Transport Select Committee

At my appearance before the Committee on 22 January 2018, I committed to provide additional information on a number of topics, in addition to further explanation about the benefit cost ratios associated with the Midland Main Line. Please find my responses below.

Benefits Cost Ratios of the Midland Main Line Programme

At the hearing on 22 January 2018 and in your letter to me on 2 November 2017 you explained that you had seen the two economic cases – for the rolling stock and infrastructure respectively. I would be happy to provide either of these if this is not the case and indeed intend publish both of these in due course.

As I have previously indicated to the Committee, it is important to recognise that an economic assessment of an investment as expressed as a Benefit Cost Ratio (BCR) is not the same as an overall business case for investment. In making investment decisions – the value for money, as expressed through the economic analysis – is just one of the factors I consider.

At the Committee hearing, a number of BCRs associated with the Midland Main Line were discussed. Given the Committee’s interest in the decisions I have taken for this route, I offered to provide further explanation of these BCRs, which related to the economic assessment of both infrastructure and
rolling stock on the route, in order to ensure that the Committee understands the basis of the figures and how they informed my decision making.

Firstly, the BCRs associated with the assessment of the infrastructure options. The two BCRs associated with these discussed at the Committee were 9.4 and 0.77. The first of these represents the BCR of the full programme of infrastructure works considered on the Midland Main Line without taking into account the impact of Phase 2 of the HS2 Programme. The equivalent BCR considering the impacts of HS2 being the 1.21 I put in my letter to you. The latter figure of 0.77 represents the incremental BCR of electrification of the line north of Kettering taking into account the impacts of HS2. As I previously explained, when considering the BCRs of the infrastructure options on the line, I considered it important to use those which took account the impacts of the HS2 programme. This was because, in my view, these provided a more useful representation of the benefits that are likely to be delivered by the Midland Main Line upgrade, given our commitment to HS2.

In assessing the benefits of the different infrastructure options, my Department had to make assumptions about the train services and rolling stock that would operate along the enhanced infrastructure. The do minimum option assumed the continuation of the existing train fleet, with some assumed modifications in first class provision presumed necessary to aid with forecast crowding.

The Committee referred to the 9.4 figure as the BCR for full electrification of the Midland Main Line. In fact the full programme of infrastructure works considered on the Midland Main included both significant capacity works, such as four tracking a section of the line, remodelling of the track and signalling around Derby station, and electrification. The economic case for the infrastructure options found that it is the capacity works on the Midland Main Line that drive the majority of economic benefits, present value and results in the highest BCR. If I was making decisions purely on the economic section of the business case I could have opted to focus only on capacity works given that these provide the greatest economic benefit. As I have explained before, the BCR is just one factor I consider when making investment decisions.

With all BCRs, it is important to take account of the assumptions underpinning them. Through the analysis undertaken on the rolling stock and infrastructure options the Department has sort to test different things at different times. This has been reflected in the assumptions used in the two respective economic assessment.

In respect of the rolling stock assessment, the capital infrastructure costs taken into account in the InterCity rolling stock options appraised, including
the bi-mode option, did not re-examine the capacity works on the Midland Main Line. This reflects the fact that the capacity works are not required to allow the different train options to run. Therefore while it is appropriate to say that the BCR of partial electrification and bi-mode operation on the Midland Main Line is 1.2, this BCR does not reflect the full extent of works and investment that the Government is making along the Midland Main Line.

Cost of ‘unmuzzling’ the Intercity Express Trains on the Great Western Main Line

The Committee asked me to provide the costs of ‘unmuzzling’ the diesel engines of the Intercity Express Trains on the Great Western Main Line given the delays to the electrification programme and the need to match existing journey times in advance of its completion. The negotiations held with Agility Trains (West) to agree this contractual change were held concurrently with those to reflect the increased diesel operation of the trains as a result of the delays to electrification on the Great Western Main Line. The nature of these negotiations means it is not possible to provide figures for the two elements separately. Through the negotiation, which assumed ‘unmuzzled’ operation for a full two years, the time required to complete the electrification required, the total cost associated with the two elements came to approximately £139m.

As I explained to the Committee, the increased diesel mileage reflected the fact that electrification of the main line had not progressed as fast as originally thought, and had only reached Maidenhead rather than extending further along the line. These costs are not a result of the decision I took regarding Cardiff to Swansea.

At the Committee I noted that the distance the trains are able to operate in electric mode has already increased compared to the agreed contractual position – with trains now able to operate from London to Didcot in electric mode. As the level of electrified track along the Great Western Main Line increases and the diesel mileage reduces, these increased costs to the Department will decrease proportionately. To this end, reflecting the electrification of the track to Didcot, the Department has already begun scoping a further contractual variation to reflect this increased level of electrified track which we expect will reduce the costs compared to the £139m assumed.

Quality in Franchises

At my appearance in front of the Committee, we discussed the franchise system, and I explained that I am committed to a franchise system which delivers for passengers and the taxpayer. In turn I was clear that this means
we need a franchise bidding process based on quality, because in my views this delivers good performance, which in turns helps drive up revenues.

I am already taking steps to ensure this. Assessment based on quality is now a requirement in all our competitions, and is included in the base specification of the Invitation to Tender. Indeed, the last two franchise competitions, South West and West Midlands, have had the highest quality weighting of any competition to date.

By setting a minimum quality threshold in every competition as well as incentivising bidders to go further, the Department is able to ensure a strong quality element in franchise bids which deliver real results for passengers. For example, the Department specified requirements for new trains to replace the pacers on the Northern Franchise, and on East Anglia a requirement to meet a certain level of customer satisfaction was included within the base specification which led to a complete replacement of the train fleet. Examples such as this demonstrate my Department’s commitment to improve the service offered to passengers, by continuing to build on the recommendations of the Brown review to award franchises based on a mixture of quality and price.

The Government’s focus on ensuring improved service is not only demonstrated through our franchise letting process. We work closely with our franchisees throughout their contracts, monitoring their progress against their contractual commitments. This includes requiring Train Operating Companies to deliver improvements across a range of key measures from the National Rail Passenger Survey. Given the importance that passengers place on a reliable railway, we have recently added targets for ‘Dealing with Delays’ for the first time, to incentivise operators to improve their customer service provision during periods of perturbation.

This Government is committed to continuing to operate a franchising system that ensures we get the best deal for passenger and the taxpayer. In order to ensure franchises deliver improvements that matter to passengers we now include an annual fund in franchises to invest in Customer and Communities Improvement Schemes. The identification of these schemes, which are those that passengers and users tell franchisees that they want in consultation, are supported by the increased requirements we put around customer and stakeholder engagement we put in our franchises.

Where there is limited revenue incentive to improve service quality, we now introduce regimes that audit standards at stations, on trains and in staff interactions with mystery shoppers, with financial penalties for failure to achieve targets.
As I made clear to the Committee the Government will also continue to operate a system that requires train operators to face financial penalties if they do not meet their commitments and ensures we get the best deal for passengers and taxpayers. We already have different forms of risk sharing on different franchises around the country and we continue to work to improve and refine the franchise model and monitor performance of all franchises closely. In November, the Strategic Vision for Rail set out our future plans for the franchising system, including our intention to continue to transfer the majority of revenue risk to train operators over the medium term where appropriate, but this will be alongside public-private partnerships to enable more integration between track and train operations.

I trust this reply is helpful.

[Signature]

Rt Hon Chris Grayling MP

SECRETARY OF STATE FOR TRANSPORT