Economy, Infrastructure and Skills Committee

On the right track? The Rail Franchise and South Wales Metro

June 2017
The National Assembly for Wales is the democratically elected body that represents the interests of Wales and its people, makes laws for Wales, agrees Welsh taxes and holds the Welsh Government to account.
Economy, Infrastructure and Skills Committee

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June 2017
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The Committee was established on 28 June 2016 to examine legislation and hold the Welsh Government to account by scrutinising expenditure, administration and policy matters, encompassing (but not restricted to): economic development; transport; infrastructure; employment; skills; and research and development, including technology and science.

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Chair’s foreword

Awarding a rail franchise is not simple. In fact, it’s pretty tricky. There are plenty of examples in recent memory where it hasn’t been done especially well. The current Wales and Borders Franchise — which was drawn up based on an assumption of ‘no growth’ only to see passenger numbers sky-rocket — is one example close to home.

So for the Welsh Government to be letting a franchise for the first time represents a big challenge. With no experience to fall back on it is doing everything from scratch. That alone, would be cause for pause. But there are other circumstances which make this task more heroic.

- The long-promised devolution of powers from the UK Department of Transport to the Welsh Government, which would allow them to award the franchise, has been delayed;
- Our inquiry has revealed new uncertainty over the terms of the UK government’s £125m funding commitment to Valleys Lines electrification;
- There is uncertainty over the EU funding too;
- The Welsh Government’s plan for a vertically integrated Core Valleys Lines network is innovative;
- The promised electrification of the Great Western mainline from Cardiff to Swansea still has no confirmed start date;
- Current rolling stock on the franchise is around 30 years old, and only keeps running thanks to a demanding maintenance schedule and miracle-working engineers. And it doesn’t meet the minimum legal standards that will be required by 2020 to ensure access for all passengers;
- The Welsh Government’s own legislation promoting sustainable development means that polluting diesel trains may need to be replaced with cleaner alternatives;
- Passengers in England are concerned that a railway run from Wales will marginalise their needs.

The Welsh Government has set up a new organisation – Transport for Wales – to deliver a new franchise which addresses all these challenges.

Nonetheless, the Welsh Government is bullish in its confidence that it can deliver an extremely complex legal agreement – a 15 year contract to transform the network and with enough flexibility to respond to unforeseen, and unforeseeable, changes in technology and society.

This report examines the various challenges facing the Welsh Government and others as we approach a crucial point in the history of the railway network in Wales. It highlights our concerns in a number of areas, and sets out how the growing mass of organisations involved in running rail services in Wales and the Borders need to work together if the people of Wales are to receive the 21st Century rail services they demand.

We have also pulled together ten key priorities that we think should be part of the final specification for those hoping to run our railways in the future.
We are grateful to the many organisations and individuals who took part in our formal consultation, and the thousands who completed our on-line survey giving us a real insight in to what the people of Wales, and the borders, want from their railway. I’d also like to thank David Beer of Transport Focus for his support and feedback on our survey and the organisation of our stakeholder event.

Russell George AM, Chair
Recommendations

Recommendation 1. Both the UK and Welsh Governments should resolve any impasses with urgency around the devolution of power to procure the franchise allowing the Welsh Government to get on with the procurement, which is governed by a tight timetable. ................................................................. Page 15

Recommendation 2. The Welsh Government should clarify – for the benefit of passengers and potential operators – what action it would take if it were successful in securing the repeal of section 25 of the Railway Act 1993, particularly during the course of the new franchise. ........................................ Page 16

Recommendation 3. The Welsh Government should publish a passenger-friendly summary of the key elements included in the draft specification document – particularly where these amount to changes from the Welsh Government’s original priorities – and also ensure that a summary of the final specification is published with sufficient detail to allow plans to be understood. ....................................................................................................................................... Page 18

Recommendation 4. The Cabinet Secretary must ensure sufficient resources and appropriate skills are in place to assess bids and manage the franchise. To this end TfW should publish a human resources plan setting out the skills and resource levels required and how these will be secured. This will not only be a working document, but will provide assurance that effective plans are in place and allow for scrutiny. ........................................................................................................ Page 20

Recommendation 5. The Welsh Government and DfT must urgently finalise the capital funding package for the Core Valleys Lines. Without greater certainty the Committee struggles to see how value for money will be delivered and demonstrated. ........................................................................................................ Page 23

Recommendation 6. Given the weaknesses in the current franchise the transfer of franchising powers should be accompanied by sufficient revenue funding to deliver an effective franchise. The Committee is concerned that if the block grant does not increase this will not be the case. In responding to this report the Welsh Government should provide assurance that the financial settlement agreed with the DfT is sufficient by setting out the basis for this conclusion. If it is unable to do so because discussions are ongoing it must provide this by the
date on which the final specification is published. This will form the basis of future financial scrutiny of the Welsh Government. .......................................................... Page 23

Recommendation 7. The Committee believes there is significant risk associated with the transfer of ownership of the Valleys lines to the Welsh Government and that it will not be possible to fully understand this risk in the time available. In particular it will be impossible to accurately assess the condition of the Valleys network, leaving the Welsh Government liable for potentially significant future costs. The Welsh Government must secure a robust, watertight agreement with Network Rail and the UK Government which mitigates this risk. This should include a continued UK Government and Network Rail liability for latent defects in the Valleys Network. The financial settlement with DfT should also reflect the reduction in cost to both the UK Government and Network Rail resulting from the transfer of ownership of the Valley Lines. .......................................................... Page 27

