RAILWAY INDUSTRY ASSOCIATION
Championing a dynamic rail supply sector

October Budget 2024 representation to HM Treasury from the Railway Industry Association

Railway Industry Association

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1. INTRODUCTION

1.1. This paper is the Railway Industry Association (RIA) submission to HM Treasury, as part of the October Budget 2024 representations.

2. ABOUT RIA

2.1. The Railway Industry Association (RIA) champions a dynamic UK rail supply sector. We help to grow a sustainable, and high-performing railway as well as promoting UK rail expertise and products to international markets. RIA has over 360 companies in membership, which is active across the whole of railway supply, covering a diverse range of products and services and including both multi-national companies and SMEs (60% by number). The rail industry is a foundation sector for the UK's economy which supports sustainable investment and jobs in towns and communities across the UK.

2.2. The rail network remains one of the UK's most valuable assets, with potential to support clean growth and wider social benefits for communities right across the UK. A 2021 report produced by Oxford Economics shows that the rail industry supports:

- £43 billion GVA in economic growth
- 710,000 jobs
- £14 billion in tax revenue each year
- For every £1 spent in rail, £2.50 of income is generated in the wider economy.[1]

3. OVERVIEW

3.1. The new Government's priorities, particularly to support growth across the country and establish a long-term Industrial Strategy, mean that the Autumn Budget presents an important moment for the future of the UK rail network. Historically, the state of transport connections has always underpinned – or undermined - economic growth. As the National Infrastructure Commission has argued, rail has a crucial role to play in enabling large numbers of people to access city centres, and often better jobs – with the productivity of city regions at stake depending on the quality of connections.[2]

3.2. Following the cumulative challenges of Covid, reversals in long-standing rail investment plans and budgetary pressures from inflation many UK-based rail supply businesses are now in a fragile position. A September 2024 survey of rail suppliers (Annex A) shows nearly all are seeing a hiatus in work, unsure of what future investment looks like, with many considering shifting focus to other markets or redundancies. To get the best value, the UK needs to act now to define, protect and grow domestic capability to deliver the rail network that will be needed in the decades to come.

3.3. RIA recognises that public finances are tight, so that difficult spending choices will need to be made. In this submission we prioritise actions aimed at securing the industrial capability required for the future, at the lowest possible cost. Beyond this submission, we have further recommendations to support an affordable long-term transport strategy in the RIA Manifesto, and can provide further details.

3.4. Whilst public spending may be constrained, it is essential that capital projects that will be crucial to the country's future are not cut. Short-term cuts may result in a marginally better outlook on the balance sheet this year, but in the long-term it will increase costs, whilst simultaneously reducing growth and delaying any immediate economic benefits. These projects are the catalysts to the economic growth that the Government has stated as its goal, and cannot be cut.

3.5. Above all, RIA believes it is crucial to move away from 'boom and bust' investment cycles and establish a steady long-term rate of investment in all key rail assets (such as rolling stock, electrification and signalling), informed by a long-term strategy for an affordable, sustainable and reliable railway that meets future demand. This will be the most efficient way to invest in the railway.

3.6. Providing stability and visibility over plans for future rail investment does not require additional spending. Just having certainty can help prevent the loss of skilled jobs and future capability in the supply chain because it enables businesses to plan and invest with confidence. Recent years have seen a pattern of chopping and changing of plans, which increases costs, and results in fragmented initiatives rather than rolling programmes of steady investment that can support continuous improvement and greater efficiency.

3.7. A steady and visible pipeline of work is required to: enable the UK rail industry to sustain and grow high-skilled jobs (often in economically disadvantaged areas, many are currently at risk); and invest in innovation to deliver a lower-cost railway that supports growth and productivity across the country. In particular, clarity is required over enhancements schemes, such as the RNEP, IRP and Network North plans. RIA calls on the Government to set out a timeline that details when announcements will be made about enhancements and major project plans.

3.8. RIA has four 'asks' of the Autumn Budget:

1. **Send positive signals now to give rail businesses confidence** – a clear restatement of the Government's commitment to the value of rail links; establishing a proper long-term investment strategy with associated recruitment and training; and institutional reforms that will give the market confidence that what is planned will really be delivered.
2. **Set a smooth investment trajectory across key assets** that ends 'boom and bust' and improves supply chain capability and efficiency.
3. **Leverage private investment**, by setting out a clear policy and playbook showing how and where the Government will facilitate its use in the rail network.
4. **Take a small number of 'now or never decisions' that are needed to protect critical rail capability for the future**: complete the tunnels between Euston and Old Oak Common; ensure there are sufficient rolling stock orders to keep factories open, and maintain the minimum level of investment in electrification schemes (around 350 single track km per year) needed to decarbonise by 2050.

4. ASK 1: SEND POSITIVE SIGNALS NOW TO GIVE RAIL BUSINESSES CONFIDENCE

4.1. As recognised in the Labour Party's 2024 plan, 'Getting Britian Moving', the rail industry is a key economic and social enabler.[3] A healthy rail supply chain is key to realising those economic benefits and is a significant economic enabler in its own right with every £1 spent with the supply chain generating at least £2.50 in wider economic benefit.[4] Rail generates higher value jobs in the wider economy by connecting people with better opportunities, but also directly with high productivity per capita in the rail sector. For example, reducing journey times between Manchester and Leeds could increase wages by approximately £600 per worker each year, whilst a 10% reduction in regional journey times could support between 1,950 and 12,600 jobs, dependent on the area.[5]

4.2. The rail industry has been in a period of recovery, and now structural change with the establishment of GBR. There now needs to be a plan for a positive future – RIA-commissioned research by Steer Group earlier this year shows that rail passenger numbers are expected to grow 37-97% *above* pre-pandemic levels by 2050,[6] reflecting population growth among other factors (See Annex A, Figure 1). The National Infrastructure Commission has indicated that failure to meet future demand could hold back future productivity.[7]

