



House of Commons
Committee of Public Accounts

Improving public transport in England through light rail

**Eleventh Report of
Session 2004–05**

*Report, together with formal minutes,
oral and written evidence*

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The Committee of Public Accounts

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Summary

Since 1980, the Department for Transport (the Department) has contributed £1.2 billion to the £2.3 billion that has been spent on building seven light rail systems in England. The Government envisaged that up to 25 new lines could be built and the number of light rail passengers could more than double by 2010. But it has left local authorities to determine whether light rail is appropriate in their areas, and has not prioritised in value for money terms which schemes should be allocated funds and built. Planning and approval of schemes has taken too long, on average eight and a half years. And the Department only has a partial evaluation of what light rail has delivered. It has not, for example, evaluated the provision of vehicles, track and stations, or the frequency of services. Regeneration impacts will take several years to come through.

Systems have improved the quality and choice of public transport, offering fast, frequent and reliable services and providing comfortable and safe journeys. But they have not delivered all of their anticipated benefits. Some have fallen well short of their passenger forecasts and have been poorly integrated with other forms of public transport. Outside London, for example, light rail and de-regulated bus services have been competing for passengers, rather than providing an integrated service. Systems in France and Germany are better connected to centres of social and economic activity, and given priority at junctions to provide quick and punctual services. English systems have not provided complementary measures, such as park and ride facilities, to attract passengers and reduce car use and traffic congestion.

The Department has withdrawn final approval for three proposed schemes because of their escalating costs. Lack of standardisation in the design of vehicles and systems and the diversion of water, gas and other utilities have added to costs. The use of design, build, operate and maintain type contracts has had implications for costs as operators have been left to bear risks of factors, such as patronage and fare levels, over which they have limited control. Promoters have not questioned the need for diversions, how costs could be minimised and which organisations should pay for the work. Operators have been left to bear all of the revenue risks, and have built risk premia into their bids. New light rail technologies might offer scope for reducing costs, but smaller, less expensive systems do not qualify for departmental grants. The Department did not act soon enough when problems with the design and delivery of systems started to appear and costs started to escalate.

Operators of some systems made significant financial losses over the period 2001 to 2003 and would bear the losses if they withdrew from their contracts. There would still be residual risk to the taxpayer if a local authority took over the operation of system or disposed of it, and was unable to repay the Department's grants.

Conclusions and recommendations

- 1. The Department should develop a strategy for the development of light rail as part of an integrated transport network.** The Department has maintained an arm's length approach to the development of light rail, leaving local authorities to decide whether light rail was appropriate for their areas, and not prioritising in value for money terms which schemes should be allocated funds and built. It should take a more active role in the development of light rail by, for example, indicating the types of urban areas where it would be most receptive to local authorities' proposals.
- 2. The Department should have acted more quickly when problems with the design and delivery of systems started to appear and costs started to escalate.** The continued use of design, build, operate and maintain type contracts or derivations of such contracts, for example, has had implications for the costs of light rail systems. Operators have been left to bear all of the revenue risks and escalating costs on proposed schemes suggested that operators were building premia into their bids to cover risks over which they had no control. The Department should exploit its knowledge of existing schemes, in England and abroad, to provide advice and guidance on the characteristics of successful schemes.
- 3. The process to plan and approve schemes is too lengthy and time consuming.** The Department should work closely with promoters to improve the quality and completeness of promoters' proposals, and meet its own targets for scheme approval.
- 4. To improve the realisation of expected benefits, the Department should require promoters to state clearly how they propose to integrate light rail with other modes of transport,** for example, through ticketing and timetabling of services using existing statutory powers as appropriate; linkage of centres of social and economic activity; prioritisation over traffic to improve speed and punctuality; and complementary measures such as park and ride facilities.
- 5. The Department has failed to evaluate fully the £1.2 billion of public money invested in light rail systems in England.** It now has plans to set up such evaluations for new schemes. The Department should evaluate, for all schemes, whether the expected infrastructure and vehicles have been provided at the cost agreed, and whether schemes are delivering expected benefits.
- 6. The Department should consider whether their estimated evaluation costs of £10 – 15 million are unnecessarily high.** Some benefits, such as social inclusion and regeneration, are complex to measure, but core benefits such as patronage levels and reliability are relatively straightforward.
- 7. The lack of standardisation in the design of vehicles and systems has driven up costs.** Once UK Tram has reported on best practice and standards for light rail design by the end of 2005, the Department should appraise new proposals against such standards before giving scheme approval.
- 8. Diverting utilities such as water and gas mains, and installing new infrastructure, also drives up costs. The Department has not questioned whether such work is**

always necessary or who should do it. For future grant applications, the Department should require promoters to demonstrate that utilities need to be diverted, and require them to show how the costs of such essential work are to be contained.

- 9. Innovative ultra light rail technologies have been excluded from departmental funding because they cost less than the £5 million qualifying threshold for a scheme to receive financial support.** They may, however, offer the prospect of reducing costs and delivering environmental benefits through greater energy efficiency. In now inviting local authorities to put forward pilot ultra light rail schemes, the Department should encourage innovative solutions to local transport problems which have the capacity to be replicated elsewhere.
- 10. The Department has shown limited interest in the financial viability of light rail systems even though the residual risk of such schemes if an operation fails is likely to fall on taxpayers.** The Department's investment may be limited to its construction grants. In the event of failure, however, and no alternative operator coming forward, additional subsidies may be required to keep a system running, and recovery of the Department's construction grants may be unlikely. The Department should test rigorously the financial viability of scheme proposals through a range of potential outcome scenarios; and maintain an ongoing interest in the financial health and operational performance of current schemes to take account of lessons emerging.

1 The Department's approach to light rail

1. The Department had envisaged that up to 25 new light rail lines could be built by 2010, but it does not have a strategy for achieving such growth. The Department has left local authorities to determine whether light rail is appropriate in their areas. It has played no role in identifying where local authorities might promote light rail and has not prioritised in value for money terms which schemes should be allocated funds and built. The Department has recently begun to prioritise proposals for local transport schemes according to whether they represent poor, low, medium or high value for money, within the total amount of capital resources available for schemes, including light rail. The Department is also proposing to establish regional transport budgets in summer 2005, setting out how much money is available for local transport schemes over the next 10 years. Local Authorities and Passenger Transport Executives will continue to be responsible for identifying the best solution to local transport needs within the available budgets.¹

2. The Department considered that light rail schemes in general had a future, although it acknowledged that its original aspiration that 25 new lines might be in place by 2010 would not now be met. The Department had withdrawn final approval for the proposed Manchester Metrolink Phase 3, South Hampshire Rapid Transit and Leeds Supertram schemes because of their escalating costs. The original public sector contribution for Manchester, for example, had risen from £282 million plus £5 million a year for performance availability payments to £520 million plus £17 million a year. The Department has invited the promoters of these schemes to discuss the best way forward and to submit revised proposals. Final departmental approval would depend on the promoters demonstrating that their revised schemes were affordable and offered value for money.²

3. The Department did not act soon enough when problems with the design and delivery of systems started to appear and costs started to escalate. The Department considered that it was not until 1999–2000, after the Midland Metrolink, Manchester Metrolink extension and Croydon Tramlink were in operation, that design problems were recognised. Local authorities had carried out initial planning. The Department was responsible for appraising proposed schemes, but it had not visited systems abroad to learn from their experience. It had relied on scheme promoters to do so. The Department acknowledged that there had been little attention as to how schemes were put together and appraised during the 1990s. This situation reflected the arm's length approach that the Department had adopted towards light rail, and its over-reliance on promoters to get the scheme right.³

4. Planning and approval of light rail schemes has taken too long, and the outcome has been too uncertain. Proposals for a light rail system in Leeds, for example, have been included in the city's transport strategy since 1991. Excluding initial feasibility and design work, on average eight and a half years elapse between seeking legal powers for a light rail scheme and starting operations. The Department has set itself targets for making decisions

1 Qq 33–35, 117–118

2 Qq 1–3

3 Qq 13, 48, 55, 62–68, 70, 96

about promoters' applications under the Transport and Works Act 1992, as set out in **Figure 1**. Since 1992, all major light rail schemes in England have been subject to public inquiries. The Department acknowledged that it had not met the targets and accepted that decisions had taken too long. It could not guarantee to meet the targets on all applications, however, particularly for complicated schemes.⁴

Figure 1: Department for Transport targets for deciding on promoters' applications under the Transport and Works Act 1992

Status of application	Departmental target for deciding on the application
Applications where there are no objections	Within three months
Applications where objections are dealt with by an exchange of correspondence between parties to a scheme	Within four months
Applications that have been to a public inquiry	Within six months of receiving the report of the inspector of the public inquiry

Source: National Audit Office summary of Department for Transport information

2 Delivery of expected benefits

5. Five of the seven existing English light rail systems examined by the National Audit Office had delivered many, but not all, of their anticipated benefits. Passenger numbers had fallen well short of forecasts on three of these schemes, often because of over-optimistic passenger forecasts. Significantly over optimistic forecasts for the Sheffield Supertram resulted in the South Yorkshire Passenger Transport Executive having to sell the operating concession for only £1 million against an original expectation of £80 million. This shortfall in privatisation proceeds meant that the Department had to provide the Executive with extra subsidies of £6 million a year to finance the Executive's debt. Passenger forecasts were generated using guidance set out by the Department. The Department scrutinised and approved passenger forecasts, using independent consultants. The Department acknowledged that its guidance and appraisals had been deficient. It had therefore issued new guidance, which it expected to tackle optimism bias in passenger forecasts. It had also set up a small dedicated corporate finance team staffed by financial experts, and was about to create a directorate specialising in major transport schemes, to strengthen its expertise in appraising schemes and to reduce its dependency on consultants.⁵

6. The Department accepted that it should not have approved systems that were poorly integrated with other forms of transport. Outside London, light rail and de-regulated bus services were competing against each other for custom, rather than working together to provide customers with a comprehensive through service. Local authorities have statutory powers to put quality bus contracts in place as a means of integrating light rail with local bus services, but none has done so. The Department cannot insist on local authorities using their existing powers but acknowledged that the minimum 21 month statutory period between approving a quality bus contract scheme and its coming into force was too long. The Department was about to reduce this period to six months to make it easier for local authorities to put such contracts in place. The Department would expect proposals for all future schemes to include through-ticketing and timetable integration between light rail and buses.⁶

