

Transport for the North Board

Subject: Integrated Rail Plan and Rail Needs Assessment

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Sponsor: Barry White, Chief Executive

Meeting Date: Thursday 14 January 2021

1. Purpose of the Report:

- 1.1 To update members on the Rail Needs Assessment published by the National Infrastructure Commission on the 15 December 2020, and to make urgent recommendations to Government about the Integrated Rail Plan.

2. Executive Summary:

- 2.1 The NIC's Rail Needs Assessment was published on the 15 December and sets out five options (packages) for how HS2, NPR and other schemes for the Midlands and the North of England might be delivered between 2020 and 2045. The RNA informs the Government's Integrated Rail Plan which is now expected to be published in early 2021.
- 2.2 The RNA makes a clear case for significant rail investment to connect the regional economic centres of the Midlands and the North. However, none of the proposed packages deliver the level of investment needed to close the productivity gap and "level up" the UK. HS2 and NPR are effectively presented as a choice. The consequence is likely to be ongoing underperformance and regional imbalance, with the North not achieving its full economic potential. TfN also has significant concerns about the "adaptive pipeline" approach - which would deter wider investment and act against the network approach at the heart of developing Northern Powerhouse Rail.
- 2.3 The Government's final Integrated Rail Plan should not adopt any of the constrained packages recommended by the NIC. Instead it should consider how NPR and HS2 could be delivered in line with government commitments. With more flexible thinking on funding and a greater focus on integration, the opportunity remains for an affordable, deliverable programme of investment which can accommodate HS2, NPR and the other critical rail investment required to level up the UK.

- 2.4 We recommend the Board discusses the content of this paper and makes immediate representation to government before the IRP is finalised.

3. Consideration:

Background to the publication of the Rail Needs Assessment

- 3.1 Following the publication of the HS2 Review on 11 February 2020, the Government announced its commitment to HS2 in full and its intention to develop an Integrated Rail Plan for the North and the Midlands by the end of 2020, bringing together NPR, HS2 Phase 2b and other major rail interventions such as TRU. The government has subsequently said that the IRP will be published in early 2021.
- 3.2 The NIC were asked by the government to advise on the appropriate sequencing and delivery of major rail projects in the North and Midlands. The NIC initially conducted a call for evidence to inform a "Rail Needs Assessment" (RNA) to which TfN responded in May and published the proposed methodology for the RNA in an interim report in July.
- 3.3 The TfN Board has previously agreed that the North's requirements from the IRP should be as follows:
- Commitment to investment in the North with HS2 and NPR in full and support for full delivery of TRU outputs including freight, as part of a 25-year programme to transform the North of England's rail network to deliver our economic and environmental objectives.
 - An agreed programme of accelerated investment in both NPR and the conventional network before 2030.
 - The remainder of the NPR network to be completed alongside HS2 Phase 2b, in line with the phasing scenarios agreed at the TfN Board in November.
- 3.4 The TfN position on HS2, NPR and TRU were established in the Strategic Transport Plan adopted in February 2019, were strongly reflected in both the submission to the Oakervee Review in October 2019, as well as in the submission to the NIC's call for evidence. Following the publication of the Oakervee Review in February 2020, the government reconfirmed its commitment to HS2, including both legs of Phase 2b.
- 3.5 The final NIC report on the Rail Needs Assessment was published on the 15 December 2020. It sets out a clear case for rail investment to transform connectivity between the economic centres of the North and the Midlands and confirms that the strongest economic returns are from east-west regional connectivity. The RNA then sets out the

options for government for integrating NPR, Phase 2b and other based on five packages of investment to 2045. The packages comprise:

- A “base case” of completing HS2 West, TRU, Midland Main Line Electrification to Sheffield and a programme of upgrades only, including a £15bn early programme of electrification, digital signalling and other enhancements to ensure the conventional network is better able to work with HS2.
- Two “regional connectivity” packages at +25% and +50% funding, which would add new line and further upgrades for NPR, with HS2 East only between Birmingham and the east midlands. In the +50% Scenario, NPR appears close to the preferred network, including new line Leeds Manchester via central Bradford and a new line to Liverpool via Warrington. The +25% scenario is much more limited and less ambitious in scope.
- Two “long distance” packages, again at +25% and +50% see HS2 East and HS2 West completed largely in full with much more limited east-west investment, focused on upgrading the existing Leeds to Manchester line, and some improvements to the North East and Liverpool.