4.3. RIA asks the Government to work with the supply chain to ensure that short term fiscal challenges do not damage industry confidence. This is essential to retain the skills and capability which will be needed in the future if we are to deliver on a long-term transport strategy and avoid expertise shortages, wage increases and insufficient innovation. As an industry we face a skills shortage in the coming years unless businesses have confidence to invest. Over 10% of workers are currently expected to leave the workforce by 2030, due to retirement or other reasons.[8]

4.4. To support industry confidence, RIA asks the Government to include as part of the Budget:

- **A clear statement acknowledging the value of rail connections** to enabling economic growth, skilled jobs and a sustainable transport network, and committing to a proper long-term investment strategy for the sector to underpin growth and productivity. The commitment to a long-term transport strategy is welcome, but businesses would like to **see a firm date for when there will be a clear *investment plan and pipeline* published**.
- **Institutional reforms to give businesses confidence that infrastructure commitments will really be delivered**, such as (i) establishing the new National Infrastructure and Service Transformation Authority on a statutory footing with powers to independently recommend and report on progress in long-term infrastructure strategy, including rail; and (ii) addressing flaws in the Government appraisal system for transport schemes that tend to reinforce existing travel pathways and undervalue new connections, or the contribution to the Government's strategic objectives.
- **Recognition of the importance of an appropriate level of recruitment and training** to address demographic and skills challenges the industry faces, and the steps the Government will take, in partnership with business, to facilitate this as well as ensure retention and growth of the skilled workforce required.

5. ASK 2: SET A SMOOTH INVESTMENT TRAJECTORY ACROSS KEY ASSETS

5.1. With over half of all UK rail expenditure through rail supply businesses, an effective long-term strategic approach to secure a healthy and competitive supply chain is essential to value for money. The UK rail supply market is currently fragile, with many businesses reporting a hiatus in known work. In turn, there are significant workforce retention risks should there continue to be little clarity on the forward pipeline, and the UK risks losing the capacity and capability that it needs, whilst costs will increase in the future. RIA's September 2024 survey of rail suppliers found:

- 96% of responding companies are currently experiencing a hiatus in rail work (and three quarters of these reporting a *significant* hiatus);
- 42% of responding companies are considering making redundancies.
- 50% of responding companies are looking to prioritise work outside of the UK.
- Only 27% of companies expect to grow, based on the current market.

Further results can be found in Annex B.

5.2. Confidence in a visible, long-term pipeline of work helps businesses make decisions to retain and recruit skilled jobs, to invest in innovative approaches, and provide a competitive market to bid for work. Certainty in the robustness of the pipeline is particularly important when investment levels may be low so that businesses may make well informed decisions for the short and long term. This is true at both a national and devolved level, meaning long-term funding settlements for devolved transport authorities, particularly Combined Authorities, will help to secure similar benefits. **In London, for example, a five-year capital funding settlement for TfL is necessary, whilst similar approaches are needed for other cities.**

5.3. **RIA expects any spending deferrals or cuts to be delivered in consultation with the industry**. Public bodies should not automatically look to pass on budget reductions to supply businesses, which has sometimes been the default option but can disrupt supply chains. Instead, full and clear assessments of the experience and skills that need to be retained for the future should be made, both in the public and private sector of the industry.

5.4. **The most efficient way to run the railway is to set a smooth investment trajectory to a long-term 'run rate' of investment**, set at the level needed to deliver the government's strategic aspirations for rail, in terms of capacity, decarbonisation and future passenger and freight demand. To give two key examples:

- Peaks and troughs in spending on rail electrification over the last 30 years contributed to unit costs around one third higher in the UK than Germany which had a historically steady rate of investment. (See Annex C, Figures 2 and 3.)
- On rolling stock, the volume of orders simply to replace the current fleet is known, but has historically never been maintained at a steady level, resulting in job losses and factory closures during past downturns – which inevitably mean an expensive retraining of skills and less competition when the market has subsequently seen an upturn. (See Annex D, Figure 4.)

5.5. We recognise the strong financial commitment the previous Government has made in the Control Period 7 funding settlement, and **ask the new Government to commit to deliver at least the minimum levels of investment needed to sustain the capability**

of the supply chain for the future across electrification, rolling stock and signalling systems. This will significantly reduce costs of future upgrades. Section 7 provides further details on the volumes of investment required in electrification and rolling stock.

6. ASK 3: LEVERAGE PRIVATE INVESTMENT

6.1. With the current constraints placed on public funds, the rail industry urgently needs a new approach to secure necessary investment to maintain and upgrade the railway. RIA is calling for a fresh approach to attract complementary private funding, and also make use of private finance where possible, to bring forward investments that reduce future costs, boost productivity and grow the economy earlier.

6.2. The railway industry needs new models that can be used to invest in projects earlier, and in a smoother way. Earlier investment will directly lead to earlier benefits, as well as a reduction in cost, whilst smoother investment will mean greater certainty in the long-term compared with public budgets. This will support a more sustainable and efficient workforce, which can in turn reduce costs for projects. In addition, involving private investment in projects will mean there are greater incentives to grow revenues, whilst simultaneously minimising net subsidy and getting better value for the taxpayer.[9]

6.3. Whilst private finance and funding schemes are often complex to design, a scalable and repeatable model is needed in order to be commercially viable for businesses, investors, financers and government. There are a number of opportunities that need to be explored as a matter of urgency, including:

- **Public Private Partnerships (PPPs)**, which are used successfully in other countries to deliver economic infrastructure, including rail investment – and can be designed to transfer significant construction and reliability risks to the private sector, as recommended by Labour's recent Rail and Urban Transport Review, citing the example of HSL Zuid in the Netherlands.[10] Structured well, the long-duration of PPP contracts gives businesses much greater certainty and stability compared with current public funding routes, with incentives to invest in skills and reduce unit costs.
- **Housing schemes** - the rail sector could play a key role in the Government's housing strategy, with new railway stations and lines essential for new towns and communities to be connected to the rest of the country. The value of housing development can also help pay for rail connections.
- **Land value capture** could be used more widely to attract additional funding for the railway through developer contributions and business rates retention. Land value capture is a well-established approach to securing investment in railways in many parts of the world, most notably in Japan.[11] In the UK, there has been success on a small scale with schemes such as the reopening of a passenger rail line in Northumberland, connecting new communities to the network, and capturing the land value uplift resulting from the investment. This has brought in a significant private funding element, alongside public funding.[12]
- **Investing in communities and services via rail stations**: Improving existing stations and building new ones will be key in improving the passenger experience, and in providing connectivity and economic agglomeration benefits for communities. The £147m private investment in stations recorded in 2021-22 shows that such schemes

are feasible, but not being exploited.[13] There are many 'off network' opportunities as part of stations, including retail space, car parks, charging infrastructure for electric vehicles, and local community and housing investment. The positive implications for local and national economic growth and connectivity from this kind of investment would be substantial.

