

APPLRG / pteg: Light Rail and the City Regions

Transcript

Day 3 – 25 November 2009

Session 3 – Light Rapid Transit Forum and Carillion.

Questions 178 - 195

NOTE: THE BEGINNING OF THIS SESSION IS MISSING. The witnesses at this session are Bill Free of Carillion and Scott McIntosh of the Light Rapid Transit Forum.

Q178 Bill Free:...Carillion are currently wary about tendering for a lot of the current light rail schemes. We are faced with a very traditional method of procuring. We're asked to give a lump sum for the works really quite early on, with a lot of risk being passed on, which we don't feel we're best placed to cover. We get involved quite late. There's been a lot of consultation with people in the town before we arrive, and when we get there we take over this consultation - some things have been set in stone before we get there, some things have been decided, people have expectations that we can't fulfil, and there's often a bit of a hiccup there - so we're latecomers to agreements with stakeholders. This tends to lead to disputes later on in the contract, and adds to the confusion. What we've raised really is there's been a series of publications and reports on the wider construction industry: the Latham report in '94, Egan report in '98, the Office of Government Commerce around 2007, and the House of Commons Business and Enterprise report in 2008. We'd like to see a connectivity between all these different reports and the way light rail schemes are procured in the UK, which, although you can't guarantee it, should encourage us back into that market. The key recommendations from those reports, for us, is an earlier involvement of the contractor, and a contract that shares the risk between the different parties. So it's not a case of 'here are all the risks, here's a contract, go and take it on and do it.' It's a shared contract, which is the way that Channel Tunnel Rail Link, Cross Rail etc have and will be delivered. It builds an integrated team and keeps everybody's goals aligned.

Scott McIntosh: I think on this particular issue Bill's said most of the things that are worth saying. There are two which I would like to bring up particularly from our own experience. One is we don't seek to usurp the role of national or local government. But we can show promoters from our experience in the private sector, where the sort of firms we represent are all international firms and therefore they have experience at home and abroad, how to get the best out of the concept, and also how you can discuss risk and reward openly with funders.

One of our biggest problems in this country at the moment is this obsession with shifting risk away from government, administration and the public sector. Baldwin defined that once as "power without responsibility, the prerogative of the harlot throughout the ages" and I don't think things have changed. Of course you can shift risk onto the private sector. Many things are insurable: you can insure David Beckham's legs and Mrs Beckham's assets. But you pay a premium for doing that. Moving unmanageable risk onto the private sector

inevitably results in significant increases in cost.

I think the other point is that any large firm, deciding whether or not to bid for a job in the UK they will normally have a finance director say, 'why should we spend two or three million pounds on a UK tender and then wait years for final close, when the job is only for ten, fifteen, twenty vehicles, or a two hundred million pound project, when for less effort and a lower opportunity cost we can secure larger orders overseas?' There's a very real risk that if the government doesn't improve the processes, then the next time it holds a party nobody will turn up. Patriotism and local affection can only go so far.

If you make the job so unpleasant and unrewarding in the UK, it is difficult. I have been involved in attempting to assist two major car building firms, both based in Eastern Europe and therefore tending to have lower unit costs, who have considered how they would expand their business and in both cases we gave them considerable support in deciding whether they would come into the UK market. Both of them have decided that they won't, that it's just too much of a pain to have to deal with UK government, and particularly the Department of Transport. So I think there are significant disincentives in working in the British market, and I think these are things which must be recognized by government if you wish to see the industry flourish.

Also, picking up a point that was alluded to by Lewis Lesley, we need a stronger market if we're working towards an export business. So I think we need to look upon these things in that way. It's something of which the French are very conscious; it's something of which the Germans are very conscious ; it's something of which the Italians are very conscious ; it's something we don't seem to be conscious about in this country.

Q179 Paul Rowen: So what do you think of Lewis' Tram Power? Why do you think it'll be lower cost? It is being funded by the private sector, which is what you said?

