



Research Briefing
**Rail Infrastructure Planning in
Wales – a quick guide**

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Research Briefing

Rail Infrastructure Planning in Wales – a quick guide

High quality rail infrastructure is key to delivering high quality rail services for Welsh passengers, and to supporting the social and economic development of Wales. But planning multi-billion pound maintenance and improvement projects is a challenging and complex task. This quick guide provides an overview of how rail infrastructure priorities are set in Wales and England.

It looks at the key players involved in setting the priorities. It also provides an overview of the recent criticism of Network Rail, which owns and operates the majority of railway infrastructure in the UK and is largely responsible for its maintenance and enhancement. It discusses future priorities for Welsh rail, from the viewpoint of various organisations. A section is also included on rail freight, which is an important user of rail infrastructure in Wales and has specific needs. It concludes with a look at the calls for devolution of rail infrastructure funding and planning to the Welsh Government.



1. Background to Rail Infrastructure Planning

Improvement and maintenance work on the rail infrastructure network in Great Britain takes place within five-yearly Control Periods (CP). The current Control Period, Control Period 5 (or CP5), runs from 2014-19. While the Welsh Government has powers to invest in rail, responsibility for rail infrastructure in England and Wales sits with the UK Government. This contrasts with arrangements in Scotland where rail infrastructure responsibilities are devolved.

The work to be completed within each CP in Wales is decided as a result of a complex interplay between the rail industry, **Department for Transport; the Office of Rail and Road (ORR) Network Rail** and, to a lesser extent, the Welsh Government and other stakeholders. The roles of each organisation in the planning process are summarised below:

The Department for Transport (DfT)

Every five years the Secretary of State for Transport produces a **High Level Output Specification (HLOS), and a Statement of Funds Available (SoFA)**, which determines what they expect Network Rail to achieve in the following CP. They develop each HLOS with advice from the ORR, Network Rail and input from other partners, including the Welsh Government. The HLOS and SoFA are published two years in advance of each CP, in order to allow Network Rail to prepare its business plan setting out how it will deliver the required outputs.

The Office of Rail and Road (ORR)

The ORR is the independent economic and safety regulator of railways in Britain. Its duties, in relation to rail, are primarily set out in the **Railways Act 1993** and the **Railways Act 2005**.

Its economic functions are mainly to regulate, **and monitor**, Network Rail's stewardship of the rail network, **licence operators of railway assets** (including the operation of passenger and freight trains used on a network, as distinct from the award of franchises), and approving access to track, stations and light maintenance depots. The ORR also acts as the national health and safety authority for British railways.

The ORR also governs Network Rail through its **Periodic Review (PR) of Network Rail's Strategic Business Plan**.

Network Rail

Network Rail owns the vast majority of rail infrastructure assets in Britain, and acts as the 'systems operator'. This means it controls and monitors access to the infrastructure network. It does this through **granting access rights** to TOCs and Freight Operating Companies. As part of this, Network Rail **collects track access charges** from the companies who use the network. The level of these charges is set by the ORR during the PR process.

It is also responsible for maintaining and improving Britain's rail network infrastructure, in line with the current HLOS. It sets out how it will deliver the outputs in a given CP, in **five-year delivery plans**. These plans are updated yearly.

Network Rail planning and operations are divided into **eight routes**, seven of which cover different parts of Britain with an eighth national freight route. It produces **long term route studies** for each route, which feed into the PR process. The Welsh route covers all of the network in Wales, including the North-South route via the border counties and Chester. It also includes the route between Shrewsbury and Crewe, which links to Manchester.

Network Rail operates under an ORR **network licence and station licence**. If Network Rail is found to be in breach of these licences, or its obligations under the HLOS, the ORR can take action, including levying fines.

Network Rail funding

The way Network Rail is funded changed in 2014 (PDF 572KB), when it was reclassified as a Central Government Body following a **decision by ONS**, taken to implement guidance issued by **Eurostat**, the statistical office of the European Union. Network Rail was established in 2002 as a not-for-dividend company limited by guarantee. Prior to reclassification it funded its activities through track access charge income from train operators, grant income received from the DfT and Transport Scotland, income from other sources (e.g. its property assets) and primarily debt which it borrowed on the capital markets and which was secured against the company's assets. This debt had a limited impact on public sector finances and was not classed as UK Government borrowing.