- **Leveraging the existing rolling stock financing model**, which has successfully secured large volumes of private finance in recent decades. If this model could be adapted to allow financing of associated assets, such as digital signalling, or traction power, it could bring forward the benefits – such as reduced running costs – earlier.
- **In the case of HS2, a concession model** (selling the asset post construction to be operated and maintained as a long-term concession) has potential to secure significant private investment and offset public costs. The sale value of the concession will be significantly higher if the scheme is completed both to Euston and northward from Birmingham, at least to Crewe, making it financially viable to complete these crucial sections.

6.4. **The Government now needs to play a crucial facilitating role in leveraging private investment into the railway. A clear policy and playbook must be set out on how and where different approaches can be used**. This must be developed in close consultation with both investors and those managing operational railway assets, to ensure investments are attractive and can be made without impacting the running of the railway.

6.5. **The role of the Government then needs to switch from just being a gatekeeper, to also be a facilitator of schemes that could be brought forward** – providing active advice and support to allow businesses and investors to understand and navigate government approvals. This requires an integrated approach across government departments, including the Treasury, with streamlined approvals and clear points of contact.

7. ASK 4: TAKE A SMALL NUMBER OF 'NOW OR NEVER DECISIONS' THAT ARE NEEDED TO PROTECT CRITICAL RAIL CAPABILITY FOR THE FUTURE

7.1. Whilst recognising the present fiscal challenges, there are a small number of areas where it is vital to continue investment, or the railway will lose future capacity or capability which cannot be recovered. The October 2024 Budget represents a 'now or never' decision point for:

- HS2 tunnelling to connect to Euston
- Continuing to bring forward new rolling stock orders to keep UK factories open.
- Securing 350 single track km of annual electrification – this is needed now if we are to decarbonise rail cost effectively by 2050.

7.2. **HS2 tunnelling to connect to Euston is vital and urgent**. The decision must be made now, as tunnel-boring machines will not be able to dig through to Euston once the portal at Old Oak Common is sealed, a decision which cannot be reversed without great expense and disruption. A failure to complete this section of the project will permanently curtail north-south capacity, due to Old Oak Common being designed as a through-station, rather than a terminus. The decreased capacity will reduce the value of HS2 if it were to be sold as a concession in a similar way to HS1, whilst also increasing strain on the Elizabeth and Great Western Line, as these would be the only viable routes into central London from Old Oak Common.

7.3. **New rolling stock orders must be brought forward in order to keep factories open**, helping to secure UK domestic capability during the current 'trough' in orders whilst simultaneously providing an opportunity to replace some of the oldest passenger diesel rolling stock with privately financed battery trains. UK domestic capability will be essential as the UK targets net zero in 2050, with 515 vehicle coaches needing to be replaced each year to 2050 in order to decarbonise. We recognise the previous Government's work to give certainty to the rolling stock sector with the order of 90 vehicles for the Elizabeth Line,[14] but we need to see this become a steady rolling pipeline in the future. Further information can be found in Annex D.

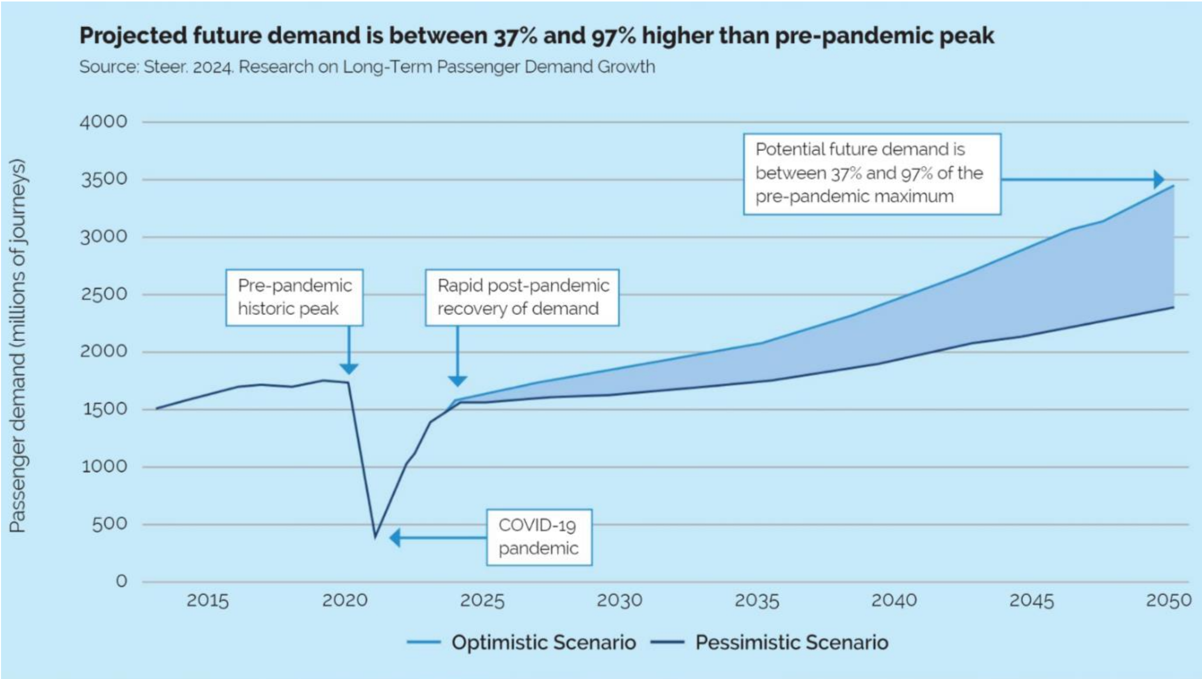
7.4. **Establishing a sustainable rate of electrification (350 single track km per year) is vital to retain and grow the capability to decarbonise the UK rail network by 2050.** This includes schemes on the Midland Main Line and in Scotland. RIA research has estimated that, should we exploit the capabilities of battery-electric bi-mode trains, the *minimum additional* electrification required by 2050 to be around 8,600 single-track kilometres (stk), above the current electrified distance of 14,360stk. This is based on a pragmatic, low-cost approach RIA has set out, to decarbonise rail which uses discontinuous electrification and battery-hybrid trains. To meet this goal an annual average increase of around 350stk is required, a not-unachievable amount, but it is essential that we continue with the current rate of electrification activity so that we have the capability to increase this in the future. The volume of electrification in existing plans at the time of the election was broadly in line with these levels, and must be maintained, otherwise the industry will struggle to retain and grow skills, costs will increase, and rail will not be decarbonised. Further information can be found in Annex C.

