

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 33	WRI 33
Transport Scotland	Transport Scotland

## **Paper for the National Assembly for Wales' Enterprise and Business Committee meeting 11 February 2016 - Priorities for the future of Welsh Rail Infrastructure**

### **Scotland's railways - today**

Published in March 2015, **Scotland's Economic Strategy** sets out the Scottish Government's plans to achieve a more productive, cohesive and fairer country. The strategy provides a plan for all of Scotland and focuses on four main themes – investment, innovation, inclusive growth and internationalisation.

Sustainable investment in our people, our assets and our infrastructure is identified as being vital to economic growth. Scotland's railways are key to the prosperity and quality of life, linking our communities to each other, to employment opportunities, to industry, business and markets. Our railway also enables Scots and their guests to enjoy Scotland's rich, vibrant cultural heritage and tourist attractions. Against this backdrop, investing in Scotland's railway infrastructure remains a key priority of the Scottish Government.

Since rail powers were devolved 10 years ago, demand for rail travel has increased by **45%** with around **93 million** ScotRail passenger journeys last year. This growth has been supported by significant investment by the Scottish Government.

Since 2007, over **£6 billion** has been committed to improvements in rail infrastructure and services, supporting new fleets of modern electric trains, new and improved services, the delivery of seventy-six kilometres of new railways, and the opening of 13 new stations. This includes 7 new stations that were introduced upon completion of the **Borders Railway** in September 2015 – the longest new domestic railway to be constructed in Britain for over 100 years.

The Borders Railway was the first major deliverable under a broader **£5 billion** programme of investment in Scotland's railways that will deliver major improvements to infrastructure and services by 2019. Investment in new trains, new tracks and a transformative electrification programme that includes key remaining routes between Edinburgh and Glasgow, will deliver greater capacity, performance and journey times and help sustain the substantial growth in passenger numbers that is predicted.

The Railways Act 2005 sets out the majority of the Scottish Ministers' rail powers. Accordingly, Scottish Ministers assumed responsibility for a number of areas, including:

- Setting a strategy for Scotland's railways, incorporating freight and passenger services.
- The role of franchising authority for Scottish Franchise Agreements. This means specifying which services are to be provided under franchise, contracting for, managing and funding the provision of those services. The manifestation of these powers is the ScotRail and Caledonian Sleeper franchises, the current versions of which came into operation in April this year.
- Specifying and funding outputs for Network Rail in the management (including performance) and enhancement of the infrastructure on the Scottish route.
- Issuing non-binding Guidance to the Office of Rail and Road (ORR), which outlines the expectations of the Scottish Ministers' on how the regulator will carry out their duties in Scotland.

#### *Devolution – the powers in practice*

Devolution in Scotland goes far wider than the powers enabled through the 2005 Act: the consequence of the statutory changes has led to the devolution of a suite of 'working-level' arrangements, which has enhanced the delivery of railways in Scotland:

- The creation of the Network Rail Scottish operating route, with an increasing degree of operational autonomy devolved over time. This has brought about a number of benefits, in particular it has enabled a strengthening of local relationships and, in some areas, more coherent decision making process. This is most visible through the **ScotRail Alliance** - now unique in GB railways - which is bringing infrastructure management and service delivery together to deliver transformative change to the quality and provision of services by placing passengers' needs at the centre.
- A much closer working relationship between Government, Network Rail, ScotRail and the ORR on delivery and performance issues in Scotland.
- Separate, enforceable outputs and funding settlement for Scotland through the ORR's Periodic Review, supported by a distinct strategic planning process.
- As a consequence of Network Rail's reclassification as a UK central government body in 2014, the Scottish Ministers have a formal role in a range of matters relating to Network Rail's finances and governance as they affect the Scottish route, which is enabled by an MOU between the Scottish Ministers and the UK Department for Transport. This includes senior appointments and business planning.

- Aligned to the MOU is a separate debt limit to cover Network Rail's borrowing requirements for Scotland for Control Period 5 (CP5), which provides safeguards around Scotland's investment programme committed to 2019.

### Funding mechanisms

The Scottish Government is also the principal funder of all railway activities in Scotland. As well as the subsidy requirements for the ScotRail and Caledonian Sleeper franchises, Network Rail's operation, maintenance, renewal and enhancement costs in Scotland have been met almost entirely by the Scottish Government since railway powers were devolved in 2005.