Since reclassification all Network Rail's expenditure is classed as public sector expenditure and all of its net borrowing is added to public sector net borrowing. It is no longer permitted to raise money from the capital markets, and instead borrows money from the UK Government. In July 2014 the DfT and Network Rail agreed a £30.3bn loan facility to cover the works needed in CP5. It will not be able to exceed this borrowing limit within CP5. A proportion of the loan facility has been ring-fenced for improvement works in Scotland. Other income sources continue to operate as before.

The March 2016 Shaw Report on Network Rail's future shape and funding (see below) explained the justification for this change:

Because debt was cheap, in part thanks to the government's guarantee of Network Rail's debt, the company had little incentive to improve its financial discipline. If it overspent on capital it was simple, with the agreement of the regulator, to add most of any overspend to the Regulatory Asset Base (RAB) – colloquially known in the industry as the 'credit card' – and government paid the additional costs over time. But like adding to any debt, this was unsustainable in the longer term.

The Welsh Government

The Welsh Government does not have overall statutory responsibility for funding rail infrastructure in Wales, but it does have the powers under the *Railways Act 2005* to invest in rail infrastructure and passenger services in Wales. It also plays a role as a consultee during the PR process and in the development of Network Rail's Strategic Business Plans. In recent years it has developed business cases for major rail infrastructure investments, including **Cardiff Valleys Electrification** and more recently **North Wales Mainline electrification**, and submits these to the DfT to influence the development of the HLOS and SOFA.

Since funding for rail infrastructure is not devolved, the Welsh block grant does not include funding for rail infrastructure investment. It can elect to spend money from the Block Grant on infrastructure schemes, or it can use other sources of funding such as **European Structural Funds**.

The previous Welsh Government noted that it committed, since January 2014, £235m to **rail infrastructure projects** and, as of February 2016, £176m had been spent. This money has been spent on a variety of works, including improving existing stations and creating new ones, such as **in Ebbw Vale town centre**.

2. Periodic Review (PR)

Periodic Reviews (PRs) are the cornerstone of the rail infrastructure planning process in the UK. PRs are conducted on a five yearly basis, prior to the start of a new CP. The PR comprises the ORRs assessment of what activities Network Rail will have to undertake in a given control period, the funding it needs, and the incentives required to encourage delivery.

Two previous PRs have been completed, the **first in 2008 (PR08)** and the **second in 2013 (PR13)**, these set the outputs and funding for Network Rail for CP4 and CP5. The ORR consults widely during the process including with Welsh Government, the rail industry and others. During and after the PR period, Network Rail, based on the HLOS and the ORRs final determination on its Strategic Business Plan, undertakes detailed planning work in advance of the start of the following CP.

The work required in CP6, which will run from 1 April 2019 to 31 March 2024, will be established by the ORR's current **Periodic Review (PR18)**. PR18 is in its early stages of development, and is due for completion in 2018. Network Rail has provided an **indicative timeline for PR18 on its website**:

- Autumn 2016 – Rail industry publishes its initial industry plans.
- Spring 2017 – ORR publishes advice to ministers and sets out requirements for Network Rail's Strategic Business Plan.
- Summer 2017 - DfT publishes its HLOSs and SOFAs.
- Winter 2018 – Network Rail publishes its Strategic Business Plan (SBP).
- Summer 2018 – ORR publishes its draft determination on the SBP.
- Autumn 2018 – ORR publishes its final determination on the SBP.
- April 2019 – CP6 begins.

A separate, parallel, process applies in Scotland where the Scottish Ministers undertake functions which mirror those of the DfT in England and Wales.

3. Delivery in Control Period 5 (2014-19) and reviews of Network Rail's performance

The work to be carried out in CP5 is set out in **Network Rail's Delivery Plans**, developed to implement the 2012 HLOS and the **ORR's final determination on Network Rail's Strategic Business Plan for 2014-19**. The **ORR has provided a summary of what Network Rail is obliged to do** (PDF 289KB) in CP5 spending an estimated £38bn. However some of the original plans for CP5 have changed as a result of setbacks and delays (see below).