7. There is a clear contrast between light rail systems in England with those in France and Germany. Light rail abroad was better segregated from road traffic and given priority at junctions to provide quick and punctual services. Services connected centres of social and economic activity. Systems in England had had little or no impact on traffic congestion levels. The Department acknowledged that mistakes had been made in the design and delivery of schemes, in particular a failure to provide proper park and ride facilities to attract patronage and reduce traffic congestion. The Department and local authorities had learned lessons, particularly about the need to adopt light rail as part of a package of measures including those to restrain the use of cars in town and city centres. The Nottingham Express Transit system, which opened in April 2004, had well-placed park and ride facilities, good integration with local bus systems and reliable trams, and had passenger numbers close to the top of those forecast.⁷

5 Qq 4-7, 19-23

6 Qq 9, 24-26

7 Qq 4, 7, 31, 70-71, 82, 124

8. The Department only has a partial evaluation of what has been delivered for the £1.2 billion of public money invested in light rail systems in England. The Department has not, for example, evaluated the provision of tangible assets such as vehicles, track and stations, and other quantifiable measures such as frequency of services. It commissioned consultants in 2000 to develop a methodology for evaluating the impact of systems, including on local regeneration, comparing the situation before and after the systems were built, but it had proved too difficult to develop an all-embracing methodology in isolation from a real scheme. The Department plans to develop such a methodology as part of the Manchester Metrolink Phase 3 scheme if that scheme goes ahead in a revised form, and will carry out a wide ranging evaluation to be used as a framework for other future schemes. It will not be able to apply the framework retrospectively to existing schemes in the absence of data for the period before these systems opened. The Department envisaged that a full evaluation would run for five to ten years in order to be able to assess regeneration impacts, which take several years to come through. It thought evaluations would therefore cost £10 million to £15 million to carry out.⁸

3 The cost of light rail

9. Cost is one of the biggest barriers to the further expansion of light rail. **Figure 2** shows that the construction costs of a sample of existing light rail systems have ranged from £5.4 million per kilometre to £21.2 million per kilometre. Expected construction costs for proposed systems range from £11.8 million to £15.8 million per kilometre. Lack of standardisation in the design of vehicles and systems has driven up costs. A new group known as UK Tram, consisting of Transport for London, Passenger Transport Executives, the Federation for Passenger Transport and private sector suppliers, has come together to produce best practice and standards on light rail design by the end of 2005. The Department will require promoters to adopt these standards as a condition of grant for future schemes.⁹

Figure 2: Construction costs per kilometre of a sample of existing and proposed light rail systems in England

Existing systems and date opened	Actual construction cost (£ millions)	Construction cost at 2003/04 prices (£ millions)	Length of track (kilometres)	Construction cost per km at 2003/04 prices (£ millions)
Manchester Metrolink Phase 1 1992	145	191	31	6.2
Sheffield Supertram 1994–95	241	304	29	10.5
Midland Metro 1999	145	160	21	7.6
Croydon Tramlink 2000	200	218	28	7.8
Manchester Metrolink Phase 2 2000	160	174	8.2	21.2
Sunderland extension to Tyne & wear Metro 2002	98	101	18.5	5.4
Nottingham Express Transit 2004	180	180	14.3	12.6
Average	167	190	21.4	10.2
Proposed systems and planned year of opening	Expected construction cost at 2003/04 prices (£ millions)		Proposed length of track (Kilometres)	Expected construction cost per km at 2003/04 prices (£ millions)
Merseytram – 2007	225		19	11.8
Leeds Supertram– 2007–08	442		28	15.8
South Hampshire Rapid Transit –2007–08	171		14.3	12.0
Average	279		20.4	13.2

Source: National Audit Office summary of Department for Transport data

10. Digging up and diverting utilities such as water and gas mains has also added to the cost of building light rail systems. Utilities are usually dug up and the new infrastructure re-sited in order to facilitate easy access in future. Legislation¹⁰ requires promoters to pay 92.5% of these costs, increasing the costs of constructing light rail and hence the taxpayers' contribution required. The Department considered that the costs of diversions had been

9 Qq 12, 49–52

10 The New Roads and Streetworks Act 1991 was aimed at improving the standard of repair of roads and reducing disruption to road users caused by diverting utilities and was intended to establish fair contribution rates to be paid by developers for diverting utilities.

far too high, and that promoters had been too ready to agree to the diversions. The Department accepted, however, that it should have questioned promoters more closely on whether utilities needed to be diverted, how the costs could be minimised and which organisations should pay for the work. Promoters or their sub-contractors might carry out the work for example, rather than the utility companies, to reduce costs.¹¹

11. The form of the contracts procuring light rail systems has also had a bearing on costs. Although different types of contract have been used, most have been design, build, operate and maintain type contracts, or derivations of such contracts. Under these types of contracts operators have been left to bear all of the revenue risks. Escalating costs on proposed schemes suggested that operators were building premia into their bids to cover risks over which they had no control. These risks included, for example, fares policy, local parking provision, traffic priorities, planning consents along the light rail route and competing public and road transport provision. The Department has recognised that the price of light rail might have been inflated as a result. It planned to issue guidance for promoters by the summer of 2005 on models of procuring light rail systems, including advice on sharing revenue risks between the public and private sectors.¹²

12. New light rail technologies might offer scope for reducing costs, but there have been barriers to their development and take up. The promoters of ultra light rail, for example, claim it offers low cost alternatives to the more traditional types of systems. But these smaller, less expensive systems do not qualify for departmental grants, which are for schemes costing £5 million or more. The Department plans to lower this threshold for new local transport schemes from April 2006. It will also invite local authorities to come forward with pilot schemes to demonstrate to other promoters that ultra light rail schemes work.¹³

13. The Department expects the operation of light rail systems to be self-financing and not to require any operating subsidy from the government. The private sector operators of the Midland Metro and Manchester Metrolink, however, both made significant financial losses in 2001 and 2002, while the operators of the Croydon Tramlink made significant losses in 2001-02 and 2002-03. The Department did not believe that any operator was contemplating withdrawing from a contract as a result of such losses. If an operator were unable to continue and an alternative operator could not be found, contract arrangements would allow operations to be handed back to the relevant local authority which promoted the scheme. Clawback arrangements in grant terms allow the Department to reclaim monies if a system runs into financial difficulties and the local authority decides to dispose of it. The private sector would bear the losses and the Department might receive some of its investment back.¹⁴

14. Risks to the taxpayer may nevertheless arise if an operator fails. A system costing several hundred million pounds to build might not be closed down if it reverted to the local authority, and operating costs would therefore be incurred. The local authority might have to subsidise another private sector operator to take over the running of the system. If the

11 Qq 12, 67, 73

12 Qq 12, 36-37, 40

13 Q 123

14 Qq 10-11, 104, 106

local authority disposes of the system, it is unlikely to recover the full costs of construction and so repay the Department's grants. Thus there is a residual risk to the taxpayer, warranting greater concern on the part of the Department than it has currently shown about the financial viability of light rail systems.

Formal minutes

Wednesday 9 March 2005

Members present:

Mr Edward Leigh, in the Chair

Mr Ian Davidson
Mr Brian Jenkins

Mr Gerry Steinberg
Jon Trickett

The Committee deliberated.

Draft Report (Improving public transport in England through light rail), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 14 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Eleventh Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

[Adjourned until Monday 21 March at 4.30 pm]

Witness

Wednesday 10 November 2004

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Mr David Rowlands CB, Department for Transport

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Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 10 November 2004

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan
Mr Brian Jenkins
Mr Gerry Steinberg

Jon Trickett
Mr Alan Williams

Sir John Bourn KCB, Comptroller and Auditor General, and **Mr Keith Holden**, Director, National Audit Office, further examined.

Ms Paula Diggle, Second Treasury Officer of Accounts, HM Treasury, further examined.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL:

Improving public transport in England through light rail (HC 518)

Witness: **Mr David Rowlands CB**, Permanent Secretary, Department for Transport, examined.

Q1 Chairman: Good afternoon, and welcome to the Committee of Public Accounts where today we are looking at the Comptroller and Auditor General's Report on Improving public transport in England through light rail, and we welcome back David Rowlands, who is the permanent secretary at the Department for Transport. You are very welcome, Mr Rowlands. Mr Rowlands, you spent a billion pounds on light rail and you are now scrapping proposed schemes in Manchester, Leeds and South Hampshire. Have you miscalculated the case for light rail?

Mr Rowlands: No, I do not think we have miscalculated the case. As the Report says, the light rail schemes have been built and have delivered most of the benefits they were supposed to deliver, and I think I ought to say that we have not, as you put it, "scrapped" the existing schemes proposed for Manchester Phase 3, Leeds and South Hampshire; what we have done is withdrawn final approval for those schemes in the face of escalating costs and invited the three promoters to discuss with the Department the best way forward and to put in revised proposals.

Q2 Chairman: So they are going to happen, are they?

Mr Rowlands: Depending on what we are shown and whether they are affordable and value for money there will be a strong case to proceed with whatever is put in front of us.

Q3 Chairman: On a scale of 1–10, are they going to happen or not?

Mr Rowlands: On a scale of 1–10—you are tempting me now. I am tempted to say about 6.5–7 that something will happen, but I cannot tell you what that something is because it depends on the negotiation!

Q4 Chairman: Could you please look at page 21 and look at figure 6, which has some very interesting figures there for Sheffield and Midland Metro and Croydon and Manchester on "Patronage (millions of passenger journeys)". Why have these passenger numbers fallen so far short of expectations?

Mr Rowlands: Can I start with Sheffield, if I may?

Chairman: We have Mr Allan here so I am sure he will be delighted if you started with Sheffield, but do not spend all day in Sheffield, however long it takes you to travel there.

Q5 Mr Steinberg: Nobody wants to spend all day in Sheffield!

Mr Rowlands: If I can start with Sheffield, I think the Report shows that Sheffield just about everything was got wrong. The Department's appraisal was deficient; the passenger forecasts were grossly optimistic; it was not a good idea to demolish most of the high rise accommodation along the line of the route which removed many of the passengers, and the vehicles did not work properly for the first couple of years either. For all of those reasons—

Q6 Chairman: You are putting your hand up?

Mr Rowlands: I am. I think we learned some lessons from Sheffield.

Q7 Chairman: I think Mr Allan may have one or two questions for you.