Network Rail is funded through direct network grant from the Scottish Government and from track access charges payable via the franchise contracts. All Fixed Track Access Charges (FTAC) for use of the infrastructure in Scotland, including those relevant to cross-border services, are funded by the Scottish Government. The balance of funding between grant and access charges varies by year in accordance with the ORR's determination.

## **Managing growth on Scotland's railways**

### Identifying priorities

The **Strategic Transport Projects Review (STPR)**, published in December 2008, sets out the Scottish Government's 29 transport investment priorities over the period to 2032. The foundation of the STPR is the delivery of three strategic outcomes, identified in the original 2006 National Transport Strategy and reaffirmed in the January 2016 refresh, as those which will most effectively contribute towards sustainable economic growth:

- improving journey times and connections;
- to tackle the issues of climate change; and
- improving quality, accessibility and affordability.

### Bringing rail investment to life – infrastructure and services

The STPR provides the basis for our rail infrastructure investment priorities. This sits alongside the infrastructure capacity, capability and performance required to deliver the high quality services specified in the ScotRail and Caledonian Sleeper franchises.

In the lead up to the renewal of the Scottish franchise agreement, the Scottish Ministers launched a public consultation - Rail 2014 - on a range of positions to inform decisions on their overall approach to rail strategy and investment. This was underpinned by their vision for maximising the contribution of Scotland's railways to sustainable economic growth and social cohesion:

*“Our ambition is to have a railway that offers value for money, ensures that the railway industry acts in a coordinated, integrated manner, and, most importantly, has passenger interests at its heart”.*

In order to achieve this, the following objectives were set and reflected in the detailed terms of the ScotRail and Caledonian Sleeper franchise contracts, both of which came into effect on 1<sup>st</sup> April 2015:

- To achieve sustainable value for money through improved efficiency.
- To improve alignment across the industry to increase effectiveness and reduce cost.
- To exploit the full potential of the network and maximize its utility and capacity.
- To manage effectively any changes during the franchise.
- To improve overall passenger satisfaction.
- To improve the environmental performance of the franchise.
- To improve accessibility to services and stations.

As outlined above, since 2007 Scottish Government investment in rail infrastructure has been at record levels. Key to ensuring a optimum return on that public investment has been a strategic partnership approach to planning and delivery, which embraces the full rail industry in Scotland and its users, with a clear recognition of the respective roles and responsibilities in realising our vision and objectives for Scotland’s railways:

- Scottish Ministers – exercising statutory duties in specifying infrastructure investments through the Scottish High Level Output Specification (HLOS) and the availability of public funds through the Statement of Funds Available (SoFA).
- Transport Scotland – coordinating the development of the Scottish HLOS and the SoFA, providing advice to Ministers on the suite of options for investment and their contribution to broader socio-economic aims. Leads the Scottish Government engagement with the Scottish and GB rail industry and the ORR.
- Office of Rail and Road – through the periodic review process it sets, monitors and enforces the operational and financial outputs for Network Rail in Scotland to deliver the Scottish HLOS. It also sets the track access charges and the overarching regulatory incentive framework.
- Network Rail in Scotland – coordinate the rail industry advice to the Scottish Ministers on the hierarchy of investments and provided technical advice to Transport Scotland on the optimum outputs to deliver priority outcomes. Also

responsible for the delivery of the full infrastructure programme, including major projects and the maintenance and renewal programme.

- Wider rail industry, including the Rail Delivery Group (RDG), freight and train operating companies – working with Network Rail in Scotland as described above.

## Looking back – what’s been delivered

### Delivery of the investment programme

Network Rail in Scotland and its partners have a good record in the delivery of major infrastructure projects. For example:

- The **£300m Airdrie to Bathgate** project, delivered on time and on budget in 2010. This re-opened the Bathgate – Coatbridge line, which was closed in 1956, joining the west of Scotland to Edinburgh via Glasgow Queen St. The fully electrified line, with new stations, is bringing significant economic benefits through better links from the West Lothian region to the main cities of Glasgow and Edinburgh.
- The **£300m Borders Rail** project with 30 miles of new track and seven new stations was delivered on time and within budget. Officially opened by Her Majesty the Queen on the 9<sup>th</sup> September 2015, the reinstated line – originally closed in 1969 – will deliver major economic and social development opportunities by providing a fast and efficient rail link connecting communities in the Scottish Borders and Midlothian to Edinburgh and beyond.
- The Scottish Government is committed to a substantial **rolling programme of electrification** that will bring significant economic, social and environmental benefits. So far, the electrification programme has delivered the Airdrie to Bathgate railway (see above) the £12 million Paisley Canal electrification project (see below), the £80 million electrification of the Cumbernauld line and the £35 million electrification of the Rutherglen & Coatbridge (Whifflet) Line
- Of particular recognition is the **Paisley Canal electrification project**, which has vastly improved services between Glasgow and Paisley, one of the largest towns in the west of Scotland. This project was the first delivered under a formal **Alliance** agreement between Network Rail and ScotRail. As a consequence of that collaboration, this key enhancement was delivered almost three years ahead of the original plans and at less than half (**£12m**) the anticipated cost of **£28m**.