Scott McIntosh: There are a number of issues. I think, with respect, Lewis is being disingenuous when he compared price. The price which you are looking at when you say that a new tram for Manchester may cost you somewhere in the region of two million, is not just the unit cost of building the tram and a decent level of profit on top of it; it also represents the cost of delivering the vehicles, commissioning the vehicles, providing the technical support. In many cases there will be a requirement for ongoing maintenance support, spare parts. But it also represents the manufacturer's commitment to stand behind the product for a long period. If we look at one of the large vehicle manufacturers in Germany, they introduced a new and innovative product a few years ago, despite the fact that it had been signed off by every technical university in Germany, there were structural problems with the car when it went into service. There were over two hundred of those cars in service in Europe. That manufacturer rectified every single one of those at no cost to the customers. That is the sort of technical support and insurance you get built in.

Also, people will say, 'why are they more expensive here than they are in the rest of the European Union?' And one will say, 'One, because you buy them in very small numbers. Two, because your contracts are usually appallingly difficult to read and respond to and Three, because not only does it cost us two or three million pounds every time we bid, but then next time we have to roll forward the cost of those failed bids, which are often failures through no fault of the bidders - people who bid for Liverpool, for Leeds - because the

contract was cancelled.' That makes it a premium price market to bid into here. If we had a more straightforward procurement procedure, and a more reliable flow of business, then those problems would not arise. And I would like, later, with your permission convenor, to discuss some of the problems we have with funding in the UK, and why it is a problem built in by government approach.

Q180 Clive Betts: Just in terms of this procurement process, you know, I'm a lay person, I understand a little bit about contracts, but nothing like you do, and we keep getting the message, 'these are desperately complicated, they add to costs, they don't encourage a good working relationship between the client and the contractor.' Just very simply, can you explain to me how could it be changed so it was improved and of course done at a lesser cost if that's what the objective is?

Bill Free: The main recommendation in the reports, and how we like to do business - which we do achieve with some clients - is creating what we call a target cost. We work out the cost of building the job, we add a series of risk items to it to come to a target cost. And that target cost is shared between the client-side and the contractor-side. And if we come under that, if the target cost was a hundred million pounds and the final outcome is ninety million we share the gain according to some formula, sometimes it's fifty-fifty, sometimes it's more complicated. If it's an overspend situation and we go to a hundred and ten million, we will take five million of the pain and the client will take five million of the pain. And the reasoning behind this is that most things that go wrong or lead to additional cost or generate savings require someone to come up with an idea as to how to do it and deliver it, and someone to approve the changes that are necessary in order to make that happen. They might be quite small procedural changes about the, the way you do things - which bit you do first, which bit you do later - or maybe it's a sort of lowering of the specification or a derogation from the specification. But if you share the benefits from it or you share the pain of it going wrong, there's an incentive on both of you to get it fixed and not just sit there and say, 'well it's your fault, you've got to fix that.' Because, and invariably we each have an argument, as a contractor you can say, 'well that's your fault because you moved the goal posts.' And the client would say, 'well we moved the goalposts ages ago and you've only just told us about it.' So these things are very seldom black and white, but the right type of contract encourages everybody to work together to get it sorted.

Q181 Baroness Hanham: Carillion build all over the place, all sorts of things and all sorts of clients, is it, in your experience, worse dealing with public authorities than it is with private companies for example? Because what you said at the beginning of your statement, as I understood it was, by and large Carillion comes in too late and by definition somebody has had to build up the scheme in order to put it to contract. You've then got OJEC and all the other things that cause delays. How do you think that the contractor can realistically come into the design of the scheme earlier, when it's got to be quantity and quality assessed and funding more or less verified before going out to contract?

Bill Free: A lot of the work we do for private developers is done on that basis. They tend to have a smaller team of their own people, and that allows them to go with the market easier; if the market's poor they can shut down the amount of money they're spending. We get involved much earlier with them and help develop the schemes, and that's very common. The OJEC rules make the process more complicated, since there are clearly far more procedures that have to be done to follow the rules. But there are methods of working

together where you have a, a tender that doesn't say, 'yes, I'll build your tram come what may for a hundred million pounds.' But you generally create an indicative price of what you'd expect to pay for it, and answer questions about our quality and our programme ability and CVs of people and track record, so they can say, 'yes, we'd rather have contractor A than contractor B because they're going to be part of the team and will give us the best value at the end.' And there's nothing in the OJEC process that stops that happening, provided the clients lay out these as requirements, which they can then procure against, as a guideline.

