's Infrastructure Manager role over the Core Valley Lines routes, to be assumed by the ODP.

These two elements need not occur at the same time. The infrastructure can continue to be managed by Network Rail as an agent of the new owner, Welsh Government, until such a time as the ODP is in a position to assume the responsibility of Infrastructure Manager. This might even be done on a line-by-line basis, if appropriate. Network Rail continues to offer a flexible approach to Welsh Government to mitigate risks that might arise from the challenging programme.

Wales & Cross Border services: the wider network

Among the principal challenges relating to the wider network is the delivery of the Cabinet Secretary's priority of new rolling stock within the legal timescales related to provision of access for people with reduced mobility. Unless derogations are successfully obtained, rolling stock must be compliant with statutory obligations in 2020. A rolling stock strategy within an existing franchise would normally provide for this but as the rail service commencement falls close to the compliance deadline, Welsh Government have chosen to include new (or retrofitted) stock as a condition of the grant award. Different bidders will have different proposals to meet this need, and therefore industry process relating to the introduction of new rolling stock may come under significant pressure.

Other deliverables across the rest of the network may include bidders' proposals for new infrastructure including platforms, passenger facilities and potentially system enhancements. Network Rail is open to a range of appropriate delivery routes for new infrastructure, notwithstanding its need to protect its own infrastructure and the integrity of the wider network. When we are informed of bidders' proposals we will happily give advice about possible delivery routes for such work.

Programme and risk

Network Rail anticipates two challenges in Welsh Government's procurement programme, particularly in relation to the Core Valley Lines elements:

- 1) Scale of commercial transactions

The accurate description of the Core Valley Lines and their conveyance from Network Rail to Welsh Government, as well as the transfer of the Infrastructure Manager business to the successful ODP, is a large and complex transaction. Due diligence and final terms for both will not be complete prior to the award of the rail service grant.

2) Technological outcomes

The potential creation of a separate network with interconnecting services – if this is procured by Welsh Government – will introduce novel interfaces to the Cardiff area, potentially with new technologies and new rail vehicles. Network Rail will facilitate this to the greatest extent possible while maintaining the integrity of our infrastructure and the safety of the network.

Summary of Network Rail's support for Welsh Government

- 1) Provision of options for funders in the 2016 Wales Route Study, creating the case for investment and change;
- 2) Clear statements of intent to government and the rail industry with our Memorandum of Understanding and In-Principle Commitment;
- 3) Support for bidders at both Outline Solutions and Competitive Dialogue phases of procurement, including direct meetings and provision of information;
- 4) Provision of novel and detailed information far in excess of classic refranchising;
- 5) Preparing with Transport for Wales a joint programme for procurement and delivery;
- 6) Drafting and agreement of a joint commercial plan relating to regulatory, financial and commercial changes related to the Core Valley Lines;
- 7) Preparation of Network Rail's business for future changes, and the recruitment of staff to facilitate the transition.

Figure 1: Core Valley Lines