Recommendation 8. The Welsh Government should ensure that it demonstrates how the franchise element of the next Wales and Borders rail franchise offers better value for money than the current franchise............ Page 30

Recommendation 9. The Welsh Government must ensure that the tender specification provides the certainty required to ensure the procurement exercise provides value for money. With the final specification due to be published in July, any source of uncertainty must be resolved immediately. .............................................................................................................. Page 30

Recommendation 10. Welsh Government/TfW must ensure that there is sufficient incentive in the final contract for the operator to innovate, invest in and to work hard to grow passenger numbers to meet the anticipated growth in demand over the lifetime of the franchise. The incentive and penalty regime should also be linked to passenger satisfaction as measured through the National Rail Passenger Survey, in addition to wider issues such as punctuality, reliability and the condition and maintenance of rolling stock....................... Page 34

Recommendation 11. The Welsh Government must ensure it has a suitable contingency plan in place should it prove impossible for the bidder to comply. It should provide the Committee with assurance that this contingency plan is in place before the contract is awarded................................................................. Page 35
Recommendation 12. All new rolling stock should be compatible with that on the rest of the network, to afford maximum flexibility to the operators to meet unusual or additional passenger needs. ................................................................. Page 37

Recommendation 13. The Welsh Government/TfW should develop a rolling stock strategy in partnership with the successful operator which includes and looks beyond the end of the current franchise to monitor and anticipate passenger needs across the whole franchise area for the next 20-25 years. In line with Welsh Government’s commitments to de-carbonise the economy, the strategy should consider hydrogen and other low-pollution alternative fuel sources as a long term replacement for diesel on non-electrified parts of the network. ................................................................. Page 39

Recommendation 14. The Welsh Government must make clear in its final specification and summary document how provision for freight will be maintained on the Core Valley Lines. ................................................................. Page 39

Recommendation 15. The Welsh Government should establish robust passenger and stakeholder engagement structures including strong representation from the English regions. The Welsh Government and TfW must set out clearly how these will influence them in franchise management. Additionally, the contract must require the operator to engage with these structures, and this should be considered in the context of our recommendation that passenger satisfaction levels should be central to the penalty and incentive regime. ................................................................. Page 41

Recommendation 16. While TfW is a new and evolving organisation there are clear weaknesses in its governance arrangements – particularly the accountability of its chair. The chair of TfW should not be line managed by his own deputy. Governance arrangements should be reviewed and strengthened as TfW evolves. ................................................................. Page 44

Recommendation 17. Welsh Government should ensure the evidence base for future decisions and prioritisation of the Metro considers the spatial context. ................................................................. Page 45

Recommendation 18. The Committee supports the Welsh Government’s aim of a 15 year contract with break clauses. While not exhaustive, the Welsh Government should consider the ten priorities identified in this chapter and set out below, in the final specification. Welsh Government will need to ensure that
the assessment process for bids allocates points based on how each of its priorities is addressed. ................................................................. Page 53

Recommendation 19. The Welsh Government should seek urgent clarification on the electrification of the line between Swansea and Cardiff. It should continue to lobby for North Wales electrification, and the redevelopment of Cardiff Central Station, at the earliest opportunity. It is vital that there is a clear understanding of the priority these schemes have in Wales and a strong voice for Wales in the decision making process................................................................. Page 57
01. Background to the inquiry

1. The majority of rail services in Wales are provided under the Wales and Border Rail Franchise, currently operated by Arriva Trains Wales with the diesel rolling stock leased from two rolling stock companies (Angel Trains and Porterbrook). The contract was awarded in 2003 and will end in October 2018. At present Arriva Trains Wales receives a subsidy from the Welsh Government in excess of £150m per year.

2. In November 2014 the UK and Welsh Governments reached agreement on devolution of executive powers to procure the next Wales and Borders Rail Franchise starting in October 2018. Once devolved, the Welsh Government will have powers to procure the franchise within a statutory framework set by Westminster as is the case in Scotland.

3. The franchise procurement process also includes rail aspects of the South Wales Metro. The Welsh Government describes Metro as "a new transport system that will transform the way we travel around the Cardiff Capital Region. It will provide faster, more frequent and joined-up services using trains, buses and light rail."\(^1\)

4. While the Metro will be part of the bid, the winning bidder will be judged on how their proposals for the franchise will affect all parts of Wales. The Welsh Government has set out its initial policy priorities for Wales and Borders rail services and the Metro\(^2\) but it will be up to the bidders to propose how it will operate, as well as drawing up plans to build a new rail or tram system on what the Welsh Government describes as the Core Valleys Lines (the red lines in Figure 1 – below).

5. The Welsh Government, rather than the Committee or the National Assembly for Wales, takes the decision on priorities for the next rail franchise and Metro and awards the contracts. The Welsh Government’s consultation on its plans closed on 23 May. The recommendations in this report will feed into that process.