Q182 Baroness Hanham: So are the Italians and the French, and I think you said that in Italy and France things moved much more speedily, if I've interpreted that correctly, is it just that they ignore European rules? Or is there something in their process that makes it simpler, and presumably shorter? Years of preparing and then the thing going wrong is helpful to nobody really.

Scott McIntosh: I think there are two points I'd like to make, with your permission, let me pick up the first point, which was early contractor involvement. This was part and parcel of the way Croydon Tramlink was developed. We started in 1992, when the government of the day was groping towards what became the PFI and the PPP. We actually set up a non-statutory body, which had representatives of the local authority, the transport authority, three major contractors. We worked very long and hard to prepare the outline documents and the performance specification, indeed one of the ancestor companies of this gentleman's company [indicates Bill Free] was involved in that process. I thought it was very useful. It was educative for both the public and the private sectors and at the time, when there were very few of these projects going on, that was very useful for both sides. When it finally came to it and they went to competitive tendering that particular consortium did not win, possibly because they knew too much about the project and knew the real cost. Because the government insisted we went for lowest price then somebody who was somewhat more naive, bullish, less well informed undercut them.

The process hasn't been repeated. I also think, to be fair, 1992 was a time at the bottom of the business cycle, and the large firms had the time and the capacity to devote to doing that. Whether they'd do it again is another matter. The reason they probably wouldn't do it again does bring me back to answering your question, which is why are these things done better in other countries? It's not necessarily because the relationship between the contractor and the public authority is better, sometimes it isn't. It is partly because the public authorities there have more experience, the contractors have more experience and they are not hamstrung by the *paralysis by analysis* generated by the Department for Transport in the UK. If a French city makes the decision that it will proceed on such a scheme, the process towards the declaration of public utility - the equivalent of the Transport and Works Authority in the UK - is relatively quick. The local authority has a source of revenue that it can contribute to the scheme and the limited amount that comes from national government is pre-agreed, with the government sticking by its commitment. Those things don't happen here. That is one of the major reasons why it's more difficult. The other one is once you get into this pipeline of schemes, people get to know how to write bid documents. One of the biggest problems in the UK is every time you get a new bid, they're all laid out differently.

Q183 Paul Rowen: But surely, Scott, now you've got a number of active schemes going on in the UK, and certainly we've heard from Nottinghamshire that the costs saved moving all the utilities is considerably lower based on the experiences elsewhere.

Scott McIntosh: Yes.

Q184 Paul Rowen: So that's happening, isn't it?

Scott McIntosh: I think it is starting to happen and if we had more schemes and more continuity things would continue to improve. One of the things you find when you get to my age is that when I go to France I recognize the director general of the latest project here was the man I met as a very young graduate engineer thirty years ago, who in the intermediate period has done four or five of these schemes at greater and greater levels of responsibility. The problem here in the UK is that most local authorities and in many cases most the contractors, only ever do one of these schemes. After they've been burnt by the problems of actually finally getting to financial close in the UK, they're reluctant to go back and do them again.

Q185 Clive Betts: There is a slight contradiction in the argument that we need more local discretion over decision making, over funding arrangements, but actually we also need more centralisation to get consistency of schemes so we don't keep reinventing the wheel, reinventing the contracts, and also in terms of designing vehicles. We need more consistency there so we can get to long procurement arrangements to get costs down. So people are arguing for more local discretion and other levels seem to be asking for more centralisation and coordination.

Scott McIntosh: I think the word coordination and centralisation don't necessarily have to go together. Yes, it would be useful if there was more coordination between the different authorities. One of the things that the LRTF and UK Tram are pushing for is to say, 'really you need to be trying to look towards working with the grain of the way the industry works.' It's all very well having aspirations to a Saville Row suit, but in reality most of us end up buying our suits from Marks and Spencer's because that's what we can afford. It is pointless saying, 'yes, fifty percent of the rolling stock produced in Europe goes to Germany, and they don't kill people in Duisberg. But of course the same trams may do so in the UK, so we will want you to completely re-engineer the vehicle, we want everything moved slightly to the left or we'll want the thing re-evaluated again.' That doesn't happen with the truck business, it doesn't happen with the motorcar business across Europe. We need to be saying, 'why is it that we in Britain don't say "well, let's look at the standards that the market leaders specify?" asking, "why are those standards not acceptable in the UK?"' Rather than saying, 'let's write British standards.' Because we're not a market leader here. We should be looking to say, 'me too. I've seen something that works beautifully in x, we'd like that here.' One of the things I'm proudest about of all my years involved in the Croydon project is that there isn't a Croydon tram; it is a tram that was designed for a major buyer, proven in service in Cologne, and had only the minimum modifications for Croydon. That was one of the reasons why it has worked so well - day in, day out - over a long period. So we need that sort of client education.