For more information, please contact RIA Policy Director, Robert Cook at robert.cook@riagb.org.uk or 020 7201 0777.

ANNEX A

A report by Steer analysing passenger growth highlighted that by 2050, demand is set to grow by anywhere between 37% and 97%, compared with pre-pandemic peak.[15] In the worst-case scenario, where we do nothing, passenger demand would still grow by over a third, whilst if we implemented the right policies and incentives, demand could nearly double (growing 97%) compared with the pre-pandemic peak.

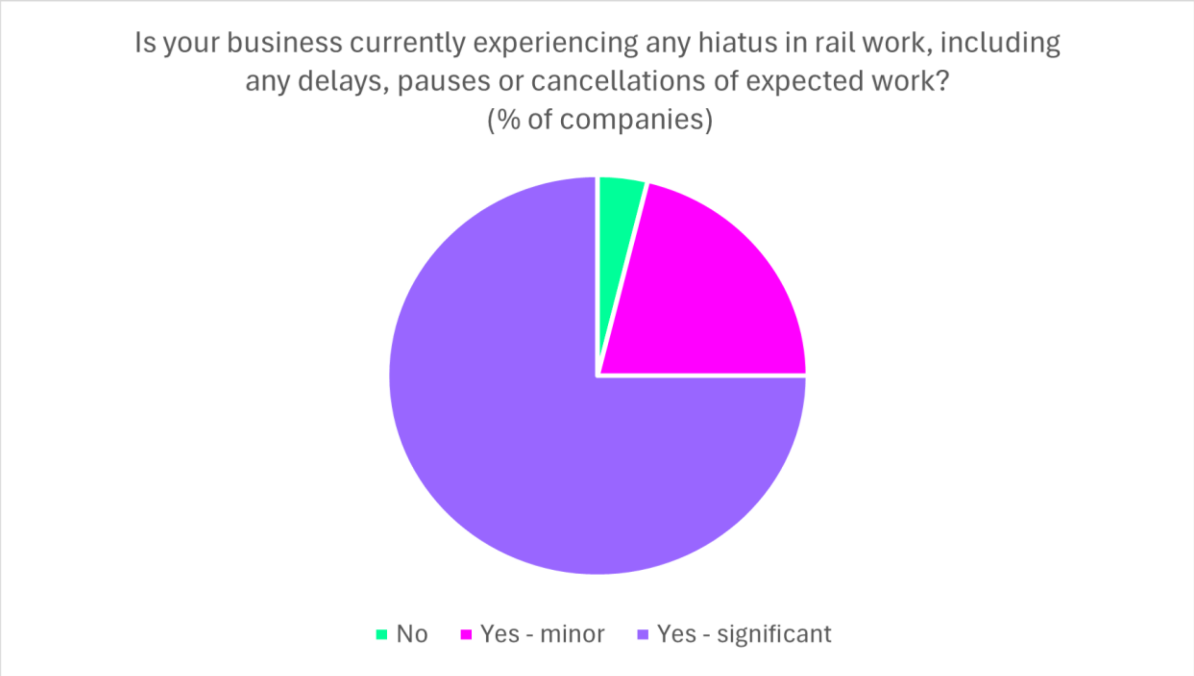
Figure 1: Projected passenger demand between now and 2050 (millions of journeys)