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\(^1\) Taken from [http://gov.wales/topics/transport/public/metro/](http://gov.wales/topics/transport/public/metro/)

The Auditor General for Wales’s Report

6. In September 2016 the Auditor General for Wales (AGW) published his report into Welsh Government investment in rail services and infrastructure. This report addresses investment in infrastructure, performance of the current franchise, and the procurement of the next franchise and Metro. The Chair of the National Assembly’s Public Accounts Committee wrote to the Economy, Infrastructure and Skills (EIS) Committee asking it to consider the following issues in its inquiry:

- The AGW’s recommendations on the relationship between the Welsh Government and Network Rail;

- The AGW’s recommendation that the Welsh Government “develop a mechanism which enables it to demonstrate the value for money of the franchise component of the new contract, when compared with the current and other franchises”;

- The capacity of the Welsh Government and Transport for Wales to deliver the franchise and Metro, and whether TfW is delivering the expected benefits. This could include taking evidence from the Welsh Government’s Strategic Advisory Board and executive directors of Transport for Wales; and

- Funding and affordability of the South Wales Metro, given its reliance on EU Structural Funding.
The Welsh Affairs Select Committee’s Report

7. The House of Commons Welsh Affairs Select Committee launched an inquiry into the Wales and Borders rail franchise on 20 July 2016, inviting evidence on the following topics:

- What standard of performance has been experienced under the current franchise?
- What lessons can be learnt from the current franchise?
- What improvements to rail passenger services should be expected under the next franchise?
- How do the Welsh and UK Governments co-operate in deciding how rail passenger services in Wales should be run?

8. Its report, published in January 2017, criticised the current franchise, particularly the failure to account for passenger growth from the outset, and the aging rolling stock being used in Wales. It called for greater investment in the Welsh rail network, and continued cooperation between governments to ensure the next franchise improves services in Wales.

9. The call by MPs for the UK Government to devolve rail infrastructure and the associated funding was rejected by UK Ministers in their response to the report, citing a lack of ‘political consensus’ around this issue when it was discussed during the St David’s Day process which preceded the introduction of the draft legislation which became the Wales Act 2017.

The EIS Committee’s work

10. The EIS Committee identified a need to explore progress on the Metro and Rail franchise in September 2016. It formally agreed to undertake this work as its main focus for Spring term on 7 December 2016. The terms of reference can be seen at Annex 1.

11. The Committee’s public consultation ran from 24 January 2017 to 23 February 2017. All 50 responses can be seen on the Committee’s inquiry page.

12. The Auditor General for Wales provided a background briefing for the committee on 1 March, and on 9 March the Committee met in Shrewsbury. Following a formal evidence gathering session, the Committee held a workshop session with a range of representatives from passenger organisations, local authorities and others. The Committee’s note of this consultative session can be seen in Annex 2.

13. The Committee took further evidence on 23 and 29 March, and 6 April. Transcripts of all these sessions are available on the website, and can be viewed on Senedd.tv.

14. During this inquiry, the Committee has also drawn on work done in the previous Assembly. The Fourth Assembly’s Enterprise and Business Committee undertook inquiries into the Future of the Wales and Borders Rail Franchise (December 2013) and Priorities for the future of Welsh Rail Infrastructure (March 2016)
02. Procurement of the rail franchise and South Wales Metro

15. Although this report uses the phrases “rail franchise” and “Metro”, in technical terms the Welsh Government is carrying out a procurement “to secure an operator and development partner (an “ODP”) to operate the Wales and Borders Rail service and to develop plans for, and subsequently implement and operate, the Core Valleys Lines as part of Metro Phase 2 in the Cardiff Capital region covering the ten local authorities of South Wales”.

16. The ODP will then coordinate works from a range of contractors to deliver the improvements that will lead to a better service for passengers. The Welsh Government is also procuring a range of contractors to deliver the improvements.

17. We use the term “franchise” throughout for convenience, although we note that the final contract may be in the form of a concession rather than a standard franchise. This issue is discussed in more detail in Chapter 3.

Procurement powers

18. Despite agreement being reached in 2014 that franchising powers would be devolved to Wales, the responsibility still remains with UK Government Ministers.

19. Transport for Wales (TfW) is progressing with the procurement of the new franchise on the basis of the agreement reached between the UK Government and the Welsh Government in 2014 to transfer franchising functions. TfW and the Cabinet Secretary noted that the delivery of its ambition is dependent on the UK Government meeting the Welsh Government’s expectations on:

- The transfer of franchising powers on time and as agreed;
- The UK Government and Network Rail agreeing plans for the Valley Lines, which are currently being discussed;
- The DfT agreeing suitable financial arrangements for the Valley Lines infrastructure.

20. In oral evidence, TfW told the Committee that powers were initially due to be devolved during the last Parliament, although this slipped to January 2017. TfW’s view is that devolution is now overdue.

