Balfour Beatty

Submission to the Transport Select Committee's inquiry into rail infrastructure

November 2017

About Balfour Beatty

Balfour Beatty is a leading international infrastructure group. With 15,000 employees across the UK, Balfour Beatty finances, develops, delivers and maintains the increasingly complex infrastructure that underpins the UK's daily life: from Crossrail and Heathrow T2b to the M25, M60, M3 and M4/M5; Sellafield and soon Hinkley C nuclear facilities; to the Olympics Aquatic Centre and Olympic Stadium Transformation.

Balfour Beatty is a recognised leader in modern rail engineering. With a successful track record of implementing the latest digital technologies to improve efficiency across the rail infrastructure asset lifecycle, we have planned, designed and managed the construction of thousands of miles of railway systems. From feasibility studies and planning, design and implementation to maintenance and asset management, we provide rail infrastructure services across the lifecycle of rail assets. Our expertise covers track, power, electrification, civils, signalling and railway systems and technologies.

Responses to the Committee's areas of interest

1. **The impact of postponing renewals from the current control period into the next and the implications of the Secretary of State's decision to remove enhancements from the control period process.**

Transport secretary Chris Grayling has announced a higher volume of renewals activity in Control Period (CP) 6 in order to "maintain safety and improve on current levels of reliability and punctuality"[1]. To deal with the increased activity in CP6, it now becomes even more important to address the reduction in renewals volumes during the last 18 months of CP5 which, according to the Railway Industry Association (RIA) has led to a shortfall of approximately £500m in renewals work in Network Rail's current programme. Balfour Beatty highlighted this issue in its February 2017 paper, *Staying on track How the right funding model can drive skills and technology in the rail industry*[2], which outlined that the drop-off in orders towards the end of CP5, combined with a reduction in work on future projects under the Governance for Railway Investment Projects (GRIP) process, poses difficulties for the rail network's supply chain. While companies such as Balfour Beatty are feeling the impact in terms of our own workforce, there is a particular impact on the smaller and specialist companies in our supply chain, which often only have pipeline visibility of around a year.

[1] High Level Output Specification: Written statement, House of Commons, July 2017
[2] https://www.balfourbeatty.com/media/195882/balfour-beatty-staying-on-track.pdfn

Following the reduction in orders towards the end of CP5, the beginning of CP6 and the release of new funding will then see a significant spike in activity, which contractors and the rest of the industry will need to ensure that they and their staff are ready for. The impact to the supply chain of such a downturn in activity followed by a projected increase at the beginning of CP6, is significant. In particular, it makes it difficult for contractors to effectively retain skilled staff and ensure that they are in place when needed and there is a risk that people will drop out of the industry at a time when it should be building rail skills and capability in advance of major schemes such as High Speed 2 and Crossrail 2. This is ultimately an inefficient way of working, increasing costs and negatively impacting productivity.

While we welcome what we believe is a clear intention to resolve the issue in relation to renewals, we believe steps also need to be taken on the enhancements side.

With regards the new process for delivering enhancements, Balfour Beatty welcomes the fact that the Government expects to continue to invest in the enhancement of the wider rail network in the next control period. We agree that significant enhancements, including HS2 and Crossrail, which will span several control periods, should be dealt with via a separate process. We also acknowledge that the new process aims to provide greater rigour in investment decisions, with a focus on deliverability and value for money for the tax payer. However, enhancements will now be funded on a case-by-case basis, with each project considered as a stand-alone scheme against the principles set out in the Memorandum of Understanding on rail enhancements agreed by the DfT and NR in March 2016[3]. Only once an enhancement project is fully planned and costed will it be considered by the ORR for funding approval, making it difficult for the industry to plan ahead and gear up. In contrast, when enhancements were included in the 5-year process, they were visible and certain.

In addition, while the SOFA technically includes funding to continue to take forward the enhancements that were deferred from CP5, these schemes will be subject to ongoing consideration in line with the new process for enhancements. The impact of all of this for the broader supply chain industry is that it is not able to plan with any certainty. While we agree that bringing schemes forward to the market only when they are reasonably well developed, makes sense, and that a project cycle rather than an arbitrary 5-year process is technically the right thing to do, we are concerned that while the industry works out how to embed the new process, it may actually make the existing issues, in particular the skills point, worse. It is not good timing for such a significant change combined with the lack of certainty and visibility it brings with it.