On the other hand, if government is going to micromanage from the centre, as it has been doing over the years, it must provide clear guidelines and gateways for a scheme. When the scheme completes that course, then the money must be available, and not subject to the passing whims of the administration. One of my colleagues once described dealing with the Department for Transport in trying to arrange funding as like playing a game of snakes and

ladders. The only difference was the Department has a box, an infinite box, of additional snakes, and when you get to square ninety-eight another snake is put on the board. This is not a helpful process. If you said, 'no, we would like this to be devolved to local authorities, regional authorities,' then money raising powers must be provided for those local authorities to enable them to get on with it.

Similarly I think that making Transport Innovation Fund bids dependant on the introduction of congestion charging - and we have the experience of Manchester and of Edinburgh about the difficulty of delivering that, or the workplace parking levy - which has only been achieved in one city - one must ask whether the government is not conducting some sort of smoke-screen exercise. They're saying, 'of course there's a lot of money here', but the conditions applicants must satisfy before they can ask for the money are almost impossible to deliver. The Department will say 'that of course it's very unfortunate, you know, the money is sitting here, it's just you can never actually make your way to achieving it.' So we need to find out whether you're going to give local authorities responsibility and money, or allow them to raise money. I think that we have seen this morning that many people in the business community are saying if they could be sure that that money was hypothecated to the project, then there are ways of raising money. I think that would be acceptable.

If you're going to run everything from the Department then you need a clear, honest process with gateways and you know when you've gone through them, you actually have achieved something and you are able to achieve financial close. At the moment that doesn't happen.

The Department has said to us when we've been to talk to them, they have no policy either for or against light rail. I think that is a shocking thing for a government department to say. I don't think the Department of Health would say, 'we don't have a policy for or against medicine.' We have a product here which we know achieves many of the objectives which we want to achieve; in terms of modal shift from the motorcar, moving towards sustainable home-produced fuels and supporting regeneration of our cities. The Department ought to have a policy which says, 'we would like to encourage the development of those things, but we will want to see value for money extracted from them.' The attitude which we feel we get from the Department is;

'Oh no, not another tramway we have to consider. Haven't you considered buses?'

'Yes, of course we've considered buses, but we've decided this is the right thing.'

'Well let's go through the process. But of course buses'd be a good idea.....'

Right, the promoters have done the work. As in the case of Liverpool you've invested significant funds in advance works.

'We still think buses might be cheaper...'

'We've looked at buses three times already.'

'Well, perhaps you could look at them again.'

'Well, we have contracting firms waiting to know what's the answer.'

'Well, go and have a look at buses again.'

'We've had a look at buses again, and we still believe that this light rail project is the right project.'

'Well, then you'd better go ahead and get to the next stage.'

Now, the promoters have the powers, have the contractors in place. 'We think it's too expensive. We're not going to fund it.' This is not a process which makes anybody feel any confidence in government of any party.

Q186 Graham Stringer: I recognise, I was going to say caricature, but it's not really a caricature of the Department of Transport, it's an accurate portrait I think. One of the things that has occurred to me, to get over the bias in favour of buses, is that light rail trams are assessed as an up-front capital projects where you've spent a great deal of money at the start. Whereas buses are subsidised on an annual basis. And there doesn't seem to be anywhere a proper comparison of costs and benefits over the lifetime of a tram scheme. Have you done any work that would level the playing field with the bus industry along that basis?