21. The Committee acknowledges that these are complex issues, and require significant discussion. However, Professor Stuart Cole noted that the “considerable delay” in the transfer of franchising powers from the Department for Transport (DfT) to the Welsh Government “presents serious problems”.  

| “WG cannot be expected to acquire skilled permanent staff and set up financial arrangements for train procurement (purchase or leasing) or electrification when DfT remains the prime franchisor.” |

22. TfW, the DfT and the Cabinet Secretary were confident that this issue would be resolved by the end of the year. The DfT told the Committee:

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3 http://gov.wales/topics/transport/transport-for-wales/procurement/
4 Written evidence.
“...in relation to the timing for the transfer of functions Order, the high-level commitment has always been to ensure that powers are transferred to Welsh Ministers in order to specify and procure the next Wales and borders franchise, and that is absolutely still the intention and we’re still on track to do that, therefore not jeopardising their ability to specify and procure the next franchise.” – Stuart White, DfT

Conclusion 1. The continued lack of resolution and slipping deadlines for the transfer of responsibility from the UK Government to the Welsh Government for awarding the franchise have added extra complexity and uncertainty to a procedure which is not short of either.

23. DfT officials said that “with a fair wind” the procurement process — including transfer of functions, assets and financial agreements — could all be delivered in time, provided “both sides act promptly and with haste”.

6 To date, winds have not been particularly fair, and haste has been visible. It is also unclear what effect the snap general election on 8 June and consequent constraints on government departments will have on this timetable.

Conclusion 2. The Committee notes that continued delays in reaching agreement between the UK and Welsh Government is blurring lines of accountability and risks jeopardising the development of a high quality rail service in Wales and the Borders. While the powers remain undevolved, it is the DfT which ultimately remains accountable for the next Wales and Borders franchise. Similar issues arise in other areas, for example the Welsh Government’s ability to develop contingency plans for rolling stock (discussed below). The Committee was concerned that evidence from the DfT did not appear to recognise this continued responsibility. Given that the delay in reaching agreement in key areas is a complicating factor in this process, it seems clear that the DfT continues to share accountability for the procurement exercise. The Committee will have some difficult questions for them should issues arise.

Recommendation 1. Both the UK and Welsh Governments should resolve any impasses with urgency around the devolution of power to procure the franchise allowing the Welsh Government to get on with the procurement, which is governed by a tight timetable.

Repeal of Section 25

24. Section 25 of the Railways Act 1993 currently prevents “public sector operators” from running franchises so that the Welsh Government cannot establish a body to bid to deliver services. Section 25 was repealed in Scotland as part of the Scotland Act 2016.

25. The National Union of Rail Maritime and Transport Workers (RMT) stated that it believes that “the Welsh Government should be granted similar powers to those enjoyed by the Scottish Government, including the ability to operate rail passenger services in the public sector” to enable genuine not-for-dividend public ownership.

26. The Cabinet Secretary told the Committee he continued to press for this, even though — with the awarding of a 15 year franchise imminent — it seems unlikely he would be able to use such powers

5 Para 164, 6 April 2017
6 Para 256, 6 April 2017
until 2032. Although Simon Jones noted in Committee that there will be break clauses in the contract that might permit such powers to be used sooner.  

**Conclusion 3.** It is not clear why section 25 of the Railway Act 1993 should no longer apply to Scotland, but remain in force in Wales.

**Recommendation 2.** The Welsh Government should clarify – for the benefit of passengers and potential operators – what action it would take if it were successful in securing the repeal of section 25 of the Railway Act 1993, particularly during the course of the new franchise.

**Competitive Dialogue procedure**

**Box 1: What is Competitive Dialogue?**

The “competitive dialogue procedure” is one of the procurement procedures permitted under EU law.

Under the procedure pre-qualified bidders are selected following an initial advertisement. The contracting authority (in this case the Welsh Government) then enters into dialogue with those bidders to develop a contract specification which meets its requirements. The pre-qualified bidders are then invited to tender.

Rail franchises in England and Wales are normally procured using a franchise specification document pre-prepared by DfT officials, with tenders then submitted by bidders setting out how they would deliver its requirements. Welsh Government has previously used the competitive dialogue procedure, most notably to award the Superfast Cymru contract.

27. Following the submission of outline solutions by the four pre-qualified bidders,\(^8\) TfW has been discussing individual aspects of the specification with each bidder since January 2017 in a series of weekly meetings. The final specification, expected in July 2017, will therefore have been prepared with input from all four bidders and TfW in the light of TfW’s wider consultation and engagement work.

28. There was tentative support for the competitive dialogue process among the few respondents that commented specifically on this element of the procurement approach. The Heart of Wales Line Development Company (HoW LDC) was generally supportive of the “innovative approach” in the hope that “advantageous deals” seen for major road procurement projects using this approach would “transfer across to the rail sector”. It stated that it:

> “Hope[d] that the franchise specifiers will be encouraged not to be risk averse and that pressure will be exerted on bidders to come up with ideas that are truly innovative and cost effective. […] Key Risk No 1 is if the outcome is ‘business as usual’.”\(^9\)

29. Professor Stuart Cole highlighted the need for a watertight process to avoid any challenges or a judicial review at the point of franchise award.

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7 Para 617, 6 April 2017
8 Abellio Rail Cymru; Arriva Rail Wales/Rheilffyrdd Arriva Cymru Limited; KeolisAmey; MTR Corporation (Cymru) Ltd
9 Written evidence.
30. While the competitive dialogue procedure has clear advantages — particularly in relation to the Metro, where there is genuine scope for innovative thinking — it also has drawbacks. Lack of understanding about how the process works has resulted in a view that there is a lower level of engagement with passengers and stakeholders than normal. Attendees at the Committee’s stakeholder event felt that the traditional procurement procedure being used for the West Midlands franchise had been more open and consultative.