3.6 The equivalent funding scenarios between 2020 and 2045 are £86bn (baseline), £108bn (base + 25%) and £129bn (base + 50%). All funding scenarios include the costs of HS2 Phase 1 and 2a at circa £40bn.

3.7 Packages in the +50% scenario therefore deliver either most of NPR or most of HS2, and are presented as a “strategic bet” for government, given the industry’s track record in delivering projects to time and budget, and limited public confidence that new lines can be developed. The NIC propose an “adaptive” approach, setting a stable core pipeline of investment, and taking decisions to enhance or add further schemes if:

- The core pipeline is on time and budget;
- Costs and benefits of new schemes are more certain;
- Other investments are being made, for example in skills, development and local transport.

3.8 The NIC also say that there should be a strengthened role for regional bodies in decision making and sponsorship, but no detailed proposals are presented.

4. Implications of the NIC’s assessment

4.1 As our advice to the Board in September warned, the NICs options have been constrained by the NIC’s fiscal remit established in 2018,

their decision to set aside the Government commitment to HS2 in full, and a set of pre-determined funding packages.

- 4.2 What was intended as an integration and sequencing piece of work has instead pitched schemes against each other to fit pre-determined funding envelopes. This has meant the thinking behind, and value of, the rail network as a whole has been missed. NPR in particular has been carefully designed from the outset to be a fully integrated east - west, coast to coast network.
- 4.3 The funding assumptions for HS2 are at the heart of this assessment. The NIC adopted a starting point for HS2 of £46bn of funding, which was the 2018 allowance for HS2 in their National Infrastructure Assessment. This is despite the government committing to HS2 in full in February 2020, post the Oakervee Review, which set out a revised budget of nearly £90bn. This commitment pre-dated the NIC starting their work.
- 4.4 Northern regional investment then becomes the balancing factor, or 'shock absorber' to soak up HS2's increased costs. The Baseline and +25% scenarios both decimate planned investment in the north in order to fully fund HS2 from Euston and Old Oak Common on to Birmingham and Manchester.

The NIC's 2018 assessment, based on their view, allocated £24bn for Northern Powerhouse Rail. Our estimates based on the published document suggest, in order to absorb HS2's increased costs, that:

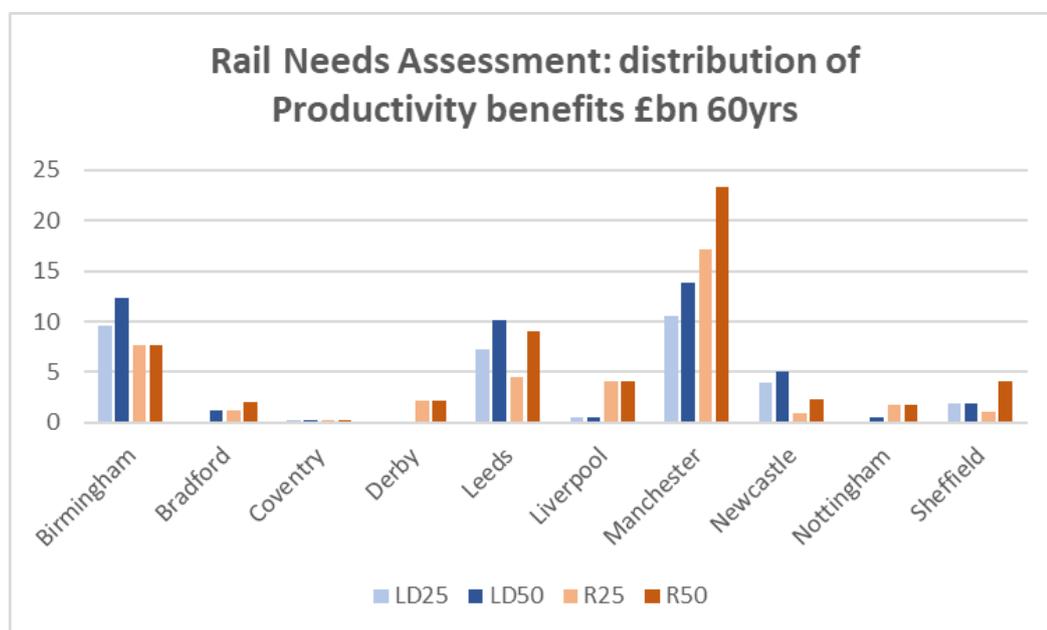
- In the NIC Baseline scenario, the allocation for NPR has been reduced from £24bn to around £5-6bn.
- In the NIC +25% regional scenarios, the NPR network described could represent a budget of around £17-18bn, still significantly below the previous £24bn.