### Railway performance

The average delay incurred per train in Scotland run has fallen by around 18% since 2007, while overall passenger satisfaction levels with ScotRail (including Sleeper) services have been consistently higher than the rest of the UK, averaging at around 88%.

Despite these general improvements since devolution, Scotland's railways has faced significant challenges in delivering against its targets for train performance (PPM) which has also been mirrored across the rest of GB. Network Rail failed to meet its performance in Scotland for the end of Control Period 4 (2009-2014), falling 0.6% short of the 92% target, albeit that performance was hit by the unique challenges posed through hosting the Commonwealth Games. This trend has continued in Control Period 5, with performance in 2014/15 1.5% below the 92% target. However, the Scottish performance figures are generally better than the rest of the GB network.

The ORR recently reviewed this performance and concluded that Network Rail had not done everything "reasonably practicable" to meet its licence obligations with respect to performance levels. Significant weaknesses in operational planning and timetable development were identified as a recurring problem which had contributed to lower levels of reliability.

Since 1 April 2015, underlying performance levels through the ScotRail Alliance have been better. However, primarily as a consequence of recent severe weather events, Network Rail is unlikely to achieve their performance target of 92% for 2015-2016, although targets for the remaining years of CP5 are still expected to be met.

### **Looking forward – remainder of the CP5 programme**

There are a number of other on-going projects in CP5 which will be delivered by 2019:

- **The £742m Edinburgh to Glasgow Improvements Programme (EGIP).** This major electrification programme will support improved train and passenger capacity, reduced journey times between the two cities, and reduced emissions within the corridor.
- **The £170m Aberdeen to Inverness Rail Line Improvements Phase 1,** delivering enhanced commuting services into and between both cities.
- **Highland Main Line Rail Improvements Phase 2,** supporting improved passenger and freight train services in both directions between Inverness and Perth extended to either Glasgow or Edinburgh.

### **Tomorrow's railway – what lies beyond 2019**

### The rail challenges

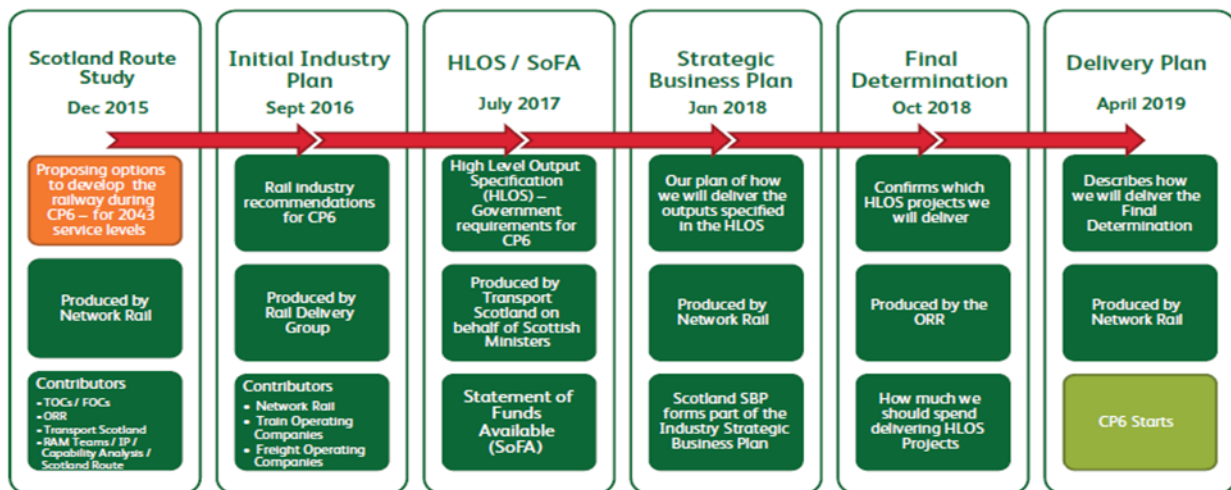
In considering the priorities for investment beyond 2019, there are a number of challenges facing Scotland's railways that have to be tackled:

- Sustaining growth in passenger demand through new and longer trains and improvements to the existing core infrastructure.
- Meeting the objectives set out in the STPR, in particular, improvements on rail lines in the north of Scotland.
- Meeting passenger expectations on service level quality, performance and fares.
- Climate change and the challenges of maintaining a resilient railway during periods of severe weather.
- Increased demands on Edinburgh Waverley and Glasgow Central to support thriving ScotRail and cross-border services.
- Meeting local stakeholder aspirations across the country, particularly the demand for more investment in the existing network as well as new routes and stations.
- Rising industry costs, particularly for electrification projects.
- The long-term viability of rail freight in Scotland given the loss of core coal and steel markets.

### The planning process

Planning work for railway investment in Scotland is at an early stage. A key factor will be the ScotRail Alliance, which should strengthen the collaboration across the Scottish industry through a much more cohesive, whole system approach to efficient investment for the benefit of passenger and freight services.

The early signs are positive, with Network Rail's recent publication of the Scotland Route Study for consultation (a Network Rail licence requirement and key part of the Long-Term Planning Process) looking to strike a balance between rolling stock solutions and infrastructure investment. The table below outlines a working timetable for the process.



### Learning lessons

The process for producing the last Scottish HLOS and contributing to the ORR's Periodic Review 13 (PR13) process was viewed broadly as a success. However, a lessons learned exercise was undertaken in advance of the start of Periodic Review 18. The focus of improvements in the process will be in the following areas:

- Greater clarity on outputs at as early a stage as possible.
- The avoidance of duplication and returning to topics for discussions on a number of occasions.
- Putting 'pen to paper' on the next Scottish HLOS as early as possible.

### The financial challenges

As a consequence of their reclassification, and in particular the transfer of their debt to the UK Government balance sheet, the Scottish Government negotiated a £3.3bn loan limit with the Department for Transport for Network Rail to deliver the Scottish enhancement and renewal programme up until 2019. While the costs of major projects, in particular electrification, has increased, the full programme is on track to be delivered within that budget. Transport Scotland, working with ScotRail Alliance and the ORR, is monitoring this closely.

Looking ahead beyond 2019, there are no guarantees that further borrowing, consistent with the current arrangements, will be available. Therefore a requirement for more grant funding, at least for enhancement projects, appears possible. This is within the context of increasingly tight overall budgets across the whole of the Scottish Government.

### Structural change

The Shaw report, which is considering the future financing and structure of Network Rail, is due to conclude in March. The recently published Bowe review has, among other things, kick started a review of rail regulation.



Taken together, it is inevitable that the rail industry will be subject to change in the coming period. The question is therefore more about the extent of that change and what the industry structures will look like. The Scottish Ministers have made clear their view that the rail industry in Scotland should be fully devolved, including Network Rail in Scotland, to enable greater whole system accountability to the Scottish Parliament and for the ScotRail Alliance to maximise its full potential through collaboration and tailored, localised solutions.

Transport Scotland, on behalf of Ministers, is engaged with the UK Government in the deliberations on structural change and making representations on the various reviews underway.

## **Resourcing**

The Transport Scotland Rail Strategy and Funding team is responsible for producing the Scottish HLOS and coordinating Transport Scotland's interaction with the periodic review as well as leading our considerations on structural reform. The team consists of four permanent members of staff with technical and financial consultancy support available for critical pieces of work.

The key skills required within the team are as follows:

- Leadership - In particular in order to galvanise the Scottish industry behind the investment proposals and plans for structural change.
- Programme and Project Management - Given the breadth of the periodic review programme and the coordination of the HLOS inputs, the ability to plan, monitor milestones and identify risks is key.
- Financial management - The ability to interpret rail finances and read these across to government budgets is of critical importance.
- Stakeholder management. The ability to build and maintain partnerships is key to a co-production approach to the Scottish HLOS.

The team does not have any direct railway experience. However, the availability of existing internal rail technical resource within Transport Scotland and the strengths of the partnerships built with the Scottish rail industry is sufficient to provide the necessary advice, challenge and assurance throughout the process.