Mr Rowlands: We have learned additional lessons as we have gone along. For Croydon, the figure which the NAO rightly show was the figure produced by the promoter who added another two or three million on top of the forecast which was a passenger forecast prepared by London Transport, and I am inclined to say they have missed, as they have done, net passenger forecasts and that is their problem because this was a PFI deal and they got it wrong and they have had to take the consequences. That

 Department for Transport

said, in its own terms it has been relatively successful. It has good passenger carrying; it is well integrated with the bus system. Midland also fell short, partly again because of over-optimism, partly because initially they made the mistake of not providing proper park and ride facilities; the vehicles did not work properly either, so there is an element of putting my hand up for all of this. In my defence, if I may, touched on but obviously the NAO did not say too much about it, if you look at Nottingham patronage right at the top end of the forecast range, they got everything just about right, including I think the Department itself, with proper park and ride provision, vehicles that work, well integrated with the local bus system, and so on.

Q8 Chairman: Well, it is in the East Midlands. Sensible people, I suppose!

Mr Rowlands: Yes.

Q9 Chairman: We will now look at integration and we can turn straight over the page to 2.19, "Systems have not been fully integrated". Why did you approve systems so poorly integrated with other forms of transport?

Mr Rowlands: We should not have done. We did not in the case of Nottingham; we will not in the case of any future proposals put in front of us. We cannot and must not instruct the promoter to introduce quality bus contracts which are touched on in this Report which would allow integration between bus and light rail system. That is for statutory reasons; it is because we cannot fetter the Secretary of State's discretion in relation to a scheme he must approve, but what we will insist upon and expect is proposals which properly integrate a light rail scheme with the local bus service in terms of through ticketing, in terms of timetable integration. How a promoter achieves that and whether they use the quality bus contract must be for them to decide, but that is what we will require in the future because you can see it works in places like Nottingham.

Q10 Chairman: Thank you. Going over to page 25 now and look at the money involved here, under this heading "Several systems have been operating at a loss" and we look at paragraph 2.35, we can see that over the three years losses range from £200,000 on the Sheffield Supertram to £11.4 million on the Midland Metro. So what action would you take if these light rail systems continue to accumulate losses?

Mr Rowlands: I do not think the Department needs as such to take any action. Midland Metro and Croydon Tramlink are straight PFI deals; this is the concessionaire's problem and the lender's problem. None of the losses, for example, on the Croydon Tramlink have fallen upon Transport for London. They belong to the private sector concessionaires. It is for them and their banks to sort themselves out and restructure and, as necessary, to take a write-off.

Q11 Chairman: What happens if the losses are so great that they cannot? These systems just come to an end, do they?

Mr Rowlands: Then they have a choice which is to relinquish their contract and hand it back to the promoter.

Q12 Chairman: If we look at the costs of new schemes which we can find in paragraph 3.5 where it tells us the costs are increasing, can you do anything to help promoters reduce the costs of these new schemes?

Mr Rowlands: Yes, I think we can. There are clearly some things that the promoter should do and we should either help or insist upon. The cost of utility diversions has been far too high and there is an issue about ensuring that, rather than going for blanket utility diversions, only those which need to be diverted and paid for are moved. There is a real issue about harmonised standards, both for systems and for vehicles where we expect to introduce some new guidance by certainly summer next year, and then to insist for any future schemes that they follow standardised best practice and standards, and I think we can probably also help promoters in terms of how they procure. I think we will put out some guidance on procurement and what the available solutions are by the spring of next year.

Q13 Chairman: You could not have acted sooner, you think, on all this?

Mr Rowlands: It is quite interesting in that this Report points us in the direction and helps us to continue in the direction we had already started upon. Could we have acted any sooner? It is quite difficult because, if you go back, Sheffield was poor but the first phase of the Manchester Metrolink which was one of the other early experiences was successful, so it is not until you get to the back end of 90s and the start of the 21st century that you can see the problem really emerging. Could we have acted any sooner? Perhaps, but I do not think very much sooner.

Q14 Chairman: Now, a subject which I find quite interesting is the boxes which we find on pages 6 and 7 which compares our light rail systems to those in France and Germany, and, of course, their systems are much better than ours. Why is this?

Mr Rowlands: If you look at the reason the NAO give, continental systems certainly have an advantage or two that you just cannot find in this country. Certainly the town planners of a century ago—

Q15 Chairman: Well, I saw that and I knew you would come up with that excuse, but I just cannot take that. Just because Baron Hausman wanted to put down revolutions in Paris in 1865 and built broad avenues, and that is the excuse why we have such poor light rail systems here—

Mr Rowlands: I was not suggesting that was the only reason, but a reason. It does make it easier to have dedicated segregated running. If you have not got that then you have a problem with on-road clashes at junctions, and although the Report suggests more could be done to speed trams through at junctions there is a limit to what you can do because if you are

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speeding the tram through you have stopped the bus that is also trying to get through the junction and that is why TfL, for example, have not wholly given Croydon Tramlink a completely free run because it impacts on the vehicles on the road, including local bus services. Also, this Report touches on why are they more successful? It is a fact of life that population densities on the continent within a short distance of a light rail scheme are substantially greater than you will find in this country. In France you have for every route kilometre more than 4,000 people living within 400 m of a light rail line. The best you will find in this country is about 1,800 people, and actually for Croydon and Sheffield and so on you have less than 500 people living within 400 m of light rail. You just have much lower densities.

Q16 Chairman: I cannot believe that is the case right through the Netherlands, France and Germany. The realities of city life in Western Europe are much the same. Their systems are so much better than ours. Admittedly, the Germans did not destroy their systems, they kept them despite the wartime losses, but France seems to be quite successful. It cannot just be for those reasons. It must be to do with better integration with other systems, and better understanding of the realities of city life?

Mr Rowlands: It is also better integration, that is indisputable, and it is also a reflection of the degree of subsidy which light rail schemes and fares get on the continent compared with the United Kingdom, as a matter of policy.

Q17 Chairman: Lastly from me, and that is really dealt with in paragraphs 3.1 and 3.36 which look at the future, in reality, Mr Rowlands, have you now abandoned light rail for the future, new projects or do you have a strategy?

Mr Rowlands: No, we have not.

Q18 Mr Williams: “No, we have not got a strategy” or “no, we have not abandoned it”?

Mr Rowlands: No, we have not abandoned! The Ten Year Plan said up to 25 new light rail lines by 2010; I do not think there is any prospect of seeing 25 new lines by then but that does not mean we have abandoned it. The Department’s position is quite clear which is that down at local authority or PTE level they need to find the best solution for local transport needs and requirements. Often that will not be a tram but sometimes it will be, and provided they can bring forward proposals that we are willing to work with them on, I think much more than the case than even a few years ago, if it is value for money and if it is affordable, there is still a place for a tram.

Q19 Mr Allan: Mr Rowlands, I think it is only fair to start you by thanking you on behalf of the people of South Yorkshire for the bailout which you gave to us. The huge bill that otherwise would have fallen on taxpayers would have been unwelcome in Sheffield but particularly unwelcome in Barnsley,

Rotherham and Doncaster where they do not even the tram running in their areas. How long is it intended that that arrangement will stay in place?

Mr Rowlands: It is now a permanent arrangement. If you look at the numbers, Sheffield with its Supertram got about a £63 million grant and another £63 million in supported borrowings supported through the revenue support grant. The other £88 million, the plan was that it would be serviced from the operating surplus, and then would effectively be repaid by selling a concession for around about £80 million. They got a million from Stagecoach, so the decision was taken to convert that other £88 million into supported borrowings so it is now supported again through the revenue support grant and would just be paid off that way in due course.

Q20 Mr Allan: And the reason that figures were so out, the reason that something that was valued at £80 odd million only went for £1 million really boils down to the reason that these passenger numbers were completely wrong?

Mr Rowlands: Totally wrong.

Q21 Mr Allan: If we look in the Report on page 26 under little bits entitled accurately “Over-optimistic Forecasting” it tells us that the way these forecasts were generated were using “modelling guidance set out by the Department”. Can you confirm that the South Yorkshire one was based on that modelling guidance?

Mr Rowlands: It was based on the modelling guidance that was around at the end of the 80s into the early 90s, nearly fifteen years ago.

Q22 Mr Allan: And that has been torn up and thrown in the bin and replaced by a more sensible modelling guidance?

Mr Rowlands: It has, and I probably ought to say it has also been supplemented. There is a sort of suggestion of a complaint from the promoters in the Report that five times since 1988 we have had new guidance and new requirements on people. One of those was to lay the Treasury Green Book requirements on this sort of project and introduce optimism bias, and that too ought to deal with the kind of problem we had in Sheffield fifteen years earlier.

Q23 Mr Allan: The next thing it tells us is that “The forecasts are scrutinised and approved by the Department, using independent consultants”. I hope you can assure us that you are not using the same independent consultants that said that the £22 million figure was accurate, or have they also changed their way of doing things?

Mr Rowlands: No, we are not going to use the same people and we are not, from here on in, going to rely on consultants to the extent we have done hitherto. We have created in the Department a small corporate finance directorate headed up by somebody we got from Goldman Sachs so we have people in the Department who can look these financial institutions in the eye and who know what

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they are doing, and we are just about to create a new special major projects directorate to deal with big transport major schemes so we have a dedicated resource who can build up expertise so we are not totally dependent on the consultants.

Q24 Mr Allan: When we look at why it went wrong, some of it is to do with ticketing and bus contribution which is a problem we have because we cannot regulate the buses. The bus companies put on services against the tram at a cheaper price deliberately to compete with it. Do you accept that if you look at the Sheffield South Yorkshire scenario, it would be a lot easier to make this kind of thing work in a regulated bus environment rather than a deregulated one?

Mr Rowlands: I think, to go back to what I said to the Chairman earlier, it is potentially much better to arrange that degree of integration if, for example, a PTE or a local authority were to look towards the powers that have always been there in the Transport Act 2000 to introduce quality bus contracts, because if a promoter comes forward with a light rail scheme that they want integrated with their local buses and they say, “My bus strategy, to get this degree of integration, is this”—whatever it is—“and I cannot persuade my local bus companies to subscribe to that strategy”, then the powers in the 2000 Act allow them to introduce a quality bus contract arrangement where effectively they can franchise an integrated bus service, set the schedules and set the fares.

Q25 Mr Allan: So PTEs do have a reasonably big stick to wave at the bus companies?

Mr Rowlands: They have always had that stick.