HS2 is a national project that will have national benefits, it therefore needs a national approach to funding, not one reliant on reducing proposed investment in the north.

- 4.5 The result is a significant lowering of ambition for the North than both the government's stated commitments on HS2 and NPR, or indeed the NIC's own "High Speed North" report published in 2016. TfN's internal analysis suggests that no packages can deliver the preferred NPR network in full, and in scenarios where HS2 is delivered in full, the investment in NPR is removed or significantly downgraded.
- 4.6 The NIC proposition is to complete the western leg of HS2 and, at best, a partial element of the eastern leg. This would in effect expect Yorkshire, the North East and Eastern Scotland to be largely reliant on

upgrades of the existing network for connectivity to the East and West Midlands and London.

- 4.7 This is likely to have significant economic, social and environmental implications for the Midlands and the North, particularly those parts of Yorkshire, the North East and the Midlands most likely to benefit from the connectivity offered by the eastern leg of HS2. The NIC's own analysis shows the limited benefits of each of the packages for delivering more balanced growth and levelling up the UK. HS2 and NPR are therefore presented as clear choices when the evidence shows they work best in tandem – delivering both long distance and regional connectivity. The full HS2 and NPR end state network has not been assessed and is discounted as an unaffordable option.



Source: Rail Needs Assessment (National Infrastructure Commission, 2020)

- 4.8 The resulting assessment is inevitably focused on affordability at the expense of how to achieve the required outcomes through greater integration and an efficient pipeline of investment. The NIC propose a 'core and adaptive approach', suggesting that government only commits to parts of schemes initially. Whilst the NIC is right to highlight that the rail industry faces huge challenges to build a pipeline of work in the face of rising costs and poor track record on delivery, such an approach will not give private investors and developers the confidence to invest and will hold back economic growth and job creation.
- 4.9 Early opportunities for investment are identified, through a package of decarbonisation and digital signalling could bring early benefits, particularly if supplemented by "quick win" capacity, reliability and resilience projects. However, the NICs proposals are much less ambitious than TfN's own proposals which identified a number of

candidate schemes for early intervention, with freight and importance of connecting local communities largely side lined.