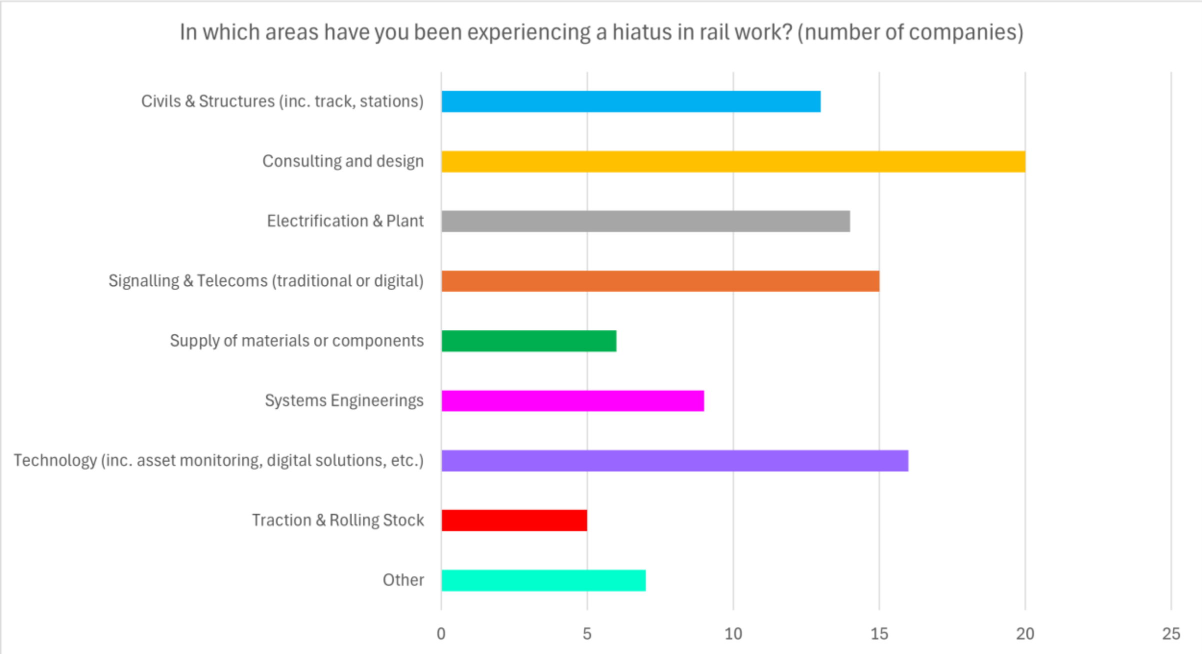
ANNEX B

To inform this submission, RIA conducted a short survey of rail suppliers to understand their views, regarding confidence in the sector and outlook for their businesses. The survey was open to all UK rail suppliers with 52 responses. The results are as follows:

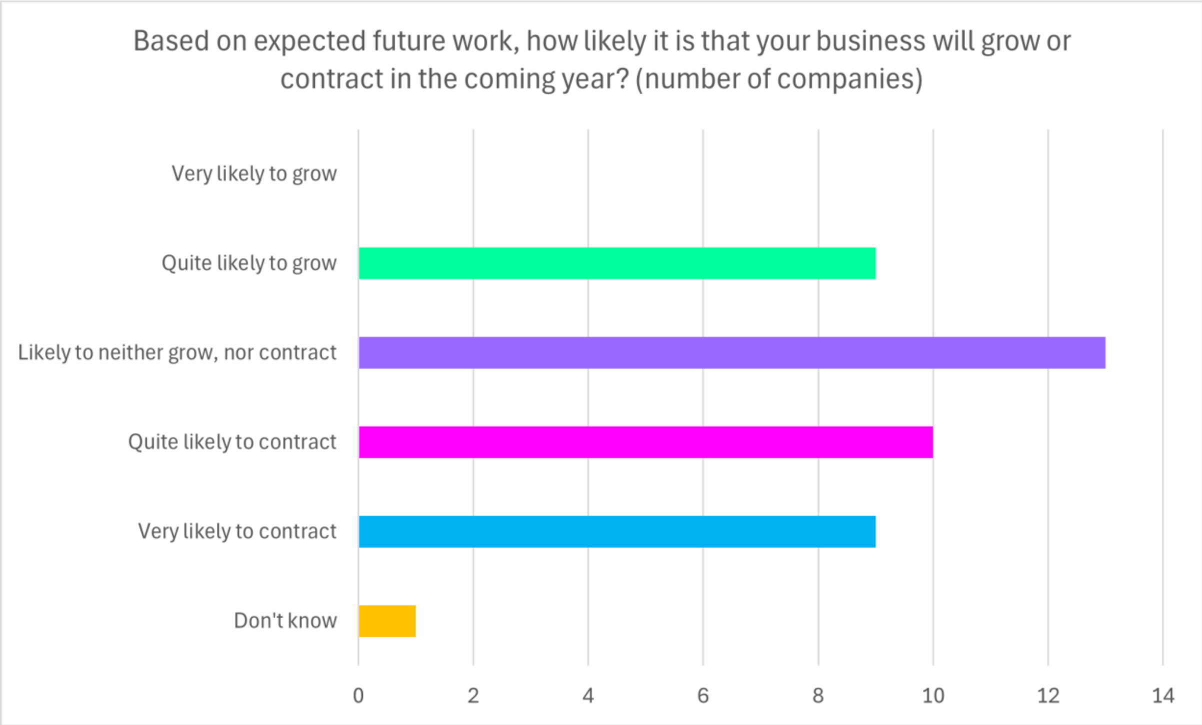
Is your business currently experiencing any hiatus in rail work, including any delays, pauses or cancellations of expected work?



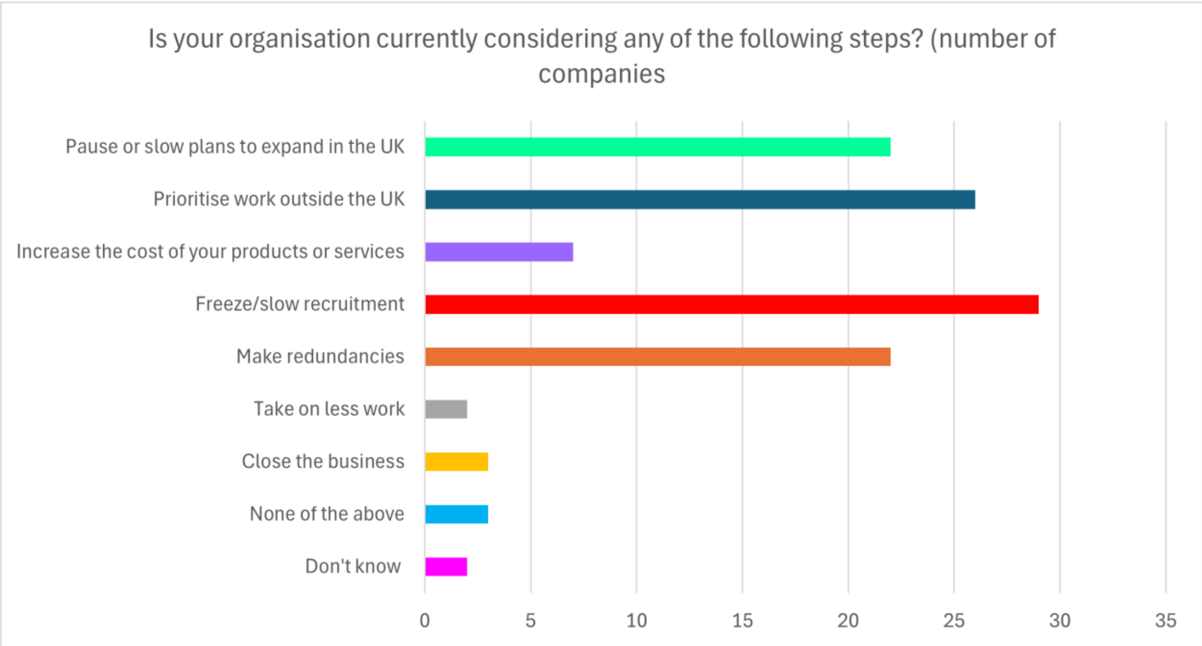
In which areas have you been experiencing a hiatus in rail work?