Q26 Mr Allan: Since 2000?

Mr Rowlands: One of the problems has been, when it was originally introduced, there was a minimum 21 month period between signing a contract and it coming into effect, and that was too long, I think. We consulted and we are about to bring that down to six months, so we can make it easier to get into place.

Q27 Mr Allan: You raised the issue of demolition of Kelvin flats and the other places in Sheffield; that they had factored all these places into the passenger numbers and then bulldozed them into the planning stages of the tram. Do you accept the criticisms in the Report that the time scales are far too long, and perhaps that could have been foreseen? I think in the Sheffield case it could and should have been, but if we have these long time scales then the demographics are going to change between planning and implementation?

Mr Rowlands: I accept the criticism that in terms of decision-making it has taken too long, and the Department has not met its targets. That said, there will be instances where the Department I think will never meet its targets for decisions because we are faced with something that is particularly complicated, and the Department can never be in a position where it just nods through a business case

because it has to be processed quickly. If somebody puts in an efficient business case through application, it is expected to take some time.

Q28 Mr Allan: Can I ask you about the cost and what we spent the money on and what we could have spent the money on? Looking at the Sheffield figures correctly, £240 million was spent on a system carrying 12 million passengers a year, so you could look at it and say over 20 years each passenger journey is subsidised to the cost of a pound. Have we looked seriously at whether or not we could have spent that same amount of money on other services? Did we buy a tram system because it is shiny and new rather than spending the money on buses and trains because they are old and boring, when in fact we may have got more value on buses and trains? Do you do that kind of cost comparison?

Mr Rowlands: We do now.

Q29 Mr Allan: You did not then?

Mr Rowlands: We did not then, we do now. We have with us at the moment a further application from Sheffield for additional extensions. The original proposal they put in front of us had, I think, quite an extensive number of extensions to the existing Supertram system and in the dialogue we had with them the conclusion was reached actually that the tram was not the right answer on all of these routes, and what we now have is an application that has—if this is the right way of describing it—one and a bit additions to the existing Supertram, because the bus can do it better on some routes.

Q30 Mr Allan: How likely is it they would get any support, given there are places who have not got any tram systems at all and are still in the queue and being held up? Does that affect the Sheffield application? Does the fact we have been not so hot in the past and had plenty of money put us further down the list?

Mr Rowlands: It is not an appraisal criterion; you do not get punished because an original application turned out to be the pear-shaped one that was built because if Sheffield was at fault so was the Department at the time. There will be an issue to do with affordability. It is quite clear that in terms of the number of proposals to build trams they will need to be in sequence, they simply cannot all be built at the same time, but if the application stands up and if it is value for money, then there is no reason why it cannot proceed. The question will be how quickly, depending on other pressures on the demand and the provision.

Q31 Mr Allan: In terms of assessing these systems, where you have done assessment, on page 24 2.28 says “In Sheffield and Manchester, the assessors found little or no impact” on road congestion. Now, you were here before us talking about your hopelessly optimistic targets for road congestion which you are not going to meet anyway, but can we be clear that when we are considering tram systems, is it your view in line with these assess that putting in

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a tram system will not affect road congestion in any significant way? There are other reasons for doing it but it is not going help you meet the targets.

Mr Rowlands: I think it is quite clear from the history of past light rail schemes that if you just build a stand-alone scheme then it is likely to have very limited impact on local congestion levels, and it is why, going forward, I do not think the Department would ever contemplate looking again at, certainly not approving, a stand-alone scheme. We would want to see a package solution that deals with local transport problems and certainly, as this Report says, things like park and ride, but it also has to include proper integration with buses and depending on the urban environment it may need to be something to do with demand for motor cars as well. But coming back specifically to Sheffield, that will depend on local needs.

Q32 Mr Allan: But if you want to do congestion and you have to choose between a tram and congestion charging, congestion charging is going to do something and the tram is not, in layman's terms?

Mr Rowlands: That is right, and you might find that congestion charging might help to pay for the tram as well.

Q33 Jon Trickett: Paragraphs 3.6 and those which follow it really quite bluntly say that the Department has had no strategic prioritisation of schemes; that you have had no criteria other than a purely financial one which I want to address later, to determine which should have priority and which should not. You have talked about one criteria which is integration with other forms of transport for the future, so I take that as read, but are there any other criteria which the Department would apply in trying to prioritise schemes since there are a number around and there is a limited amount of money available?

Mr Rowlands: Yes. When these schemes were built, the Department had no prioritisation system in terms of value for money. We have had in place from about twelve months ago clear prioritisation arrangements in terms of setting out when schemes are poor, low, medium or high value for money. It does not follow from that you only do the high and you never do the medium or the low, but we are moving to a point where the prospect of doing a low VFM scheme is quite limited, and it means in terms of your question on prioritisation that you can take it that the likelihood is that schemes with medium to high value for money will be at the head of a queue.

Q34 Mr Trickett: As defined by the number of passengers carried per pound or something?

Mr Rowlands: No. Remember these are just light rail schemes but we are also faced with proposals for guided bus schemes and for local transport schemes—

Q35 Mr Trickett: I am trying to ask you about prioritising within these particular types of schemes. There are a number on the table, and there is a limited amount of money in resources?

Mr Rowlands: We do not have a pot of money just called "light rail schemes". We have a pot of money called "local transport capital provision". What we need to do is prioritise as best we can within that overall provision. We do not have a view as to light rail being better than something else. That is I think for decision at local level—

Q36 Mr Trickett: Well, I think you do, actually. I was going to ask you about finance later but since you are responding in that way I will pursue it now. It does seem to me that the way in which these deals are structured is to the detriment of this form of public transport and to that extent favours more road building, since road building does not, for example, include a risk element which the private sector has to factor into their calculations. Now, I was going to come to this later but I will tackle it now. Paragraphs 3.5 and onwards talk about risk and the escalating cost of these particular schemes which you said disappoints you. The fact is that one of the largest elements in the projected cost is to do with risk borne by the private sector, is it not? Can you give us an indication of any strategies which can be adopted which would reduce the cost of risk in preparing pricing for these schemes?

Mr Rowlands: For these schemes? Yes. Do not ask the private sector to take all the revenue risk because if you do, on the basis of history of past schemes, it will prove very expensive, and you have seen that reflected—

Q37 Mr Trickett: Are schemes coming forward which are doing that now?

Mr Rowlands: Not the only reason but part of the reason for cost increases on the Manchester Phase 3 and on South Hampshire is what the private sector is now trying to charge for taking all of the revenue risk in the light of what is happening at Croydon, Midland Metro and so on.

Q38 Mr Trickett: Are you able to estimate how much you can reduce cost by by risk sharing rather than passing the risk across?

Mr Rowlands: I genuinely cannot answer that because it is work in progress. As I said, we have asked the promoters of those three schemes to come to us with revised proposals. We have some from Manchester and that is part of—

Q39 Mr Trickett: Is the Leeds scheme not going to save us tens of millions of pounds by changing the balance of risk?

Mr Rowlands: We have not seen fresh proposals from Leeds yet, so I cannot comment.

Q40 Mr Trickett: So you are unable in any way to give any guidance other than a conceptual one on somehow passing the risk across, taking some of the risk back into the public sector?

Mr Rowlands: No. That I think is, if I may say so, slightly unfair. We want to put out, certainly by next spring, as I think I said, guidance for promoters on models to procure light rail systems and that would include advice on revenue risk share, and some of

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that will flow I think from work that is going on at the moment in terms of Manchester and Leeds and South Hampshire to come.

Q41 Mr Trickett: Did the NAO not consider the possibility that risk-sharing, or perhaps not transferring some of the risk, might reduce the cost substantially? Was that a calculation done?

Mr Holden: We have not done a calculation but I think conceptually that is a way forward for the Department and also local authorities.

Q42 Mr Trickett: Is it possible for you to share the calculations with ourselves, perhaps not now but in a note?

Mr Holden: We have not done those calculations.

Q43 Jon Trickett: You have not? So nobody knows what the savings might be to the public purse; it is just that we think we probably would.

Mr Holden: Yes. It has not been done because we cannot calculate it.

Q44 Jon Trickett: Can I suggest you contact Leeds and find out whether they have done any work and, if so, provide us with a note because I am of the opinion that the way the Department is structuring this is benefiting more road building since they do not have that kind of risk factored into the cost of road building, do they?

Mr Rowlands: No, I do not think I can agree with that. If you look at, as we will shortly bring out, how we have divided up the outcome of the recent spending review, you will find a block of money called “local transport capital”. That is the money for local authorities to spend on capital schemes, light rail schemes, guiding bus and so on, and that is local transport money is not available—

Q45 Jon Trickett: I do not think you are answering my question but I want to move on because in my original question I particularly excluded finance which you immediately went on to. I was trying to discover whether there are any other attributes which light rail schemes might have which would give them additional priority. One of the examples I was thinking of was the impact on regeneration in the community if a scheme was to go through poor communities perhaps with less access to cars so that that would have a regenerative effect, and presumably a fiscal effect if we could get more people into work. Is that something which you have done any work on at all?

Mr Rowlands: Yes. That should be built, if possible, into scheme appraisal and into benefit cost ratio, and we put out I think quite recently some guidance on how best to handle regeneration in terms of how you put the proposal to the Department, so we recognise that one of the drivers and one of the justifications and the benefits from tentative light rail schemes is indeed regeneration—not necessarily true for every light rail scheme but certainly true of some of them.

Q46 Jon Trickett: Would that indicate that the Department would give higher priority if there were two competing schemes, if one was doing more regeneration? Do you do a fiscal analysis of the impact of job creation that one scheme might have?

Mr Rowlands: If there is a scheme that offers substantial regeneration benefits then that should flow through to a substantially better benefit cost ratio than perhaps some other schemes, and should put it ahead in that sense in the queue, yes.

Q47 Mr Trickett: Just let me ask the following because my time is running out. In terms of linking areas of job growth back into areas of regeneration and poverty, is that another factor that you would look at, since if poor people are to get to work they need some form of public transport if they do not have access to a car. Is that not a key factor as well?

Mr Rowlands: To the extent you have a scheme that is not only giving you regeneration benefits but social inclusion benefits then you need to capture that and build it into the appraisal, and it adds to the potential of the scheme to get ahead of something else that does not add that, yes.