5. What could the NIC have done differently?

- 5.1 In line with the new Green Book, the starting point for the Integrated Rail Plan needs to be what rail investment is required to “level up” the UK. The RNA does not define what is needed or assess the economic and social outcomes from delivering the full commitment costed at £140 to 185bn. Without that assessment, it is much more difficult to understand the trade-offs and compromises being proposed in each of the various packages.
- 5.2 We had also expected that the NIC would have considered integration opportunities in more detail. TfN’s work on the integrated rail plan identified a number of key station hubs, corridors and schemes where multiple schemes are proposing related work designed and delivered separately. These opportunities to create a single, integrated programme to maximise efficiency and minimise the impact on both passengers and freight include:
- Integration of HS2 Phase 2b delivery with NPR in the Liverpool to Manchester corridor.
 - Electrification of Sheffield station and the Midland Mainline for NPR and HS2 as a single programme of delivery.
 - The corridor between Leeds, York and Selby, including the proposed junction at Garforth and the eastern approaches to Leeds station.
- 5.3 Thirdly the NIC should have considered the efficiency benefits of a long-term investment pipeline, rather than the adaptive pipeline approach proposed. The NIC rightly highlight past failings of the centrally overseen delivery bodies, but the response should be to challenge those bodies to radically improve their delivery approach, not just accept that’s how it is. The delivery mechanisms need to be set up with a strong client function maintaining a clear focus on improving value for money against historic norms. There are significant efficiency gains to be achieved from a single, integrated long term pipeline of work¹.
- 5.4 Finally, the NIC could have taken a more strategic approach to funding scenarios to achieve a suitable fiscal envelope that matches the government’s existing commitments on major schemes and therefore allows the North’s needs to be met, by:

¹ The Rail Industry Association estimate that a long-term rail strategy and industry pipeline could reduce industry costs by up to 30% (RIA Manifesto 2050, November 2019).

- Being clear from the outset that the rising and delayed costs of HS2 Phases 1,2a and 2b are a government commitment and the cost of £90bn would need to be accommodated in all scenarios; and taking that position as the starting point for what additional investment is required Using the NIC's own 2018 report, the full £90bn is affordable within the headroom in the fiscal remit between 2035 and 2045
 - Identifying other available spare capacity within the fiscal remit, including the implications of recent TfL decisions (£26bn was allocated for Crossrail 2 in the original 2018 assessment²).
 - Presenting strategic choices about future spending decisions across transport modes. For example, the RNA assumes that a fixed 55% of the future strategic transport budgets (beyond 2030) will continue to be invested in roads. Rebalancing road and rail investment in that period could free up £1bn per year for 15 years for major projects that can contribute to decarbonisation³.
- 5.5 Together these measures illustrate how a different approach could have identified an additional £85bn of funding for strategically important rail projects over and above the NIC's £88bn Baseline, allowing HS2 and NPR to be built in full. What the NIC describe as a 'strategic bet' is in fact a 'strategic choice'.
- 5.6 Clearly the economic and fiscal consequences of 2020 will add additional pressures on long term funding – potentially reducing the long-term value of the fiscal remit by up to 10-15% by the 2040s. Ultimately Govt can decide to increase the fiscal remit from 1.2% of GDP if required. The recently published National Infrastructure Strategy signalled their intent to review the fiscal remit in 2021.
- 5.7 TfN IRP work provides a model for delivery of complete HS2 and NPR network by early 2040s, as well as delivering an early programme of conventional upgrades, decarbonisation and digital signalling, in line with the NIC proposals. We have shared the detail of our thinking with DfT, alongside the detailed proposals for NPR the Board has already agreed.
- 5.8 TfN does not have all the information required to fully assess the efficiency gains from creating a single integrated pipeline. However we can be confident that a strong client function sitting above the delivery bodies (Network Rail and HS2) can drive a change in approach to improve value for money through cost challenge (as is currently happening on NPR from TfN), developing a clear pipeline and exploring the clear opportunities for integration identified in TfN's advice to the NIC which we have also shared with DfT officials.

² This was in addition to c£71bn for TfL the NIC set out between 2020 and 2050

³ This would still provide c£5bn per annum for roads, from 2030 through to 2050 totalling £100bn, with a similar sum going to general rail investment.

- 5.9 In addition to efficiency gains there are also choices that can be made on both the specification and options in order to reduce costs. The co-clienting model for Northern Powerhouse Rail provides the opportunity to consider these choices alongside setting efficiency and cost challenge for the delivery bodies.
- 5.10 In summary, the NIC stated that the total costs for all the proposed schemes was £140-185bn. Had they adopted a different approach to funding and adopted a more challenging approach to driving efficiencies then their work would genuinely have been about sequencing and phasing rather than pitting schemes against each other. In announcing this review, the Prime Minister said:

'...some have suggested delaying or even cancelling HS2 in order to get Northern Powerhouse Rail done more quickly. But I want to say to you Mr Speaker and to the House, this is not an either/or proposition. Both are needed, and both will be built – as quickly and cost-effectively as possible.'