31. In oral evidence, the North Wales Economic Ambition Board said it had taken “a while to get our head around exactly how the procurement process is going to work”.

“I think, with the benefit of hindsight, it perhaps might have helped if there had been a clearer explanation at the outset of just how radically different this franchise procurement process was going to be, and also what the process and opportunities were for stakeholder engagement as we went through it.”

32. The leader of Cheshire West and Chester Council praised the willingness of the Cabinet Secretary to provide political/strategic access. She said:

“…from the sort of high-level strategic perspective, I found that access has been easy. However, when it gets down to the brass tacks, I think it’s a little more tricky.”

33. Several respondents noted concerns and disappointment with the level of stakeholder engagement in the procurement process to date. Many highlighted the need for greater clarity and communication from the Welsh Government/TfW, and the restrictive nature of the process due to the rules of engagement.

34. The Cardiff Capital Region City Deal Regional Cabinet noted the approach to procurement presents a challenge to maintaining stakeholder ‘buy-in’ from its partners in the region. Other respondents, including the Royal Town Planning Institute Cymru (RTPI Cymru) who described what it considered to be a “consultation deficit”, explained the importance of using local stakeholder knowledge to inform franchise priorities and engaging with stakeholders in the border region.

35. The North Wales and Mersey Dee Rail Task Force and West Coast Rail 250 (WCR 250) cited the engagement approach adopted by Rail North Ltd as an example of good practice and emphasised the benefits of utilising local knowledge to develop franchise priorities.

36. Since the Welsh Government published its priorities for the franchise early in the process, almost all of the development has taken place behind closed doors. While TfW and the bidders have sought views from passengers and other interested parties, and the Committee recognises that a consultation and engagement programme has been running alongside this inquiry, the procurement approach does not encourage them to feedback for risk of compromising the process.

37. One way in which the Welsh Government could increase transparency in the process is by publishing its draft tender specification. At present, the plan is to only share this with the bidders. Given the inability of TfW to provide feedback on input from stakeholders, this means that the first

10 Para 12, 9 March 2017
11 Para 14, 9 March 2017
detailed statement of what will be included in the specification will be the specification itself, which would not be subject to comment or amendment.

38. Simon Jones, the Welsh Government’s Director of Transport and ICT Infrastructure, explained:

“…these things are written in pretty arcane, contractual language and they’re not designed for public consumption. It sounds a terribly patronising thing to say, but they are contract documents. And I suppose we could spend an awful lot of time dealing with misconceptions that come out of the draft specification rather than focusing on trying to flush the process through, in order for us to get the right award at the end of this.”

Conclusion 4. The Welsh Government could have done more to ensure that the competitive dialogue process, and the confidential discussions it necessarily contains, was better understood by stakeholders, and provided greater clarity around the times and ways they could engage with the process.

Conclusion 5. The Committee understands that the dialogue process demands a certain degree of confidentiality. But, taking account of the wider engagement and consultation taking place this spring, it believes that publishing the draft specification would go a long way to reassuring the public – passengers and potential future passengers alike – that the process was leading to improved rail services.

Recommendation 3. The Welsh Government should publish a passenger-friendly summary of the key elements included in the draft specification document – particularly where these amount to changes from the Welsh Government’s original priorities – and also ensure that a summary of the final specification is published with sufficient detail to allow plans to be understood.

Capacity

39. Several respondents raised concerns about the capacity of the Welsh Government and TfW to procure and manage the franchise. The HoW LDC identified this as a key risk to a desirable, well-negotiated franchise agreement, stating that:

“There has been continual comment within the transport community in Wales, in the media, and off the record from representatives of the bidders, to the effect that Welsh Government (WG) and TfW are less well prepared than is desirable for the implementation of this process, that the team carrying out the work is smaller and less robust than might be expected, and that the WG - TfW - DfT relationship is not as strong or effective as is desirable.”

40. Railfuture Cymru noted that there are few people with the knowledge, skills and experience required to undertake the assessment of detailed and extensive bids. It identified this as a key risk and emphasised the need to evaluate the capabilities of TfW staff at an early stage and keep TfW capability under review.

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12 Para 546, 6 April 2017
13 The Welsh Government’s original priorities were published at http://gov.wales/topics/transport/transport-for-wales/procurement/
14 Written evidence.
Written evidence from engineering experts raised a range of issues around TfW skills and capacity. Neil Sadler highlighted the “unprecedented scale” of the procurement, suggesting that “an exceptionally well skilled team” is required. The Civil Engineering Contractors Association identified a risk in the procurement process for the ODP from “availability of skilled personnel within the public sector to manage the process”. It identified a need to strengthen contracting experience to assess “buildability” of proposals, to commercially assess risks and “reality check” costs.