Scott McIntosh: Well actually the new approach to transport appraisal in England and the STAG, Scottish Transport Assessment Guidelines, do attempt to do this, to look at the life cycle costs of a scheme. That is one of the ways in which we decide that, having gone through this exercise x number of times, light rail is better than buses in certain cases. There are a large number of environmental benefits and regeneration benefits and one of the problems of course is you have to decide how you will monetise these benefits. What is the value of not emitting so much CO2? Are these valuations done fairly? Are you comparing like with like? Are you measuring things? And I think these are all things where we in the industry believe we have a good case to put and we would like to investigate ways of evaluating them. I think we were all a little bit disappointed that the, the NATA refresh did not look at some of these wider issues.

One would hope that, possibly as a result of son-of-Kyoto or whatever comes from the Copenhagen conference, we might be able to put some monetary values to some of these things. But when you find that modal shift - getting people out of cars, onto public transport - is looked at as a dis-benefit in some appraisals, because it reduces the amount of fuel duty tax that the government takes, you do begin to think you're in a world of smoke and mirrors. I think that's very difficult.

Q187 Graham Stringer: That's interesting. You mention in that answer the benefits to regeneration, I mean, again, my assessment view is that the Department of Transport, partly because they are the Department of Transport and the vision of having a DETR never came about, sort of integrating urban regeneration and local government with transport, so you had a more coherent or cogent view, hasn't happened. How would you envisage getting more of the urban regeneration benefits into the assessments that the Department do?

Scott McIntosh: It can be very difficult because people will say, 'well, regeneration would have happened anyway.' and you say, 'well no, it wouldn't.' There are, here in London, two excellent examples; the Docklands Light Railway was only one of a number of factors which led to the regeneration of that area, but there is no doubt that a high-quality public transport system was one of the key elements. Or you look at Croydon, which was facing very serious problems in, in the late 1980s. It had been rebuilt in the 50s and 60s, a time when new buildings were particularly unlovely. Those buildings were getting to a point where rent yields were falling, there were more and more vacant buildings in the town. The Council made the decision to introduce the tramway and to have a pro development agenda, and the fact is that the tramway not only benefited communities along the line of the tramway, but the town as a whole.

I did think, with respect, that it was disingenuous of the gentleman from Nottingham [who gave evidence earlier] to say only eighteen percent of the businesses in Nottingham are along the tramlines and will benefit. If you reduce traffic congestion across the whole city

then everybody benefits. Assessing how those benefits can be monetised, captured, exposed to argument, is an area that needs to be looked at.

Department bashing can be fun; the Department bashes us often enough, so it's quite nice to have a go back on occasions. I am not saying that we are stuck with a uniquely difficult problem with government, but I think if we could work in partnership with government, which means a much more open and welcoming approach, much more frequent discussions with them, with serious and knowledgeable people we could expect better outcomes. Lord Adonis is on record in the last couple of weeks as saying that his department doesn't have any expertise in light rail, just as he felt they didn't with high speed rail. He said, 'I had to grab that, and that's why it's moving. Unfortunately, I don't have time to grab light rail.' Well the industry is there to help: people can be seconded into the Department to discuss these things, people from the Department can be seconded to firms or to local authorities, to see what the benefits are, to understand whether Manchester and Croydon and Docklands are deluding themselves, or whether the benefits they believe are happening really are happening. I believe that would be very open and welcoming. I think we should contrast our approach to the French approach, there you have some of these major contracting and transport firms and the department and there's a fluidity of people between the two - moving jobs, not just actually going to sit in the company for a period of time. I think we believe we have a very good case to make; we would like much more of an opportunity to make that.

Q188 Clive Betts: Could I just ask about that expertise that you talked about in terms of light rail? It's interesting what you've just said. I mean do you think actually what we've got in the Department of Transport are actually railway people, heavy rail people, who are then given the job of looking at light rail as something similar and akin to heavy rail, and that's why we get a certain mindset about development of light rail which isn't always relevant?

Scott McIntosh: I think that may be the case. However, you know, let me redeem myself with some of my friends at the Department of Transport.

Clive Betts: You've got some friends, have you?