'So as we draw up this plan, we are not asking whether phase 2B is not to be. That is not the question, Mr Speaker. The question is how we can bring a transport revolution to the north sooner.'

Unfortunately, the NIC's approach has reverted to that '2B or not 2B' question. What is set out in this paper shows that the NIC could have adopted a different approach and one more aligned with government policy.

6. Conclusions and next steps

- 6.1 The government's final Integrated Rail Plan should not adopt any of the constrained packages recommended by the NIC. Instead it should consider how NPR and HS2 could be delivered in line with government commitments. With more flexible thinking on funding and a greater focus on integration, the opportunity remains for an affordable, deliverable programme of investment which can accommodate HS2, NPR and the other critical rail investment required to level up the UK.
- 6.2 The government has indicated that the Integrated Rail Plan will be published in early 2021. Given the limitations of the RNA, the government now should consider the issues raised in section 5 above, and:
- Decide whether UK connectivity is important enough to take the "strategic choice" over the next 30 years to maintain its commitments on NPR and HS2.

- Agree with TfN's assessment that opportunities exist for greater integration, cost reduction and efficiency of delivery.
- Confirm that options exist to extend available funding envelope through combination of extending fiscal remit, repurposing existing funding streams and making clear, multi modal choices on future spend.
- Work with the sub national transport bodies and Network Rail to create a pipeline that the midlands and north can confidently plan for and invest around to drive growth, and quickly build develop a stronger track record of delivery for the industry, building confidence in local investment and wider employment and skills opportunities.
- Ensure that the final Integrated Rail Plan is agreed with the North, and its implementation is supported by strengthened decision-making and sponsorship role for TfN Board, building on the proven track record on NPR decision making and the work of the Rail North Committee.

7. Recommendation:

- 7.1 We recommend the Board discusses the content of this paper and TfN makes immediate representation to government before the IRP is finalised.

List of Background Documents:

There are no background papers to this report.

Required Considerations
Equalities:

Age	Yes	No
Disability	Yes	No
Gender Reassignment	Yes	No
Pregnancy and Maternity	Yes	No
Race	Yes	No
Religion or Belief	Yes	No
Sex	Yes	No
Sexual Orientation	Yes	No

Consideration	Comment	Responsible Officer	Director
Equalities	A full impact assessment has not been carried out because not all the relevant information is available.	Tim Foster	Strategy and Programme Director

Environment and Sustainability

Yes	No
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Consideration	Comment	Responsible Officer	Director
Sustainability / Environment – including considerations regarding Active Travel and Wellbeing	A full impact assessment has not been carried out because not all the relevant information is available.	Tim Foster	Strategy and Programme Director

Legal

Yes	No
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Consideration	Comment	Responsible Officer	Director
Legal	TfN Legal Team has confirmed there are no legal implications.	Head of Legal	Director of Business Capabilities

Finance

Yes	No
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Consideration	Comment	Responsible Officer	Director
Finance	TfN Finance Team has confirmed there are no financial implications.	Paul Kelly	Iain Craven

Resource

Yes	No
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Consideration	Comment	Responsible Officer	Director
Resource	The HR Team have confirmed there are no direct resource implications as result of this report	Head of HR	Director of Business Capabilities

Risk

Yes	No
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Consideration	Comment	Responsible Officer	Director
Risk	A risk assessment has been carried out and the key risks are included in the report.	Tim Foster	Strategy and Programme Director.

Consultation

Yes	No
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Consideration	Comment	Responsible Officer	Director
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Consultation	A consultation has not been carried out because it would not be appropriate at this time.	Tim Foster	Strategy and Programme Director
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