“I think there is the issue of capacity as well. The competitive dialogue is quite heavy-front-ended, so you need the people with the skills, but you also need enough of them at the right times to do that, both to get the process moving, but also to be able to engage with the providers themselves and not leave too many things hanging. It is about dialogue, but it’s something that does need to move to a pace.”\textsuperscript{15} – Ed Evans, Director of CECA Cymru

Prof Cole noted that TfW didn’t have its final team in place, although he said that it is staffed by some “very competent consultants”, he made the point that “their careers and their long-term commitment can’t be there in that context”\textsuperscript{16} Prof Cole noted that the “tight timetable” for procurement has already slipped by a few months.

The challenge of delivering an innovative procurement in a traditional timescale, was raised by a number of witnesses and respondents. In particular, Alexia Course of Network Rail said:

“In terms of standard, more traditional refranchising procurement programmes, which we’ve worked on with DfT on the English side of the border, they roughly take about two years or so. That is what we would call a standard procurement exercise. But, for this procurement, Transport for Wales and Welsh Government are keen to do something novel and very different with the Core Valleys lines, in addition to the usual refranchising of the Wales and borders franchise overall, and we’re doing that within the same time frame as we would for a standard refranchising programme, i.e. within that two-year parameter. So, that’s what we mean by being challenging—we’re doing a lot more within the same period of time. It’s a challenging time frame to do it, but we’re confident that we can meet it.”\textsuperscript{17} – Alexia Course, Network Rail

The Welsh Government anticipates that TfW will have an enhanced role in delivery of the franchise in comparison to a standard franchise. The Cabinet Secretary said:

“it’s also fair to say that the skills that will be required will depend, in part, on what emerges through the competitive dialogue process. So, for example, through services such as ticketing, car parks, commercial contracts—the skills that we need to recruit within Transport for Wales will largely depend on what emerges through the process of the dialogue that’s taking place over the coming months.”\textsuperscript{18} – Ken Skates AM, Cabinet Secretary for Infrastructure

\textsuperscript{15} Para 333, 6 April 2017
\textsuperscript{16} Para 162, 23 March 2017
\textsuperscript{17} Para 18, 6 April 2017
\textsuperscript{18} Para 503, 6 April 2017
The Cabinet Secretary also rejected claims that TfW might not have the correct skills and resources to deliver the franchise.

“I’m absolutely clear. It currently has the right skills, but it will need to change as we move from needing advice from Transport for Wales to a position where Transport for Wales is actually managing the franchise. So, additional skills may well be required, but we’ll make sure that those skills are matched and aligned to the actual outcomes of the competitive dialogue process.”

Ken Skates AM, Cabinet Secretary for Infrastructure

Conclusion 6. The Government has taken a pragmatic approach to developing TfW, and recruiting skills as needed. However, given that the process is complex and innovative, and in the light of the level of concern voiced in this inquiry, the Committee remains to be convinced that TfW has the resources it needs to run the procurement process effectively, and is concerned that TfW does not currently employ many of the people it will need to be able to operate effectively. The recruitment of a currently unknown number of people, potentially with highly specific skills and experience, in a short period of time represents a significant risk to the effectiveness of TfW. This is particularly true, if TfW intends to take on running elements of the Metro (eg car parking/ticketing) rather than leaving this to the successful ODP. Time will be short between contract award and commencement.

Recommendation 4. The Cabinet Secretary must ensure sufficient resources and appropriate skills are in place to assess bids and manage the franchise. To this end TfW should publish a human resources plan setting out the skills and resource levels required and how these will be secured. This will not only be a working document, but will provide assurance that effective plans are in place and allow for scrutiny.

Funding

In written evidence, the HoW LDC noted:

“...the franchising process could hardly be taking place at a worse time. Brexit uncertainties, poor funding settlements for Wales, and the ongoing climate of financial uncertainty and austerity all combine to a concern that it will be hard for Wales to afford the enhanced rail and Metro system it so clearly needs.”

Capital funding for the Metro is coming from three key sources: Welsh Government/local government in Wales, DfT, and EU funding.

DfT funding

It emerged during the Committee’s questioning of the DfT that there is still an element of uncertainty around the money promised in the 2014 Agreement for electrification of the Valley Lines. DfT promised to contribute £125 million to electrification of the lines, although there appears to be a question about whether this will still be available if the Welsh Government decided not to invest in overhead electric cabling.

19 Para 509, 6 April 2017
20 Written evidence
“The commitment to the £125 million towards electrification was indeed for that, for electrification, because that was the clear assumption of both the Welsh Government and the UK Government at the time. If there is a proposal to change that, we would need to see that proposal from Welsh Government, which we haven’t seen yet.”\(^{21}\)

As I say, we’ve not made a decision on whether the £125 million would still be available if the proposal is no longer to electrify the Cardiff Valleys lines, purely because we haven’t had any such proposal.”\(^{22}\) – Stuart White, Programme Director, Network Services London and South East, Department for Transport

49. The Cabinet Secretary appeared surprised at this. He said:

“I don’t think the £125 million can be wiped out if there’s no electrification; that would not be acceptable.”\(^{23}\) - Ken Skates AM, Cabinet Secretary for Infrastructure

50. Simon Jones, the Welsh Government’s Director of Transport and ICT Infrastructure, added that the method of electrification should be irrelevant.