Scott McIntosh: Probably after this morning fewer than I had before we started. You may have seen, again, the government's announcements on the reinvigoration of the Watford to Saint Albans line, which is taking over a piece of heavy rail infrastructure and reinvigorating it by the use of recycled equipment. I must say the people in the community rail division of the Department for Transport - who are railway people - public transport people actually - they have been immensely supportive and helpful. One of the most rewarding things I have seen in the last two or three years was actually a meeting we had at the Department, when we had the Department, Network Rail, the train operating company, the local authority, ourselves as the technical advisers, actually sitting round the table and in one day thrashing out a lot of issues.

Of course there were two time bombs; one was having an inordinately long discussion about ORCATS and revenue extraction and all the rest of it, and, 'can I book a ticket from Watford Abbey station to Wick if you've got the thousand pounds it costs to buy the ticket?' And the other one was at the moment when everybody was happy, and then somebody said, 'who takes the operating risk?' And there was a scuffling as everybody went under the table. Well, somebody has to take the risk. But I must say on that occasion I found the Department

extremely supportive. And I think they're very imaginative and I think the result they've had with briefing the Secretary of State is very encouraging. I wish the same sort of flexibility and openness happened on the major urban schemes that we deal with.

Q189 Graham Stringer: You have to be careful what you wish for; the 2005 Transport Select Committee report on trams and light rail came to exactly the view that you have, there aren't very many experts in light rail or trams at the Department of Transport. But there is a tendency that the more experts they get, the more they want to interfere and centralise. So it's a balance. But the real point I wanted to ask - and if you've answered this I'll just read the transcripts, so don't, don't repeat it - is you were talking when I came in about, tram for Croydon and tram for Manchester, tram for Sheffield, different makes and cutting the cost. One of the things that I've been concerned about is the different financial models, you know, Manchester have got design, build, operate, which has got real problems with cost when you change the operator. It's got problems, again, that you put the investment up front and towards the end of the scheme you get less investment in it. Sheffield's was a different model; I don't know about Croydon's. What would be your advice on what sort of financial operating model would be best?

Bill Free: As far as being a contractor, we are happy to build the infrastructure, and we're happy to maintain it, and we're happy to have the two contracts linked together, on some sort of private finance basis, provided the payments are based on availability. There is a problem within Carillion, and I think within other companies similar to us, to taking sort of fare box risk and the like, and that can be very difficult for us. But yes, we're happy to have them connected.

Q190 Graham Stringer: So you don't have a preferred model of the different models there are of operating?

Scott McIntosh: I think all the models we've had - and you're right, you know, we're still in the experimental phase, each one seems to be different - I think there is something to be said for an approach which says that the infrastructure has a very long life. The rails may need replacing every twenty years or so but the basic infrastructure is there for a hundred years. That would seem to be an ideal utility model for, for long term funding.

Vehicles have a life of thirty, forty years, it may be that they can be financed, they can certainly be initially bought on a supply and maintain for the first fifteen years from most manufacturers these days.

Operators, you don't want to change your operator too often, but you may want to put the willies up them by threatening to the fact that you might. However, it is useful to say that in designing the system, of all of the private sector firms that can help you, probably the operator is the most sensible, because he can say, 'well, why are you going here via there? Wouldn't it be better to go there via here?' And so on.

So I think there are structures you could examine. Some of them, I hate to say it, look a little bit like the structure we've got by default after fifteen years of experimentation with the Network Rail/train operating company/rolling stock leasing model. There are drawbacks to that model. But I think the biggest question is where the risk lies. A good operator can make a difference of five or ten percent against a poor operator in the fare box revenue.

Q191 Graham Stringer: Can you give me evidence of that figure? That's a really interesting figure.

Scott McIntosh: Well, I think if you look at the train operating companies in the UK, and compare the good ones with the bad ones, you will see that there's a difference in the ridership growth they've achieved. But the real driver for the number of people using public transport is driven by;

One, the general state of the economy - and that rests with you, and a mile and a half further down the road with our friends at the banks and

Two, it is the wider policy issues. What's the taxation regime on fuel? Are fuel costs going to be going up significantly? Are you going to introduce road user charging? What are the planning policies to do with car parking provision? And so on. Now, the operator has no influence over those whatsoever. If he tried to influence the local authority, I'm sure people would be saying, 'how dare this man who's in business to make profit come along to us and say how we should change our overall strategic policy on housing development or office development in the centre of our city?' So this is a long term partnership and therefore risk must be shared between the two.