As part of the route based planning process, Network Rail identified key objectives for Wales summarised in CP5 in its **Delivering a better railway for a better Wales: our plans for 2014-2019**. The major objectives set out in the plan were:

- electrification of the South Wales Mainline;
- improved links into Cardiff (encompassing a £220m investment for new platforms and station entrances);
- station improvements across Wales;
- re-signalling and track renewal (Newport to Shrewsbury and North Wales Mainline);
- North-South journey time improvements; and
- the safety and sustainability of the network.

Network Rail has been criticised by the previous Welsh Government, amongst others, for its performance during CP5. In February 2016, the then Minister for Economy, Science and Transport, **Edwina Hart, noted that there was 'a cumulative delay, I think, of over 14 projects years' on Network Rail projects in Wales'**. The Minister also suggested that Network Rail 'doesn't seem to be joined up in understanding strategic delivery of transport projects'.

Reviews of Network Rail

The **Secretary of State for Transport made a speech to Parliament on 25th June 2015**, where he criticised Network Rail's performance as 'not good enough'. During the speech he announced the appointment of Sir Peter Hendy as Chair of Network Rail. Sir Peter Hendy was asked to conduct a thorough review of the proposed CP5 enhancement programme in England and Wales, to establish what could be affordably delivered during CP5.

The subsequent Hendy Report, published in November 2015, indicated that several key projects had fallen behind schedule in CP5. In Wales this included the plans to electrify the South Wales Main Line between Cardiff and Swansea, which had been planned for CP5 but will now be completed in CP6. Electrification from London to Cardiff is still expected to be completed in CP5. The Hendy Review also mentioned the Valley Lines, noting that the 'Welsh Government, which is the primary funder, is making a decision on the scope and direction of this project'.

Two other reviews were also commissioned to assess different aspects of Network Rail at the same time as the Hendy Review.

The Bowe Review, published in November 2015, looked into the planning of Network Rail's enhancements programme in CP5. Its remit was to consider what lessons could be learnt from the planning of CP5 in order to improve future planning processes. It concluded that a number of factors led to delays in CP5 project delivery. Some of the main issues identified were that:

- the previously used planning processes were not suited to the scale and complexity of works planned in CP5;
- the responsibilities of the DfT, Network Rail and the ORR, were unclear. This meant there was a lack of focus, clarity and accountability that was required for the design and execution of CP5;
- the original CP5 plans lacked clear definitions of scope for each project. This resulted in 'scope creep' which led to cost increases; and
- there were early costing errors and unpredicted levels of low productivity.

The **Shaw Report focused on the future shape and financing of Network Rail**. Its final recommendations were published in March 2016 and concluded that:

- users of rail (passengers and freight) need be 'at the heart of rail infrastructure management';
- there should be deeper route devolution within Network Rail;
- the government's role in the railway and Network Rail should be clarified. The report recommended that as the body responsible for rail in England and Wales the DfT should develop longer-term strategy for rail travel 'co-ordinating as appropriate with the governments of Scotland and Wales';
- new ways of paying for future growth in passengers and freight on the railway need to be found, including the possibility of awarding concessions for the operation of infrastructure; and
- an industry wide plan is needed to develop the skills and diversity of the industry's workforce.

4. Future Priorities for Rail Infrastructure in Wales

The previous Welsh Government's priorities

The previous Welsh Government set out its rail infrastructure priorities in its **National Transport Finance Plan**. The Welsh Government will seek to influence UK Government to deliver some priorities through the HLOS, for example North Wales electrification, and will fund others from its own budget. Some of the priorities include:

- line and frequency enhancements to the Ebbw Vale Line;
- consideration of reopening disused railways;
- improvements to the North-South Line;
- creation of a list of potential new stations across Wales;
- actively feeding into the planning of the ORR and Network Rail for CP6;
- developing the South Wales Metro and electrification of the Valleys Lines; and
- electrification of the North Wales Main Line.