“I think it’s also worth getting into what we might end up doing with the Valleys lines. So, we might end up with some kind of hybrid solution that involves battery trains, for example, where, when this letter was written in 2014, I guess it was envisaged that we would be putting pylons for the entire length of the Valleys lines. Well, we may not need to do that because of the way that technology has moved on, but we shouldn’t be penalised for finding a different technological approach to deliver the same outcome.”\(^{24}\) – Simon Jones, Welsh Government

**Conclusion 7.** The Committee notes that the previous dispute between the Welsh and UK Governments around the funding of valleys electrification was ultimately resolved in the 2014 agreement between the two Governments. We expect a swift resolution to any confusion. Given the complexity and interdependencies involved in this process, a further dispute could prove disastrous to the project.

**EU funding**

51. The referendum vote for the UK to leave the European Union, has raised a question mark about the proposed EU contribution to electrification of the Valleys lines. Depending on the timing of electrification, and the timetable for leaving the EU, it is possible that the UK could be outside the EU before EU funding was drawn down.

52. While the UK Government has provided assurances that it will honour any agreed EU funding commitments up to 2020, it is impossible to argue that this money is 100% secure.

53. In respect of EU funding, James Price, Chair of TfW, told the Committee:

\(^{21}\) Para 205, 6 April 2017  
\(^{22}\) Para 209, 6 April 2017  
\(^{23}\) Para 480, 6 April 2017  
\(^{24}\) Para 482, 6 April 2017
“We do have a guarantee from the UK Government saying that, if the EU, for some reason—if that funding were to evaporate, the UK Government would make that good. But I think I’d come back to my original point: we need to see that delivered. We’re currently working with the EU. In principle, there are no issues with drawing down the money at all. They’re very keen on the project. However, we need to get powers transferred. We need to get asset transfer agreements in place, et cetera, et cetera, as contingent parts of drawing down that money, because large amounts of that money will be used for physical infrastructure upgrades on the Core Valleys lines network, which will require us [Welsh Government] to have control or ownership of the asset to do that.”

54. The complex technical issues involved in transfer of ownership of the Valley lines are discussed below. These require time and careful attention to avoid difficulties in the long term. However, the need to get the assets transferred secure EU funding creates a pressure to complete the transfer quickly. This illustrates the complex and occasionally contradictory interdependencies involved in the procurement process.

**Welsh Government/local authority funding**

55. While the Welsh Government/local authority component of the funding seems the most secure, it is worth noting that Welsh Government’s future spending is dependent on the Block Grant from Westminster. The snap General Election called for June 8 means that there is a new uncertainty around the spending plans of future UK Governments, which has knock on consequences for Wales.

**Revenue funding**

56. In addition to the uncertainties around capital funding set out above, there are questions around the level of subsidy that will be available. Much of this is tied to whether and to what degree the Welsh Government ends up running a concession model — where the operator operates the trains, but Welsh Government operates ticketing and stations.

57. The Cabinet Secretary has said he hopes to see TfW deliver as many commercial elements of the franchise as possible on a not-for-dividend basis, and will cap the profits of the private sector operator. The Rail Delivery Group (RDG) said that train companies would not mind where risk sits, or that certain commercial contracts might be managed on a not-for-dividend basis by TfW.

58. What is clear, is that the Welsh Government does not intend to increase the current level of subsidy. The Auditor General for Wales estimates this at around £154m per year for the “core franchise”. He also highlights that the Welsh Government also funds enhanced services which will cost an estimated £20m per year if they are to continue.

“...the amount of money that we’re currently paying for the franchise we believe is sufficient to deliver a significantly enhanced service for the whole of Wales in the future.” — James Price, deputy Permanent Secretary, Welsh Government/Chair of TfW.

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25 Para 356, 29 March 2017
26 Para 3.2, page 45, Welsh Government Investment in rail services and infrastructure, WAO, September 2016
28 Para 354, 29 March 2017
59. The Cabinet Secretary confirmed to the Committee that the 2014 agreement reached with the DfT included no increase in the Welsh Block Grant.

60. The Committee is aware that concerns about the availability of revenue funding for the current franchise were raised by the last Welsh Government during draft budget scrutiny in the Fourth Assembly.\textsuperscript{29} It is also aware that the Deputy Permanent Secretary, now also Chair of TfW, has previously noted pressure resulting from the fact that the Block Grant allocation which followed transfer of responsibility for franchise management to the Welsh Government in 2006 is not index linked.\textsuperscript{30}

61. When asked in October 2016 by the UK Parliament’s Welsh Affairs Select Committee whether there would be “adequate investment” given that the Block Grant will not increase, the Cabinet Secretary said:

\begin{quote}
“It is a good question. I think it is too early to tell. We are still working through this. There are financial discussions that need to take place with the UK Government before we reach a final financial settlement. It is true we have identified electrification as a method of reducing costs. Electrification can bring about efficiencies, but operations can also be affected by other factors such as rolling stock types and service frequencies. There is still a good piece of work to be done before we reach the final financial settlement.”\textsuperscript{31}
\end{quote}

Conclusion 8. Experts in contracting were clear in their evidence to the Committee that in order to get the best deal, it is vital to reduce risks and uncertainties. All three legs of the capital funding stool for investing in electrification of the Core Valleys Lines currently contain some degree of risk/uncertainty.