Q48 Mr Steinberg: Mr Rowlands, I have to say that when I read this Report I was very shocked and saddened by it because my view is that light rail schemes—and I have always thought this for years—should be the way forward, and reading the Report frankly it seems that the government have made a half-hearted attempt to introduce them, and, frankly, your answers this afternoon substantiate that. I do not mean this disrespectfully but you seem totally complacent by the fact they have failed, or seem to have failed, and frankly it is your Department’s fault for that situation taking place. The government has already funded these schemes to something like £1 billion and have promised another £1.4 billion. That is right, is it not?

Mr Rowlands: No. It says the central government contribution so far is £1.2 billion and there are some other schemes around. We have not promised any more.

Q49 Mr Steinberg: But you have committed another £1.4 billion according to my reading of the Report—but that is irrelevant, to be quite honest. Mr Williams asked if you had abandoned your strategy. Frankly, if you read the Report, you have never had a strategy, have you? If you look at the Report and you look at the pictures in the Report—and I am looking at pictures a lot these days because I have a grandson who is one and a half, and he even realised here that, if you look at the Report and the pictures, all the trains are different?

Mr Rowlands: Yes.

Q50 Mr Steinberg: If you had had a strategy, would you not have gone to the manufacturers and said “Look, rather than building them all different, build them all the same”, could that not have cut down millions of pound?

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Mr Rowlands: Yes, and that is why I said—

Q51 Mr Steinberg: Thank you for answering honestly but that is pretty complacent, is it not?

Mr Rowlands: I do not think it is complacent. Following both this Report and this set of problems, there is now a grouping called UK Tram which brings together Transport for London, the PTEs, the Federation for Passenger Transport and the private sector suppliers, and the intention is that it will produce best practice and standards and we will require them as a condition of grant for future schemes.

Q52 Mr Steinberg: But you should have been doing that ten years ago?

Mr Rowlands: I quite agree.

Q53 Mr Steinberg: So you cannot now abandon the project, particularly the ones that are reasonably successful like Manchester, and I read in here Manchester seems quite reasonably successful to me, and I get the impression you are going to abandon it?

Mr Rowlands: No, we are not going to abandon it. What my Secretary of State said was that in the face of escalating costs that we could not continue simply nodding through additional increases in cost. The original public sector contribution for Manchester was capped at £282 million plus £5 million a year for performance availability payments. It became £520 million plus £5 million a year, and we still said “Yes”, a new cap. They came back and said £520 million and not £5 million a year but £17 million a year—

Q54 Mr Steinberg: But that is just admitting your incompetence, frankly, because you should have been doing something about it and you were doing nought. You were just handing out money and doing nothing?

Mr Rowlands: No, we have not handed out money. We have said “No”—

Q55 Mr Steinberg: You have said “No” now but it is a bit damned late to be saying “No” now when it is all planned, is it not? Let us move on, there is such a lot. Actually, this is one of the reports which you cannot believe when you read it. I will come to it later but you build railways where there is nobody there, that is incredible. You do not build them where the shopping centres are, you build them where there are no shops. You have allowed this to happen, and it is incredible. But never mind. Was the policy deliberate or was it just totally incompetent, because I cannot believe one department can be so incompetent. I think it is deliberate. I think the Department have decided not to do them, frankly, and have allowed them to get into the mess they have got into, and there has been a policy decision to say let them die?

Mr Rowlands: There has been no such policy decision.

Q56 Mr Steinberg: So it is purely incompetence?

Mr Rowlands: No, it is not incompetence. We said there will not be 25 in the Ten Year Plan. There was money in the Plan for up to 25 more lines by 2010. We said it and we meant it in that sense; there is no decision to kill them. We have no wish to kill them. Light rail is clearly a sensible solution on some transport corridors but it is not God’s answer to everything. A bus service might be better for many people.

Q57 Mr Steinberg: A bus service integrated with the tram system which, again, you have failed to do.

Mr Rowlands: I am sorry. I thought I put my hand up and said that I accepted that.

Q58 Mr Steinberg: Well, putting your hand up and accepting it—whoever was there at the time should be resigning. I do not know about putting your hand up and accepting it. If everybody in the government puts their hands up and accepts all the mistakes as being done and we let them get away with it, then—if you were sacked for putting your hand up and accepting it that would be that and it would be a different matter, would it not?

Mr Rowlands: The best I can offer you is we learn from our mistakes.

Q59 Mr Steinberg: Very costly mistakes. You have kept your distance from the scheme; you have done no prioritisation, as you have just told Mr Trickett, and you have basically let down those schemes that are actually there, have you not?

Mr Rowlands: No, I do not think we should lose sight of the fact—

Q60 Mr Steinberg: Because those schemes need expanding?

Mr Rowlands: We should not lose sight of the fact, as this Report says, light rail schemes have delivered most of the benefits they were supposed to. They did not deliver everything; we got it wrong and the promoters got it wrong in patronage terms with a number of schemes. Some of them lost money but not at the expense of the public purse and—

Q61 Mr Steinberg: I have such a lot to do I am going to move on. In any sort of policy, whether it is government or local government policy or parish council policy, you cannot make a promise to somebody that they can expand or whatever and then go back on that promise, and that is basically what you have done. That is the worse thing you can actually do in terms of delivering a service, and you have more or less promised, I think it was Leeds, Manchester, and all the others in the Report, that they would be allowed to expand. Are they going to be allowed to expand?

Mr Rowlands: We told Manchester “You have final approval for something that will cost £520 million”. We told Leeds “You have final approval for something that will cost £355 million”. We told South Hampshire they had final approval for something that would cost £170 million. That hardly demonstrates a retreat from light rail systems. What

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we said was when they all came back and said “We need a lot more money” is “Sorry, we have to stop at this point. We need to talk to you about what you propose. You better revise your proposals”.

Q62 Mr Steinberg: So what action did you take, for example, when the costs were clearly spiralling out of control? What action did your Department take as a Department responsible? What did you actually do?

Mr Rowlands: We withdrew the final approvals to all three schemes in view of the cost escalation.

Q63 Mr Steinberg: But you were handing out money willy nilly beforehand?

Mr Rowlands: And inviting them to come in and discuss revised proposals, and that discussion has started with Manchester and will do with Leeds once we have proposals.

Q64 Mr Steinberg: The truth of the matter is you actually did nothing. You just sat back on your backsides and waited, and then when it got so far out of control you then started to do something. That is the truth of the matter, is it not?

Mr Rowlands: No.

Q65 Mr Steinberg: It is. Then why did they get out of control so much then?

Mr Rowlands: That is a question more properly addressed to Manchester, Leeds and South Hampshire.

Q66 Mr Steinberg: I do not think so; I think I should address it to the Department. I wrote down a quote you said, and I cannot remember who you said it to, that you did not need to take any action. Why did you not need to take any action?

Mr Rowlands: The Department cannot design the transport solution for Manchester or Leeds. That has to be the responsibility in Manchester of GM PTE.

Q67 Mr Steinberg: It has to be their responsibility to do the initial planning and decide what they want, but it is up to the Department to decide whether it is cost effective. After all it is actually taxpayers’ money that you are doling out left, right and centre and you should have some sort of responsibility, but let us move on because I only have a couple of minutes left. One of the things that I noticed in the Report is, for example, that you just allowed the utilities to put a gun to these people’s head and charge anything they like. They have just milked the system totally without you doing a damned thing about it. You just allowed the utilities to come in and milk them?

Mr Rowlands: We did not allow the utilities to come in. That is what the promoters and the concessionaires at the time agreed to. I think they were wrong to do so. I think the department should have taken a stronger position itself because I think there are two questions. One is, what do you need to divert and how do you minimise the cost, and then who pays? I think you are right in that it has too

easily been the case that promoters have just signed up to what the utilities wanted without saying, “Come on; we are not doing that. We are not paying for that”.

Mr Steinberg: I cannot let pages 6 and 7 go by without making some sort of comment—page 6, paragraph 9; page 7, paragraph 12; and page 9, paragraph 16. The Chairman touched on this. When there was no strategy at all, and you have more or less admitted there was no strategy, and you look here and see the reasons why the system had not been successful, and then you look and see what has happened on the continent, it is no good saying, “Because the streets were wider in Paris”. That is a load of rubbish.

Chairman: Say it in French.

Mr Steinberg: [*Mock French accent*] Bol-locks. [*General laughter*] They had actually planned it, had they not? You have no planning at all. As I said before, look at, “Light rail lines are usually segregated from, and given priority over, other forms of traffic at junctions” in France and Germany—not in this country; “Systems are fully integrated with other forms of public transport”—not in this country; “In France, street improvement is an integral part of any light rail scheme”—not in this country; “Light rail fares are heavily subsidised”—not in this country; “Larger patronage base”—not in this country because it was all bollocks up to begin with; “Systems connect centres of social and economic activity”—not in this country; “The costs of diverting utilities are lower”—not in this country; “Promoters in France can draw on local transport taxes to help pay for light rail”—well, you might be able to do it in this country, but just; “In Germany, ‘track share’ is more common”—not in this country. The truth of the matter is that they were built without any planning, without any strategy, you have bunged them where the old lines were in the first place, and they were just allowed to get on with it. It was a deliberate strategy from your department.

Chairman: Do you wish to answer that?

Q68 Mr Steinberg: I want him to answer it.

Mr Rowlands: A number of these schemes were developed and promoted by passenger transport executives whose job it is to properly plan the local transport system in the area concerned. It is not the department’s job to plan it. Looking backwards, as I said, we could have made a better fist of it; I think they could have made a better fist of it. We have both learned some lessons. You can see the benefits, certainly in Nottingham, where even by continental standards it is pretty well integrated. Looking backwards, some of this is not as good as it should have been. Looking forwards, I think it will be a whole lot better.

Chairman: Thank you very much. We are very grateful to Mr Steinberg’s one and a half-year old grandson for coming up with an ingenious solution that the trains should be the same throughout the country. Will we give him an OBE, do you think?