The UK Government has agreed to provide £125 million to fund Valleys Lines electrification, with the Welsh Government responsible for securing the remaining funding.

The project is being developed as part of the wider Welsh Government funded, **South Wales Metro project** (the Metro) to 'provide faster, more frequent and joined-up [transport] services using trains, buses and light rail.'

Phase 1 of the Metro included a range of road and rail improvements, including: extending the rail line to Ebbw Vale town centre and building a new station; enhancing capacity on the Maesteg rail line; and a new rail station at Pye Corner, Newport. Phase 1 cost approximately £75 million and, as of 2016, its constituent projects are already complete or in progress.

Phase 2 is scheduled for completion by 2023 and is **estimated to cost around £500-600 million** and will focus on 'modernising the core Valley Lines and the wider South Wales rail network', particularly through electrification. The last Welsh Government was considering the option of awarding a concession for the construction and operation of the electrified Valley Lines, an approach described in the Shaw Report.

The previous Welsh Government wanted to see the electrification of the North Wales Mainline in CP6 and has **submitted the business case to Department for Transport (DfT) in March 2016**. The former Minister for Economy, Science and Transport believed the project will bring significant social and economic benefits for the region. The **last Welsh Government also believed delivery in CP6 is vital** (PDF 132KB) to give the Line the best chance of exploiting the opportunities presented by **High Speed 2**, which is expected to reach Crewe in 2027.

The Fourth Assembly's Enterprise and Business Committee's priorities

The previous Enterprise and Business Committee published a report, in March 2016, entitled **Priorities for the future of Welsh Infrastructure**. The report, produced in time to coincide with the PR18 planning process, sets out what that Committee saw as the key priorities for Welsh rail infrastructure. **Some of its key recommendations** include: electrification of the North Wales Mainline; ensuring that the electrification of the South Wales Mainline continues as a single project,

without a break, to Swansea; improving the freight capacity of Welsh railways; a big improvement to the capacity in and around the Cardiff Central rail station; and devolution of rail infrastructure powers to the Welsh Government.

Network Rail's Welsh priorities

In March 2016, as part of **its Long Term Planning Process**, Network Rail published its **Welsh Route Study**. The study sets out Network Rail's strategic vision for the railway in Wales between 2019 and 2043. It predicts future pressures on the railway and presents costed 'choices' that can be selected by funders to alleviate these pressures. These choices include upgrades to line speed, service frequency and carriage capacity.

5. Rail Freight in Wales

It has been estimated that 15% of all UK rail freight is received or dispatched from Wales. This is despite some of its track not being able to support large, commonly used, freight containers. However in 2012 the **Rail Freight Group told a Welsh Affairs Committee meeting that:**

The current rail network in Wales represents a barrier to cross border rail freight connectivity, and that considerable investment in the infrastructure will be required to allow rail to play a full role.

More recently **the Rail Freight Group provided evidence** to the Fourth Assembly Enterprise and Business Committee. In their evidence they identified several priorities for rail freight in Wales. These included:

- developing the **route availability (RA)** for freight in Wales. The RA establishes the maximum weight per axle that can be carried over a route, with a higher rated RA more weight can be conveyed;
- increasing the **Loading Gauge (LG)** of a number of key routes in Wales, in order to allow them to carry commonly used, modern freight containers. The LG of a track is defined by the height and width profile of a route. Routes with a higher LG are able to accommodate larger trains;
- the re-introduction of an **intermodal** freight link to Ireland via Holyhead;
- the creation of a Strategic Freight Network Fund for Wales, which would target investment and focus support for freight infrastructure enhancements;
- the development and/or enhancement of rail links with the **South Wales ports** and with **Holyhead port**; and
- pro-active governmental support for new intermodal terminals at appropriate locations in Wales.

The Group also suggested there should be 'a presumption in favour of freight' when investment in rail infrastructure is being considered.

The previous Welsh Government has also developed its own rail freight priorities. It established the **Freight Task and Finish Group**, which reported in March 2014. The Task and Finish Group produced a report with 24 recommendations for the then Welsh Government, 9 of which directly related to rail. These recommendations included electrification of rail lines and encouraging wider use of the existing rail freight network.