Based on expected future work, how likely it is that your business will grow or contract in the coming year?



Is your organisation currently considering any of the following steps?



ANNEX C

Figure 2 shows historic rates of electrification in the UK compared with Germany, over a 30-year period. Estimates of unit costs in Germany show they are around one third cheaper than in the UK.

Figure 2: rail electrification (km per year) in the UK and Germany, 1968-2018

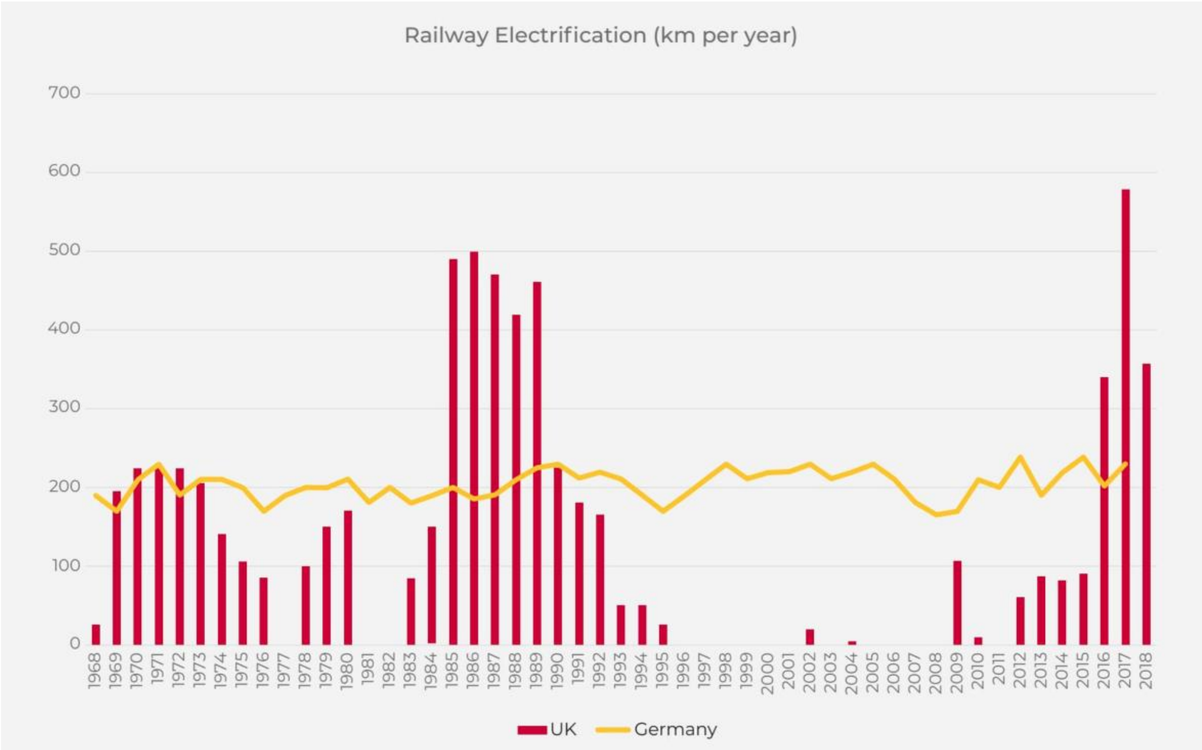
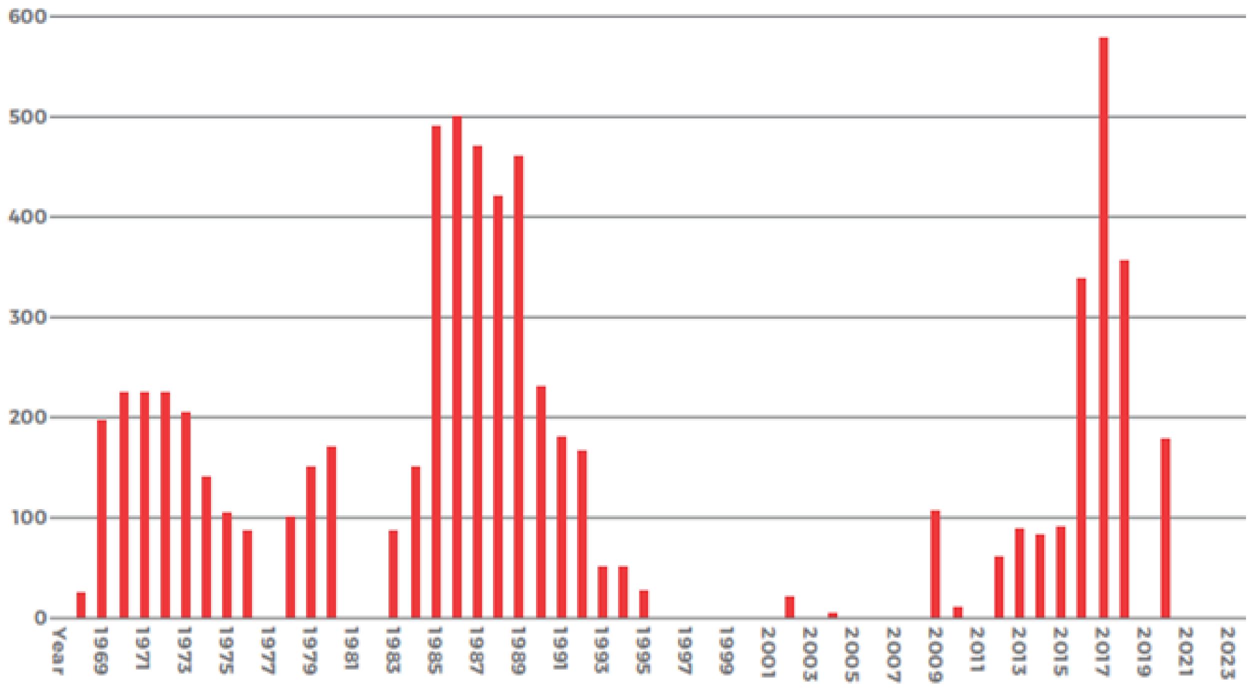