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Q69 Mr Jenkins: Mr Rowlands, unlike Mr Steinberg, I am sorry this session has not been videoed because I think it is a brilliant training opportunity for departments how to handle the PAC. You have done it very well. You have come along here and you have said to everything we have questioned, “Okay, guv, we were wrong”, “We got that wrong”, “Yes, we did not do that quite right”, “We did not do this quite right”. You have owned up to most things. I think it is very laudable. We always like to see people taking risks and if risks do not come off, as long as they are quantified and management is saving funds, we are very pleased with it. I want to carry on where Mr Steinberg finished off and talk through the scenario. I will take one of our better examples. On page 27 we have got an example between Grenoble and Nottingham. Talk me through this because then I might understand the situation. Grenoble has got 0.4 million population, Nottingham has got 0.8 million, so it is twice the size, I take it. It is probably over twice the area as well, being a larger city. In Grenoble they have got two systems, in Nottingham they have got one track. They have got 40 stations and in Nottingham there are 23. Therefore, Nottingham *pro rata* should have 80 stations and it has got 23. They have got 20 kilometres; Nottingham has got 14. Nottingham should have 40. They have got 53 vehicles; Nottingham has got 15. It should have over 100. They carry 13 million; Nottingham carries 11 million. Do you think that if the situation was such that in Nottingham (or other British cities) the light rail system connected hospitals, universities and commercial shopping centres, if it had a sufficient tracks to pick people up from the outer suburbs and bring them in, do you think if it had a totally integrated system with cross-ticketing Nottingham might eventually, with the extra track, get up to 60 million passenger journeys a year?

Mr Rowlands: I cannot hang my hat on 60 million but I cannot see any reason in principle why the Nottingham system should not be expanded. We have with us proposals from Nottingham for a second and third line in the Phase 2 project. We have given Nottingham £2.4 million to help them develop that proposal. There would still be, and I think some of your colleagues were not convinced, issues to do with the density of the population living near to even a well-integrated system, which is what Nottingham is. The line that opened in March is a success by any standards; it is well integrated with the buses, but I see no reason in principle—I need to be careful. I cannot prejudge the outcome of their application, but I can see no reason in principle why Phase 2 would not be built and even taken further down the road which would in your terms make Nottingham more like Grenoble.

Q70 Mr Jenkins: So, accepting that Nottingham is a success story and accepting that the expansion will take place and maybe incorporate where people live to where they want to go, which would be quite novel for some schemes, may I suggest that it could go to 60 million? Did you look at any other schemes on the

continent and draw some experience or ideas from them, and did you then transmit those ideas to PTEs so that they could balance these schemes?

Mr Rowlands: We have not specifically gone and visited continental systems but the PTEs themselves have individually and collectively. If we pursue Nottingham for a second, and you will have to forgive me; I cannot remember the details of every light rail scheme under the proposals, but looking at the map, this second phase of Nottingham will take the tram through the University of Nottingham, for example, so you will get to the same place that this Report says helps the continental systems because you are linking up universities and so on in the same way that the loop proposed in the Sheffield extensions goes to one of your local hospitals, the Royal Hallam.

Q71 Mr Jenkins: So we are getting there slowly? It has been a long learning curve.

Mr Rowlands: I think there have been mistakes, though there will still be benefits from the investments that have taken place. There is clear evidence of how you can do it better and I think it will look like that going forward. May I say one other thing? This may cause the department to fall out with a future promoter who does not want to do this sort of thing, “Just give me the money please for my light rail system”, and then they will complain about the department being dilatory over progressing their application, but I think that is the proper place for the department to be.

Q72 Mr Jenkins: I am sure you skin will be thick enough by then to wear it. Many years ago when we had different buses in different cities—you might not remember this—the bus engineer from each city used to go to the bus manufacturer (when we had bus manufacturers in Britain) and design a special bus. There would be a Leeds bus, a Nottingham bus, a Birmingham bus, a London bus, a Cardiff bus. They were all different and it did not matter how much it cost for this extra; the city picked the tab up. I am getting the same sort of feeling here, that it does not matter how much it costs; somebody picks the tab up at the end of the day. I know it is difficult to give these promoters instructions because they will not even take advice, but the PTEs will look at it closely and maybe—

Mr Rowlands: I am sorry. I am anticipating going forward, as I touched on before, so that by the time we get into spring and summer next year and into the back end of next year we will have out of UK Tram a clear set of standard specifications for systems and we will require as a condition of future grant for a future scheme that those specifications are met. That will not stop the concessionaire having a different layout for his seating in a tram and you can always put a nose cone on which makes it look different but essentially it will be the same kit.

Q73 Mr Jenkins: Another point which was referred to earlier was with regard to the movement of utilities. When you request the gas or the water company to move its utility, what it does is dig

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another trench and put a new pipework system in, so it has got a brand new system in. Should the promoter or the taxpayer have to pick up the cost of that new system? Surely there should be a shared benefit because the company is going to benefit from that new track system?

Mr Rowlands: It was looked at back in 1998. That review led to the current split for diversion costs, 92.5% for the tram scheme and 7.5% for the utility. That was reflected in the fact that the utility did not need to move its system; it was being moved because of the tram. I do not think there is any real prospect that that is going to be reviewed again in the near future. What is more important is to get to the prior question, which is, what needs to be diverted and if it does need to be shifted how do you do it cheapest? One of the things promoters now are talking about, and we have also got with us Merseytram Line 1's TWA application and we will have their finalised business application, I should think, in a few weeks' time. They are quite clear, for example, that if utilities do need to be diverted, they or their sub-contractors are going to do it, not the utilities themselves, to get the cost down.

Q74 Mr Jenkins: On page 19, paragraph 2.9, at the bottom of that paragraph it says, "The Department therefore does not have a complete picture of what has been delivered for the significant amount of public monies invested in the schemes". Would you agree with that?

Mr Rowlands: Yes, and, if I may say so, it is why back in year 2000 we hired a consultant to produce for us what we wanted, which was a complete methodology to evaluate a tram scheme on a before and after basis, including regeneration aspects, for example. What we got was frankly a lemon and the view was that trying to develop an all-embracing methodology in a vacuum was too difficult, so we decided that we would do it in the context of Manchester Phase 3 and, as it stands, if that is going ahead then we will do a wide-ranging full evaluation and use that as the framework of future schemes.

Q75 Mr Jenkins: So basically this afternoon you have said, "Okay, yes. We got it wrong. We are going to do better in future"?

Mr Rowlands: Yes.

Q76 Mr Jenkins: Will you tell me why I should believe you because on your past record, which is all I have got to go by, the fact that the department does not know where it is, you have not got this evaluation in place, what guarantee have we got that you will improve?

Mr Rowlands: We have always had a partial evaluation of most schemes, as the Report acknowledges. The issue is a full evaluation. At the risk of repeating myself I would like to offer you Nottingham as an example where it was got right. Nottingham is carrying 25,000 people a day, 5,000 coming from their park-and-ride schemes, because it was built for park-and-ride schemes on opening,

because that is what the Report says it should be, and that I think is evidence that it has come together and that is how we are going to go forward.

Mr Jenkins: If Nottingham is your best, look at Grenoble.

Q77 Mr Bacon: Mr Rowlands, how much does it cost to do an evaluation of a scheme?

Mr Rowlands: A full evaluation? We were bid by consultants numbers that suggest £10–15 million perhaps.

Q78 Mr Bacon: £10–15 million?

Mr Rowlands: Yes, a full evaluation.

Q79 Mr Bacon: To evaluate?

Mr Rowlands: A full evaluation, because of the regeneration aspects, is going to have to run for five to ten years. You cannot go to a light rail scheme 12 months on and say all the regeneration benefits are there. It takes time. It is not as simple as you might be tempted to think.

Q80 Mr Bacon: I appreciate that, but I am looking at paragraph 2.9 where it talks about how the evaluation does not always talk about the full impact on the local economy or social exclusion or all these other issues, but on the scheme itself, and I am really concentrating on paragraphs 2.8 and 2.9, it says the department has not evaluated the Midland Metro scheme or the extensions to the existing systems, which are referred to above, "on which the Department spent some £80 million and more than £55 million respectively". Why not?

Mr Rowlands: We do have some joint monitoring arrangements with Centro on Midland Metro. In the NAO's terms it did not count as an evaluation so we did not argue with them. I am not disputing what it says here but we do have some arrangements for looking on a continuing basis at patronage and passenger perceptions. It is not a full evaluation. You are quite right to point to the fact that we have not evaluated the extensions, though again one of those extensions was not funded by the department at all, which is the Manchester Phase 2 and nor did we fund the DLR extensions, because they were funded by the LDDC.

Q81 Mr Bacon: I must say I find it very difficult to believe that it cost £15 million to do a full evaluation. If you go out into the market place and ask the most expensive consultant you can find to do it, and of course your department has a record of doing that for the London public/private partnership for the underground, but I will not go there. It does not seem to me that one ought to have to spend £15 million to get a sensible estimate. Mr Bowker has already had an offer from Mr Steinberg to do some PAC training for £750 rather than the £1,500 that he paid. May I suggest you consider using Mr Steinberg when he retires from Parliament for some of your evaluations?

Mr Rowlands: I shall give it close consideration.

Mr Williams: You have got to have the grandson in as well.

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Q82 Mr Bacon: He might throw in a free train for his grandson. It does say here, and this is what I would assume to be a rough definition of a basic evaluation, “The Department has yet to evaluate, for all schemes, whether the expected infrastructure and vehicles have been provided at the cost agreed, and whether the schemes are delivering the anticipated benefits”. So far the department has not evaluated for each of the schemes that were referred to, these seven different schemes, whether the vehicles were delivered at the cost agreed. That is a pretty basic thing to do, is it not?

Mr Rowlands: I think it is a pretty basic thing to do. It is not that people did not build the lines we had funded or opened the stations they had proposed but there was not a comprehensive evaluation that formally established that, no.

Q83 Mr Bacon: Is there going to be for each of these things?

Mr Rowlands: Yes.

Q84 Mr Bacon: When will that happen?

Mr Rowlands: If you make the assumption that Manchester Metrolink Phase 3 or some version of it is proceeding, that is where we will run the first comprehensive evaluation.

Q85 Mr Bacon: Will there be an evaluation for Midland Metro, which was opened in 1999? It has been going for five years. It would be possible to send in Mr Steinberg within no time at all to find out whether it is working.

Mr Rowlands: As I say, we do have a joint monitoring arrangement with Centro so we do know what is going on, the patronage levels and so on, and we can physically establish how many stations were built against the number proposed, and the Report acknowledges that only 23 were built out of the 26 in order to keep the cost down.

Q86 Mr Bacon: The schools PFI looked like that. They were getting fewer and fewer schools for more and more money. In paragraph 2.9 it talks about the evaluation method and it appears that the department did not “assess benefits achieved against what was expected of the systems when the Department agreed to fund their construction”. Am I to take it from that that the department knew what benefits should be achieved were when they agreed to fund the construction?