This work was built on by the **Wales Freight Working Group**, which reported in March 2016. The report recommends that the Welsh Government commission an integrated analysis of the opportunities and challenges for growing intermodal freight in Wales as well as producing a Freight Strategy for Wales.

Welsh Government also supports the shift from road to rail freight use through its **Freight Facilities Grant**.

6. Further Devolution?

The **ORR told the National Assembly's previous Enterprise and Business Committee** (PDF 320KB) that the Welsh Government is a core part of the process for developing P18 targets. The **DfT's evidence also stressed that Welsh interests are taken into account** when planning rail infrastructure improvements, stating that 'no decision on any major investment in Wales is made without taking into account the views of the Welsh Government'.

However, there have been calls for further devolution of rail infrastructure powers to the Welsh Government. In 2014, the **Silk Commission on Devolution in Wales**, noted 'that devolving the rail network in Wales would be possible and desirable'. Because of that, the report recommends that the funding of Network Rail, in relation to its Welsh Route, should be devolved to the Welsh Government.

The Silk Commission also stated that 'the case for transferring the UK Government's residual rail responsibilities in respect of the Wales and Border franchise is persuasive'. Power to specify and procure the next **Wales and Border franchise** is planned to be devolved to the Welsh Government from 2017. This allows the Welsh Government to set the specifications, potentially including infrastructure improvements, which the next operator of the franchise will have to follow.

The ORR and Network Rail have both indicated that, with certain qualifications, devolution could be beneficial for Wales and its rail infrastructure. **The previous Minister for Economy, Science and Transport called for greater clarification** (PDF 280KB) over the responsibilities for rail infrastructure in Wales. The Minister argued that devolution would grant this clarity, increase accountability and would allow the Welsh Government to plan projects over a longer period of time.

However, the UK Government's 2015 'St David's Day Command Paper', **Powers for a Purpose: Towards a Lasting Devolution Settlement for Wales** stated that 'there was no consensus to take forward the recommendations to devolve the funding of Network Rail'. Consequently further devolution does not currently appear to be on the DfT's agenda.

Rail Freight Transport in Wales

Network Rail's Welsh Route Study discusses freight services in Wales. It highlights the **type, and location, of goods carried by rail freight**. **These** include:

- coal, from the South Wales Valleys, and further afield, to the Aberthaw power station;
- steel, scrap metal, coal, intermodal containers and aggregates along the Marches Line (particularly Newport – Shrewsbury);
- Oil and petrochemicals from Milford Haven, primarily along the South Wales Main Line;
- steel traffic between the steelworks at Deeside and Llanwern, Newport via the Marches Line.
- aggregates from Neath Abbey Wharf;
- consumer and retail goods for Tesco from Daventry to Wentloog, Cardiff; and
- flows from Ford's facility near Bridgend, timber flows to Chirk and Ministry of Defence (MoD) traffic in South Wales.

Despite this the Fourth Assembly's Enterprise and Business committee called for further devolution in its Priorities for the future of Welsh Rail Infrastructure report. However, the committee stressed that before any formal devolution of rail infrastructure is made to Wales, the Welsh and UK Governments will have to establish how the following issues will be addressed:

- a fair funding settlement to accompany devolution;
- how Network Rail's debt will be apportioned and future borrowing managed;
- how the cross-border nature of the network will be managed; and
- how risks will be managed, including risks of overspend, latent defects in the network, and emergency remedial works.

Even if formal devolution does not occur, then the committee argued that the:

Welsh Government must be given greater responsibility for rail infrastructure, including input into the Period Review, HLOS development, project delivery and governance of Network Rail which must be more accountable to Welsh Government.

7. Key Sources

- Fourth Assembly Enterprise and Business Committee, **Priorities for the future of Welsh Infrastructure** (2016)
- Network Rail, **Welsh Route Study** (2016)
- Department for Transport, **The Bowe Review** (2015)
- Network Rail, **The Hendy Report** (2015)
- Department for Transport, **The Shaw Report** (2015)
- UK Government, **Powers for a Purpose: Towards a Lasting Devolution Settlement for Wales** (2015)