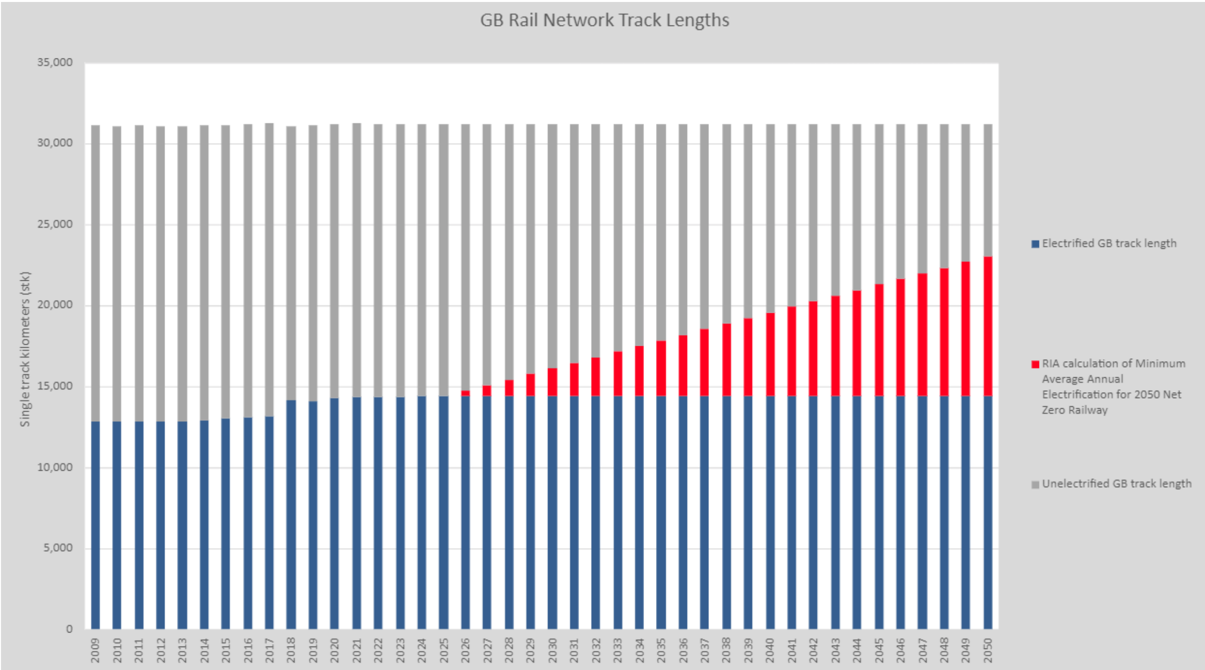
Figure 3: UK rail electrification (km per year), 1968-2023.



Currently, 46% of the track length of the UK mainline railway is electrified. In distance terms, 14,360 single track kilometres (stk) is electrified out of a network total of 31,203 stk. RIA research has estimated that, if we exploit the capabilities of battery-electric bi-mode trains, the minimum additional electrification required by 2050 to decarbonise the network is around 8600 single-track kilometres (stk), up from the current electrified distance of 14,360stk. This is not an unachievable amount, with the average added electrification between 2018 and 2021 being greater than 400stk (See Figure 4). However, the longer-term average since 2013 is much lower than this, at 161stk.

Electrification projects are ongoing in 4 out of 5 of Network Rail's regions. It is vital that the knowledge and skills learned during these projects is retained, to ensure project delivery and cost optimisation in future projects.

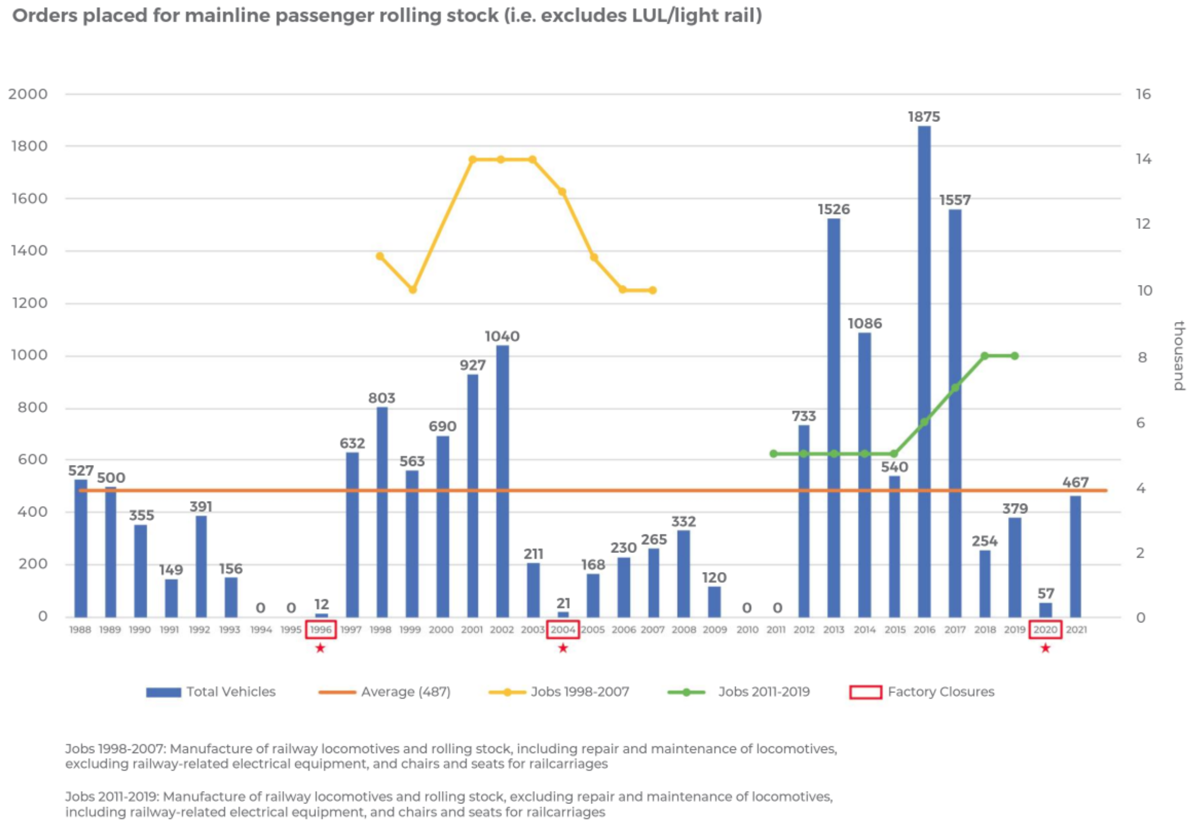
Figure 4: Minimum required electrification of single-track kilometres to have a net zero railway by 2050.