Mr Rowlands: Yes, it did. Actually, paragraph 2.9 does acknowledge that the evaluations that did take place focused on things like patronage levels, travel patterns, passenger perceptions and congestion relief. It is not that there were no evaluations and it is not that they did not know it did not deliver things it was supposed to do; it was just that they were not comprehensive.

Q87 Mr Bacon: How you measure the impact on social inclusion in one area compared with another is obviously a lot more difficult to do than some of these other things which you did not do. “They did not, however, compare the systems’ tangible assets,

such as vehicles, track and stations, or other quantifiable measures, such as the frequency of services, with what was expected”. If you are trying to formulate a model for evaluating something would you not start by focusing on the things that were easiest to measure and compare one to another?

Mr Rowlands: Yes.

Q88 Mr Bacon: And yet you did not do it?

Mr Rowlands: And it was not done.

Q89 Mr Bacon: Is it going to be done?

Mr Rowlands: It will be done and indeed it should have been done.

Q90 Mr Bacon: “Each evaluation used different evaluative criteria”. That sounds like they reinvented the wheel each time they did the evaluation. Is that a fair description?

Mr Rowlands: That is a fair point and that is why you need a single methodology.

Q91 Mr Bacon: And that is what you are going to have?

Mr Rowlands: That is where we are going to go.

Q92 Mr Bacon: When are you going to have it by?

Mr Rowlands: As I keep saying, assuming Manchester Metrolink 3 goes ahead or some version of it, that is the framework for developing a full evaluation methodology for that and then—

Q93 Mr Bacon: And then you will retro-fit that on other systems?

Mr Rowlands: I think some of it you cannot retro-fit because a full evaluation has to do a before and after. It is now too late to do the before on the schemes that are open because I am afraid you will have lost some of the evidence base. You did not gather the information. You cannot get it back once it has gone.

Q94 Mr Williams: You referred in one of your earlier comments to the massively different population densities on the continent. They were very significant at 4,000 and in some cases within a mile down to 500, I think was the lowest.

Mr Rowlands: Yes.

Q95 Mr Williams: Were these factors fully taken into account? It does not come out in the Report. Was this very fundamental factor properly reflected in the evaluation?

Mr Rowlands: The genuine answer is yes in the sense that the patronage forecasts and so on need to derive from the available population events based on background and journey patterns. What you see it flow through to is the point in the Report that, for example, stations on light rail schemes are much further apart than they are on the continent. From memory, I think it is about 500 metres between stations on the continent. It is more like 900 over

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here. That is a reflection of a thinner population base that we are serving. That reflected in the scheme characteristics and therefore in the appraisal.

Q96 Mr Williams: The projects referred to cover quite a period since this started in 1980. How early did the department realise that the assessments were going wrong—or were they not on the early schemes?

Mr Rowlands: I fear I have to hazard a guess because I do not have an evidence base for this. Manchester originally opened in 1992 and was a success. In 1992 nobody would have been worrying about how schemes were being put together and appraised. By 1995 into 1996 you will have seen the problems with Sheffield but I think at the time people were comforting themselves with the fact that the local authority had gone and demolished most of the high rise flats and turned them into low density housing, so there was a problem with the scheme but there was not necessarily a problem with the methodology and it was only when you get to the back end of the nineties, with Midland Metro in 1999, Manchester Metrolink 2 in 2000 and Croydon in 2000 that it began to dawn that there was a problem here.

Q97 Mr Williams: And yet they got it abysmally wrong over such a wide range. In the case of South Hampshire, Leeds and Phase 3 of Manchester Metrolink, you were expecting to contribute £806 million and at the latest count they are asking for £478 million more than that. That is over 50% wrong.

Mr Rowlands: Yes.

Q98 Mr Williams: That is an unbelievable measure of incompetence and inaccuracy, is it not?

Mr Rowlands: I think it is a reflection still of over-optimism in terms of putting a scheme proposal together though, to go back to an earlier set of questions, it is also a reflection of the much heavier price. Potential private sector concessionaires now do not want to shoulder all revenue risk because they had looked at Midland Metro and Croydon just as I guess the department at the time had and they had seen that there was a problem here. They were being asked to take all of the revenue risk on Manchester 3, on Leeds and they were playing it back on a very expensive basis to the promoters and that flowed through into the sorts of numbers we began to look at.

Q99 Mr Williams: Who paid for the evaluation? The department or the individual project contractors? Who paid for the evaluations that were carried out before approval was given for the projects?

Mr Rowlands: For Manchester, Leeds and South Hampshire?

Q100 Mr Williams: For all of them.

Mr Rowlands: Those costs fall to the promoter in terms of putting together and evaluating the proposal for Leeds and Manchester and then to put it to the department.

Q101 Mr Williams: So in a way they might have been predisposed to find that the promoter wanted—were you as a department carrying out the independent evaluations or any monitoring of the private evaluations to make sure you were not going to be taken for a ride, unlike your predecessors?

Mr Rowlands: There were independent evaluations. Much of it was contracted out by the department at the time to outside consultants and I think there was an element of, “If the department has got it wrong as well it is not our fault; it is the consultants we hired”. I think that was a mistake and it is one of the reasons why we are now putting into place in the department, as I said earlier, our own local transport major projects division with people in it who have been there before and have done it before, so that we have got the expertise in the right place. That does not make us geniuses. We will still make mistakes but we want to do it better.

Q102 Mr Williams: Could you provide us in writing with a list of the advisers who advised the department on each project and who advised the private contractors?

Mr Rowlands: The promoter, Greater Manchester PTE, for example, would have used advisers. The departments concerned would have used advisers. It may have to be incomplete. I have tried to work out how many departments had been involved in all of these schemes and I reckoned it was the old Department of Transport, the old Department of the Environment, DETR, DTLR and DFT. I do not have a complete set of records for everything but we will put together as much as we can.¹

Q103 Mr Williams: That sounds like a rather messed-up history. During that process do we take it for granted that while the Civil Service body to which they were affiliated changed the actual units involved were virtually the same over the period?

Mr Rowlands: No, they will not have been. You can see in the Report that a couple of the DLR extensions were funded by the London Docklands Development Corporation. They would have used their own people for scheme appraisal and they paid grant to an awful lot of infrastructure projects in docklands, so that was a different team. When we dug back into it and we looked at Manchester Metrolink Phase 2 where this Report says that about 11% of the capital cost was met by central government, that was actually the DoE with an old scheme called City Challenge back in the mid nineties, so I am afraid I cannot say that this was always handled by the same unit. It was handled across the piece by a number of different departments and units, I am afraid. In putting together who advised whom we will try to be as comprehensive as we can.

Q104 Mr Williams: It all sounds a bit of an administrative mess but we will wait and see the list. What happens in the end? Suppose these fail financially. They are failing financially. What is

¹ Ev 16

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going to happen? Are they just going to be allowed to go to the wall or is the taxpayer going to have to come in and bail them out?

Mr Rowlands: If one or more of these concessions held by private consortia eventually fail then in round terms the contractual provisions allow return of the assets to the promoter and for the department, if the promoter then disposes of it, for example, to recover its grant as well, so there are contractual provisions to deal with the failure of the private sector consortium.

Q105 Mr Williams: So the public sector body will end up collecting the dead white elephant and that is seen as being a benefit, is it?

Mr Rowlands: I have to admit that the contractual detail of all of these schemes is not known to the department because to some extent it is between the concessionaire and its bankers, for example. What I can say is that were this to happen—and I am not suggesting it will—the public sector does not get a dead white elephant. It may well get a quite lively creature where the equity has been wiped out by the private sector consortium and the banks have taken a haircut. We get something back where the private sector concessionaires and their backers have taken the write-off and the public sector may get something back.

Mr Williams: Congratulations. You make it sound as if it is a devilishly clever plot.

Jon Trickett: It sounds like nationalism.

Q106 Mr Williams: I am deeply impressed.

Mr Rowlands: I am not saying that it is necessarily a satisfactory outcome but I believe that is how it plays through. Can I stress that I have no reason to believe necessarily that any private sector consortium is going to withdraw from one of these contracts. They are heavily incentivised to make a success even if, as you can see from these figures, one or two of them have already incurred substantial losses.

Q107 Mr Williams: Someone has to make up for those losses.

Mr Rowlands: Those losses will be borne in the first instance by the private sector concession holder and when their equity is burned up they turn and talk to the banks who provided the debt.

Q108 Mr Williams: But not the public sector?

Mr Rowlands: I see no reason why we should bail this out.

Mr Williams: I am reassured. Thank you.

Q109 Mr Allan: We have talked a lot about the continental comparisons and have tried to work out what is different here. I have been back to my childhood in the socialist republic of South Yorkshire where I could get the bus anywhere for 2p and the system was—

Mr Williams: Do not swear in this committee.

Q110 Mr Allan:—massively well used. We had cheap buses and no tram and now we have got expensive buses and expensive trams. When I look at

what is happening in London bus use is going up because the fares are cheap. I look at this and wonder whether the statement, “The department expect the operation of the system to be self-financing and not require any operating subsidy from the government”, is not the killer sentence which means that these systems are never going to get the passenger numbers because they are just too expensive. Have you looked at this? That policy is set. Presumably that is a central government policy that says, “Wherever we build a tram system we will not give revenue funding to it”.

Mr Rowlands: The policy is quite clear. We expect in the long term any tram scheme not to require operating subsidy. That is not to say that it does not need an operating subsidy in its early years as the system builds up and that is built into the overall arithmetic, but you are quite right: that is the policy. What we also say is that in effect 75% in general terms of the capital cost of this scheme comes free because that is what the government provides by way of capital contribution.

Q111 Mr Allan: Grenoble is something that is successful. They are planning that they will always put some revenue subsidy funding into that, are they not, and that is why they are getting 30-odd million passengers a year using it, not 12 million like Sheffield?

Mr Rowlands: As a matter of central government policy we are not going to pay an operating subsidy. That does not stop a passenger transport executive or local authority themselves subsidising and it does not stop them introducing revenue-raising schemes like congestion charging or work-based parking levies. We are not even contemplating helping to fund their second and third lines. That does not stop them using those monies—

Q112 Mr Allan: You mean they can use that to keep the fares down?

Mr Rowlands: They can if they want.