Trying to pass fare box risk onto the private sector inflates cost. That added to the delays, the inevitable delays we seem to have in the UK, are the things that drive the thirty to fifty per cent cost premium vis a vis what you would get for a similar system in France or Germany.

Q192 Graham Stringer: I've only got two more questions following that, one's a quantitative question and one's a more difficult qualitative question. The first one, there is no doubt that passing risk over to the private sector inflates cost. Again, I've tried very hard to get a handle on that, because when the costs of the so called big bang scheme in Manchester went from a quarter of a billion to half a billion to a billion, a lot of those increasing costs were put down to the banks getting more careful about risks and the private sector getting more... But I can't believe it was three quarters of a billion. But I'd just be grateful for any quantitative assessment of what you think that the assessment by operating companies of risk is. And then the second question, which is related, it worries me, it doesn't seem to worry many other people, but in Sheffield and Manchester the people who run the trams are the people who are competing with the trams and running buses. And I just think that is, in most competition models you would not look to that as your solution, where you have different modes of transport operated by the same operator. And it seems to me that there is a problem there, but I'd be interested in your comments.

Bill Free: I think if appropriate risks are passed to the private sector, we can probably do them cheaper than the public sector. But there are risks that we can't uniquely hold, such as moving utilities to build tram lines in city centres. If everybody worked together it would be quite a simple system, but if everybody sticks by the book and says, 'no, you can't move that before you move this, and you can't do this, this has got to be where it is,' costs rapidly escalate. So there are levels of risk we can get involved with and there are levels of risk that tend to escalate out of our control. So, if you try to move risk to the private sector that the private sector can't really uniquely control, the only way we can address this is to add money to the bid in the hope that you add enough to pay for what might go wrong, without putting so much on that you lose the bid. But if it's something that you can control yourself -

whether it's a method of traffic control, to keep traffic moving round, the works, or methods of working to minimize the disruption - then we can do it very well.

Q193 Graham Stringer: I understand what you're saying, I just wonder, and it's a question I recognize wouldn't have a simple answer like ten per cent, but is there any way of giving any quantitative indication of how that translates into contract prices?

Bill Free: It probably wouldn't be twenty per cent because you'd probably give up and just pull out of the bid. It might be ten percent, yes.

Graham Stringer: Right.

Scott McIntosh: I remember sitting in a meeting with some people from the Treasury who were saying, 'well can you predict what's going to happen so that you can price the risk?' And I said, 'with all due respect, if I could predict what was going to happen, I wouldn't be sitting in this meeting with you, I'd be putting my pension fund on the two-thirty at Kempton Park.' You can't tell, and it is an unscientific approach: how do you price for risk? It is a very difficult one, there are models you can use for pricing for risk. It simply adds to the atmosphere that these projects are very risky in the UK, and means that prices will always creep upwards.

As far as the second point is concerned, I well remember trying to explain to some of our European colleagues how public transport was organized in the UK since the deregulation of bus services and so on. And I had to actually be rescued by one of my British colleagues, who said to these people from France and Germany who were sitting round the dinner table giggling, 'he's not having you on, you know; that really is how we do it in the UK.' I think there's a fundamental flaw in the way we organize this. There are very few benefits from the current model and very few cases now where you have proper competition on the street between operators. We shouldn't be competing between operators. The competition is between public transport and the private car. What is necessary is to get public transport working together to give you the seamless product which matches as closely as possible the door-to-door perception of what a car journey is - although it often isn't door to door, it's door to car park and long walk. If you look at the way this is done in France, where you have long-term concessions for the entire integrated public transport system of a city, and there are competitions at fixed intervals every ten, fifteen years for that. That is one model. Another is the German model, where you bring a whole raft of different operators together in a city region, in one tariff union so they work together, integrate their fares, integrate their services. That is another model.

If you look across the European Union of governments of every colour - conservative, liberal, socialist - not one of them uses the model we use. Now of course it could be that they're all wrong and we're right. It could be, but I doubt it.