ANNEX D

Similarly to electrification, rolling stock investment has also followed an unsustainable pattern of 'boom and bust'. Figure 5 shows this pattern, as well as highlighting factory closure after periods of little or no investment in the rolling stock industry. a smooth investment trajectory across key assets that ends 'boom and bust' is essential.

Figure 5: Orders placed for mainline passenger rolling stock, excluding London Underground and Light Rail, 1988-2021.



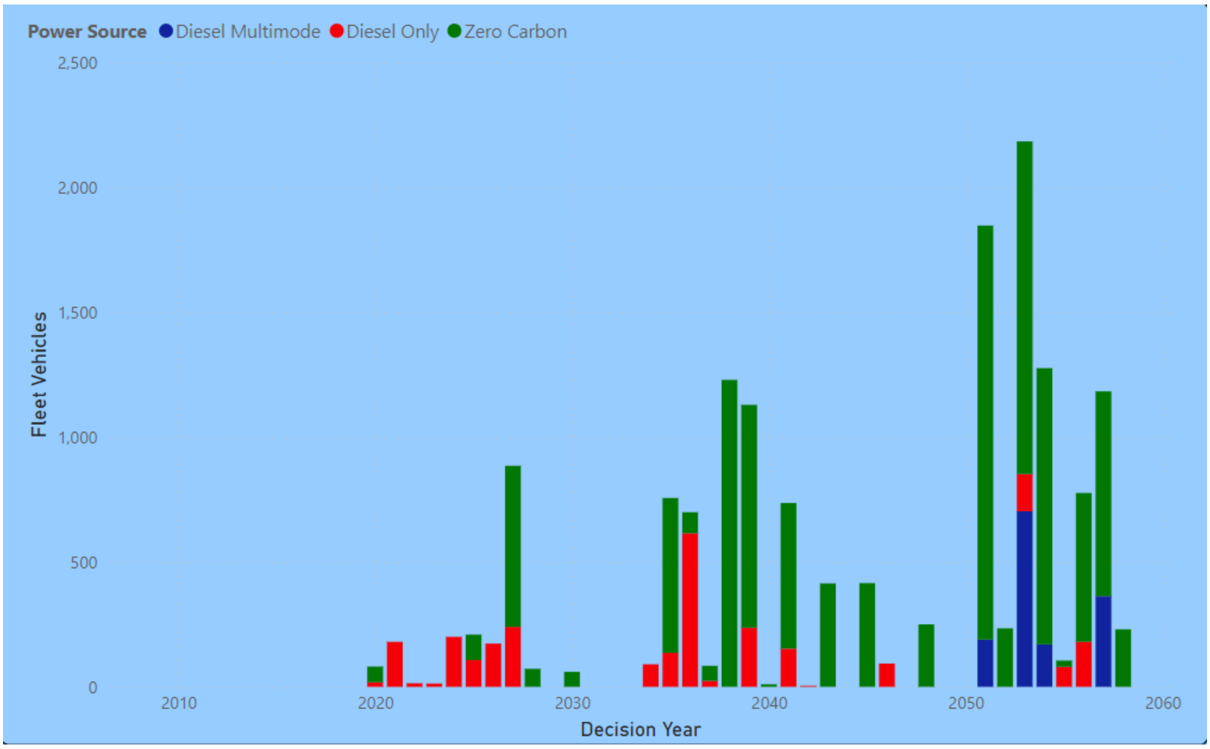
With a typical design life of 35 years for a heavy rail vehicle and up to 40 for one running on the London underground, an average of around 428 heavy rail vehicles, 515 vehicles if LU are included, need to be replaced every year.

By 2030, 2400 multiple unit vehicles and locomotive hauled coaches will have exceeded their design life and will need to be replaced, however only one order has been placed for these vehicles. Even with immediate placement of orders for the outstanding vehicles, it is unlikely that manufacturing of these vehicles would be completed by 2030. Due to the boom-and-bust nature of previous rolling stock procurement (See Figure 6), there are very few vehicles coming to the end of life between 2030 and 2034, with the next peak starting around 2035.

To meet this problem, a stable pipeline of rolling stock orders is essential for the supply chain. Further long-term planning is then required to manage the following peaks and troughs caused by previous procurement strategy.

RIA's report *A new strategy for delivering a lower cost, higher performing net zero railway by 2050* gives estimates of the new rolling stock that would be required to decarbonise the railway.[16]

Figure 6: Decision years for the current rolling stock fleet, with type of rolling stock.



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