2. The adequacy of the control period process in enabling the delivery of long term rail infrastructure objectives.

Balfour Beatty welcomes NR's long-term planning process (LTPP) strategy, which has been designed to inform planning for both CP6 and for the longer term. The LTPP uses the latest economic modelling to predict future demand. However, this is not closely enough connected to the funding and the way the funding is delivered: the current cyclicality of the CP process does not, in Balfour Beatty's view, lend itself to effective strategic, long-term planning. It

[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/509545/mou-dft-network-rail-rail-enhancements.pdf

would be more effective for the delivery of long term rail infrastructure objectives if the funding process could either be continual or planned over longer periods.

3. Whether Network Rail's long term planning process is effective in providing the industry with strategic direction beyond the five year control period.

Without funding certainty to back up long term aims, combined with clear prioritization of schemes, long term plans represent an ideal outcome and an aim to deliver against, rather than firm strategic direction. However, the future success of the rail industry is inextricable from the visibility and detailed understanding of NR's firm long term plans. This is because the investments required of the supply chain partners in existing and future skills, as well as in R&D and critical strategic equipment cannot be justified without greater demand visibility and certainty.

In our experience, the cost of wage inflation in the rail sector is higher than in other areas of the industry – many of which Balfour Beatty also operates in, giving us the ability to compare. We believe that the short-term CP strategy and the uncertainty around it is likely to fuel that wage spiral going forward.

The point here is the same as above: in order to deliver efficiently, the rail supply chain needs certainty about future priorities, programmes and spending levels.

4. The reasons for the apparent regional disparity in rail infrastructure funding, and the mechanisms by which regions may have a greater input into planning and delivering rail infrastructure, including through route devolution within Network Rail and entitles such as Transport for the North and Midlands Connect.

It is well-documented that infrastructure is a key driver of productivity and economic growth. It is also widely-accepted that improvements to the UK's regional infrastructure are needed across the piece, especially in rail and roads, to better connect towns and cities, enable people to access employment and get goods to market. Transport for the North's 2016 report *Northern Transport Strategy* highlights how improved road and rail links would help boost the economy across the three regions which make up the North. Balfour Beatty's view is that improved connectivity will become even more important post-Brexit, but more than this, Brexit offers a golden opportunity to take strategic action to strengthen the economy by investing in better transport links across the country.

Balfour Beatty's view is that there are several reasons for the differences in regional funding. The most obvious of these is that the Benefit Cost Ratio (BCR) processes used to allocate funding can be over-reliant on narrow financial criteria relating to high population densities and high wages, rather than considering wider social and economic benefits such as potential new jobs and the Gross Value Added (GVA) of new infrastructure. In our view, these tools are out of date and should be expanded to include an economic development priority: we need all parts of the country to be growing.

Another key reason for regional funding differences is the fragmented regional decision making across the country. Balfour Beatty believes that the devolution agenda has real potential to improve infrastructure outside the capital, especially where sub-national bodies, such as Transport for the North and Midlands Connect are able to take a strategic view and coordinating role. While a 'one-size-fits-all' approach to sub-national governance would not be appropriate, giving regions the power to decide for themselves what their infrastructure priorities are has to be the best way forward and we welcome steps that have already been taken to this end.

The process of establishing Transport for the North is complex and involves 56 authorities. It will be the first statutory sub-national transport body to be established. However, as currently planned, Transport for the North will not have nearly the same powers as Transport for London. It will be a "statutory influencer" with the right to prepare a strategy and provide the Secretary of State with advice. Transport for the North will not be able to borrow money or fund investment like Transport for London. For regional infrastructure disparities to be levelled, these bodies must be able to finance infrastructure projects and drive forward private investment.

Balfour Beatty also welcomes the fact that Network Rail is becoming a more devolved businesses in order to better respond to its local customers and communities, with significant powers and decision-making for routes already having been devolved to a local level. This local focus, combined with opening up the funding, financing and delivery of investment projects to third parties, will, we believe, increasingly help to drive efficiencies and value for money for the taxpayer.

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