Q113 Mr Allan: And on the new model, the impact of this straight economic design as well, if it is going to look at the Sheffield tram system, is that it goes to both out of town shopping centres and neither hospital. It seems to me that because it was designed to be self-financing that predicated a design which is not ideal.

Mr Rowlands: No, we have not modelled it.

Q114 Mr Allan: You do not model those?

Mr Rowlands: No.

Q115 Mr Allan: Because of that policy that is it?

Mr Rowlands: Yes.

Q116 Jon Trickett: I used to be the leader of Leeds when this was first conceived more than 12 years ago now and we are no further forward. I now represent an area outside Leeds which is still suffering from economic problems. The point is that the big cities are the engines of regional economic growth. It is entirely wrong, it seems to me, to have a national

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policy and a culture within your department that these decisions are entirely local, because the engines of economic growth eventually will seize up as a result of inaction in terms of congestion unless we do something about it. Therefore solutions have to be found and this is a national policy because of the regional economic effect and the national economic effect of these big cities. Your answers say, “We have made mistakes in the past”, and maybe the Report will reflect that, but I think you are indicating a culture within your department which is saying, “Even now and in the future it is nothing to do with us, guv”. Are you prepared to say clearly that you stand behind these schemes where they work financially and you are committed to work as a partner with local providers in the private sector to make these things happen?

Mr Rowlands: Could I say two things? One is that where a scheme stands up in terms of its value for money there is no reason to believe that it cannot go ahead. What I cannot say is that all schemes will go ahead.

Q117 Jon Trickett: That is a completely negative expression. “There is no reason why it cannot go ahead” is two negatives. On the question of the tens of millions of pounds’ worth of risk which are being added to this because of the department’s indolence, frankly, you could help to give guidance to local government and PTEs. Why can you not simply say, “We are determined to solve the big city problems and this is one of the weapons in our armoury and where we can make it happen we will make it happen”? Why do there have to be double negatives?

Mr Rowlands: Could I say the one more thing? I do not know whether you will find this helpful or not, but when we brought out the *Future of Transport* white paper in July one of the things that that said was, “We propose, and we need to consult on this, round about Budget time maybe next year to set out outline regional transport budgets going forward ten years, so that if you are Yorkshire and Humber there will be an outline guideline transport budget for ten years showing you how much money is available by year for the next ten years. Those can be brought together with regional transport strategies and you can sort through the priorities and decide”. The department cannot go around saying, “You can get a tram scheme and you do not”, because they will burn our headquarters to the ground if we tried that and we should not be doing it anyway. We do not have that deep understanding of local transport needs. What we are trying to do is say, “There is the money for the next ten years”, on a guideline basis.

Q118 Jon Trickett: It is just a strategy, it is just a tactic of, “Keep out of the fray, lads, keep in the centre. Let them scrap it out on the ground and we will just not take any responsibility for the kind of mess that cities are going to get into”, as everybody can see. Those regional engines eventually will simply seize up because of your failure to act.

Mr Rowlands: I do not think that is true. We are genuinely trying to set out, “There is the budget for the next ten years. You have got to produce a regional transport strategy. Bring it together with the numbers. You help us decide the priorities”.

Chairman: This point about Leeds was specifically mentioned in this Report at paragraph 3.29, and it says, “In Leeds, for example, proposals for a light rail system were included in the city’s transport strategy as early as 1991,”—under the brilliant leadership of Jon Trickett—

Jon Trickett: Thank you very much.

Q119 Chairman:—“yet the Leeds Supertram is still under development. Excluding the time spent on initial feasibility and design work, the seven systems currently running in England took an average of eight and a half years . . .” These planning systems are far too long, are they not?

Mr Rowlands: I do not disagree, and I think that is why it is important to get out, “That is the money for the next ten years. Now sort out with us how best to spend it”.

Q120 Mr Bacon: I was listening with interest to your answer to Mr Williams’ question about what would happen if things failed, and the rapid fluency of your last answer was in marked contrast to your answer to him when I counted seven “um’s” and “er’s” before you got to your first comma. It sounded to me like you were saying that the public sector might get something back on the basis of little more than a meander down Speculation Boulevard.

Mr Rowlands: Oh no. It is my fault then if I did not express myself properly.

Q121 Mr Bacon: At least you did not “um” and “er” between the “oh” and the “no”, but you did say that you did not even know what was in the contract between the promoters and the banks. If that is the case how can you possibly know whether or not the public sector is going to get something back from them?

Mr Rowlands: What I think I said was that we did not know what was in the contracting arrangements between the concessionaire and their banks, and there is no reason why we should. I hope I said, and if I did not perhaps I should try and say it more explicitly, that in the case of all of these privately financed light rail schemes there are sufficient arrangements in place to ensure that in the event that the concessionaire exits the contract the assets return to the promoter so that the light rail scheme goes on.

Q122 Mr Bacon: That sounds a lot more definitive.

Mr Rowlands: And with no “um’s” and “er’s” either.

Q123 Mr Jenkins: Can you explain this to me please? If you have a dense population in the city centre or the town centre, you could probably have about 40,000 people in a square mile of the town centre. These people tend to live there, work there, shop there, eat there, go to the cinema there, and that would be 10% of the population of a town like Grenoble. Why would they want a tram ride? A high

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population in the centre would not create extra passengers surely? It is the ones on the periphery that are going to come in to work on a park-and-ride system from where they live. Can you explain why I am wrong on those figures?

Mr Rowlands: No, I do not think you are. There is a danger in trying to lay down a general, "This is the answer in terms of all light rail schemes". The successful scheme I think will vary. The original Manchester Phase 1, which beat its traffic forecasts, did not have any park-and-ride sites because it did not need them because it was running from the suburbs into the centre of town. I have not managed to do a trailer which I thought someone might ask a question on. Can I do it anyway because in part it is an answer to your question? What about small areas which cannot sustain a quite expensive but conventional light rail system? What about something that is smaller and costs less? The Report touches on one or two so-called ultra light rail schemes which are much less expensive, smaller cars dealing with smaller numbers of people, and one of the complaints has been that they are too cheap to get through the gateway, through our local transport capital schemes because there is a floor. It has to cost more than five million at the moment to get funded by the department. What we will be doing, in the jargon, for the next generation of local transport plans which will run from April 2006 is lowering the barrier and we are going to specifically say that we are prepared to talk to a local authority about a pilot or a demonstration scheme and we will appraise it on that basis so that we will look at it as a pilot or demonstration and that can be used to show that these ultra light tram schemes work and for other promoters to go and look at.

Mr Jenkins: I would be very interested in that.² You can contact me on that I would be very grateful.

² *Note by witness:* Our guidance for local authorities on developing their next round of Local Transport Plans was published today (8 December 2004) on the department's website at www.dft.gov.uk and this provides advice at paragraph 4.46 about arrangements for funding pilot and demonstration schemes of innovative modes. Copies of the guidance are now available in the House.

Q124 Chairman: Mr Rowlands, you have been with the Department for Transport for a long time, have you not, since 1980? Mr Steinberg was in short trousers then. Let your hair down a bit. Do you ever meet your opposite number in France? We have heard the familiar excuse that of course France is a much less highly populated country with broad avenues and all the rest of it. You must talk to your French colleagues. Why have they been so spectacularly more successful in their transport infrastructure there than we are here?

Mr Rowlands: I was in Paris two or three Fridays ago for a day-long meeting of secretaries-general, as we get called, so it was me and my opposite numbers in France, the Netherlands, Belgium and Germany as an opportunity to compare notes. This arrangement has only been in place for 12 months. We have not yet talked light rail schemes but we have begun to talk heavy rail, which is a problem everywhere, I tell you. You are quite right and it is one I can certainly pursue. Why are they more successful? I will not revisit the earlier conversation and I will stop talking about density patterns. It really is important; we have got to integrate this problem with the local bus service, see Nottingham, and it really is important that you get proper through-ticketing arrangements. There is actually a power in the 2000 Transport Act for local authorities to put in place a ticketing scheme with their local bus companies. It is not yet used as far as I know and, again, in looking at fresh proposals they are going to have to show us how they integrate it, how they through-ticket it, how, if they need to, they are putting in place the park-and-ride system and, if they need to as well, a demand restraint for motor cars. I do genuinely believe that Nottingham shows us a successful way forward. Even the dummies in the Department for Transport cannot but notice the success and try and build on it.

Chairman: Thank you very much, Mr Rowlands, for dealing in a very relaxed and charming style with what is a very difficult Report for you because clearly in the brave new world of the 10-Year Plan for Transport 2000 there were promises of 25 new lines built by 2010 and it is nowhere near realisation. There has obviously been the lack of a spirit of evaluation, so we shall return to this in our report. In the meantime we are very grateful to you.

Supplementary note from the Department for Transport Question 102 (Mr Alan Williams)
USE OF CONSULTANTS TO AUDIT LIGHT RAIL PROPOSALS

Since 1999 the Department has used independent consultants to supplement its own review of certain aspects of the appraisal process:

- Modelling, demand, patronage, and monetised benefit forecasts.
- Capital costs and risks.

On both of these areas the specialist knowledge and independence that an external audit could bring were thought to be an advantage.

The Department has commissioned this work through two call-off contracts. The first contract was set up specifically for this work, and three firms successfully bid:

W S Atkins
Ove Arup
Steer Davies Gleave

On later schemes the Department has used and continues to use TRL through another technical services call-off contract.

The table below sets out which firms have been used for each aspect of the external audit.

<i>Scheme</i>	<i>Date</i>	<i>Cost Audit</i>	<i>Modelling Audit</i>
Manchester	2000	Ove Arup	Ove Arup
Midland Metro Extensions OBC	2000	Ove Arup	Ove Arup
Leeds Supertram	2001	Ove Arup	Ove Arup
Merseytram Line 1 OBC	2001	Ove Arup	Ove Arup
South Hampshire Rapid Transit	2001	Ove Arup	Ove Arup
Blackpool	2002	W S Atkins	W S Atkins
Merseytram Line 2	2003	—	TRL*
Nottingham Line 2	2004	SDG	SDG
Merseytram Line 1 FBC	2005	—	TRL*

Footnotes:

* On-going

OBC—corresponds to the business case before Provisional Approval/Approval in Principle granted.

FBC is the term used for the business case after Provisional Approval/Approval in Principle.

Merseytram Line 1 has not been subject to a further cost audit as the FBC will contain the costs from actual bids.

Merseytram Line 2 is still under consideration.