Q194 Clive Betts: I don't know whether you got to this issue of, you know, removing all the utilities from beneath the tram route before I came in, have you dealt with that issue? No. Can I just raise that, because it was raised with us before and clearly in some European, in some continental European countries it appears that they don't do this. And there clearly is a cost to this, more of which now falls on the actual contract. Is it sensible to remove all of the utilities? Is there an alternative way which would be less costly? Or does that cause real

problems for the operator in terms of disruption when something happens and the utilities want the trams up and running?

Scott McIntosh: Let's start with the last point first and this comes back to the model of how you're working the finance. If you're shifting all the ridership risk and everything else onto the private sector, they need a guaranteed revenue stream, or the nearest thing to a guaranteed revenue stream they can have. Therefore they will be very worried about the fact that occasionally, once every five years or so, you may need to close this street for a month while the gas company does whatever the gas company does to its equipment. So they will not want to run those risks. Therefore, it is better to put a capital sum in at the beginning to move the equipment because they're trying to eliminate as many risks as they can. You've already lumbered them with the fact that the government may ruin the economy in a fit of absent-mindedness and they'll have to live with that. So things that will interrupt the operation of the service, they would want to try and remove. If you said, 'well, there are ways we can deal with that in the financing model.' and say, 'if the gas company suddenly turns up one day and says, "sorry, emergency, close the street, we have to have this main repaired," there are compensation mechanisms in the financial package.' That takes away one of the cost drivers.

Some other European countries say that highways are for the movement of people and goods; there are different ways in the highway of moving people and goods - some of them are on the surface in vehicles with wheels, some of them are underneath in pipes. If we have decided we need to re-balance this in some way, by widening the road or narrowing the road or whatever, you users all take a bit of a hit. The utilities have had free use of the highway for a hundred or hundred and twenty years: they don't pay lane rental, they don't pay the equivalent of vehicle taxes and so on, they just put their equipment in the street. Well, we want to do something different with the street, so you'll have to move your utility equipment -and that's your cost because you're not paying tax directly towards the street rental, therefore you take a risk we might want to say, 'don't go here, go there.' So there are ways that they would say, in other countries in Europe, 'you move your equipment, it's your risk because we've let you use the road.' Just as if we suddenly decided to say, 'you can't drive next to the curb on this road, we're putting a bus lane in, everybody else has to move over.' It may be the same thing there. So I think we need to take a more robust approach. What is effectively happening is that the utilities get new for old and contribute only seven and a half per cent to the cost of that. And that is a transfer of public money being used to, purchase a public good - an environmentally beneficial tramway system - which goes straight into the pockets of the private sector. I work for the private sector but, I want to make an honest living but I don't think that taking a public hand-out is making an honest living.

Bill Free: Another issue about the utilities is that over the hundred and twenty years that they've been there, they haven't kept records of where they put this and where they put that. So, when you start, you get the best records you can, you do sort of ground radar surveys to find out where everything is, and then you start digging and, 'oh, it's not like that, it's something different.' And, and it is very difficult. If what you thought was a water main is a gas main, you have to have a whole different regime to moving it to what you thought.

Scott McIntosh: In many cases we are undoing the knitting.

Q195 Clive Betts: Just one final question, just to pick one issue up. Certainly when I go to

Amsterdam I see their trams running and people are actually working on the tram tracks, and then they move to one side when the tram comes along. And it seems, again, I just wonder whether we're being driven by a certain culture, which may be going back to the heavy rail industry, which just over-regulates the operation of the tram. And actually, you know, almost like a bus, you can do work in the road as long as you have proper safety procedures to make sure that the work operatives are out of the way when the vehicle comes along.

Scott McIntosh: One of the conceptual differences between railways and tramways is that railway signals mean you can go at the maximum permitted speed from this point to the next signal, which will tell you what to do next, you're fenced and you know there should be nothing in the way. Signals for tramways mean 'it's your turn to go through the junction, but be sensible, don't drive into a petrol tanker which happens to have run through the lights'. Now, that concept of line-of-sight driving applies all the way along the tramway. So yes, if you need to dig up between the rails or alongside the rails, there is no reason why you can't simply introduce a regulation that says, 'when the drivers see this sign they will stop, they will be waved on,' as the rest of us do when there are roadworks going on. That is a perfectly sensible concept, and I believe it is one that should be explored more than it is at the moment.

Thank you.