Conclusion 9. The potential involvement of TfW in operating stations and ticketing through some form of concession model will have an impact on the revenue subsidy required by potential bidders to run the Wales and Borders Franchise. It is vital that there is clarity on what the Welsh Government wants TfW to run, and what the operator will run, in the final specification for the franchise.

Recommendation 5. The Welsh Government and DfT must urgently finalise the capital funding package for the Core Valleys Lines. Without greater certainty the Committee struggles to see how value for money will be delivered and demonstrated.

Recommendation 6. Given the weaknesses in the current franchise the transfer of franchising powers should be accompanied by sufficient revenue funding to deliver an effective franchise. The Committee is concerned that if the block grant does not increase this will not be the case. In responding to this report the Welsh Government should provide assurance that the financial settlement agreed with the DfT is sufficient by setting out the basis for this conclusion. If it is unable to do so because discussions are ongoing it must provide this by the date on which the final specification is published. This will form the basis of future financial scrutiny of the Welsh Government.

\textsuperscript{29} Welsh Government’s 2014 economy and transport budget paper (page 27)
\textsuperscript{30} Paras 223-231, Enterprise & Business Committee, 16 October 2014
\textsuperscript{31} Welsh Affairs Committee, 17 October 2016, Q92
Vertical Integration on the Core Valleys Lines

62. Currently the management, maintenance and improvement of rail infrastructure in Britain is the responsibility of Network Rail, with services delivered separately by train companies. Vertical integration on the Core Valleys Lines would make both track and trains on those lines the responsibility of the ODP.

63. Some respondents welcomed the inclusion of vertical integration for the delivery of Metro infrastructure, including the RDG, Railfuture Cymru and the Cardiff Capital Region City Deal Regional Cabinet and the Cardiff Capital Region Transport Authority. The RMT, however, commented that Network Rail should not be fragmented, stating that it believes that “economies of scale are best achieved through centralised structure” and that such a structure should include strategic socio-economic and policy direction.

64. Many respondents to the Committee’s consultation supported vertical integration but identified risks including: the ability of TfW and the ODP to manage the infrastructure; liability for structures; insurance; and maintenance obligations/costs.

65. In oral evidence, Prof Cole suggested that these risks were more easily insured by Network Rail, which can spread risk across the whole British rail network, than by TfW/the ODP in managing a small section of network:

“TfW are then being made responsible for a piece of railway, but a very small-scale piece of railway, compared with Network Rail. What Network Rail has is something like 24,000 miles of track with bridges, viaducts and so on to be repaired. But the probability of having a serious cost problem with one of those items of infrastructure is relatively small, in terms of its total estate. Network Rail, therefore, as British Rail before it, self-insure themselves, in the main. Now, whether the Welsh Government could self-insure itself is a matter for actuaries and not for me, but the cost of an insurance policy—when you compare the insurance on a house with the insurance on 150 miles of railway track, that is going to be a substantial sum of money, and, at the moment, that’s not paid by Network Rail—they put aside money for the probability of there being a serious piece of engineering work to be done, and we have some serious pieces of engineering.”

32 Para 175, 23 March 2017

66. Network Rail told the Committee:

“We’ve given access to all our data information, as well, and Transport for Wales and the four bidders have got access to our asset managers, as well, who are the technical experts in track, bridges, signals and the whole spectrum of our assets that we maintain, and we’re having that dialogue all the time at the moment.”

33 Para 29, 6 April 2017

67. CECA highlighted the need to assess long-term liabilities if TfW or the ODP is to take on Network Rail’s role as infrastructure manager:
The rail network in Wales, and the Valley Lines in particular, are very old and it is probable that maintenance expenditure on many assets in Wales will have been reduced in anticipation of potential capital improvements to these assets. To avoid acceptance of unintended liabilities recent levels of rail funding in Wales should be examined to see if this is the case and appropriate budgetary adjustments should be made/sought to compensate.”

68. Railfuture Cymru expressed caution, stating that:

“[vertical integration] presents a risk of adequate finance for infrastructure not being devolved from Network Rail and the risk of the ability of franchise holders/train operators to manage infrastructure in the UK is not yet proven.”

69. On the transfer of responsibility for infrastructure in relation to the integrated Metro contract elements, the Users of the Maesteg to Cardiff rail services suggested that this “creates the risk of inadequate funding from Network Rail/DfT” to respond to unforeseen network events such as landslides.

70. The submission from the Cardiff City Region stated that it believes that vertical integration for the CVL will yield better value when considered on a whole-life basis.

Conclusion 10. While there are clearly risks, and concerns, the Committee supports the Welsh Government’s proposals to bring track and trains under common management in the Metro area.

71. Network Rail sets out four options for ownership of the Core Valleys Lines.

– Retention of Core Valleys Lines by Network Rail;
– Divestment to Welsh Government;
– “Amendment of the Network Rail infrastructure to facilitate interconnected services on a different pattern to present”; and
– “The complete segregation of the Core Valleys Lines and facilitation of the impact on Network Rail infrastructure”.

72. TfW were insistent that transfer of the asset to Welsh Government was a pre-condition for receiving European funding. (See previous sector on EU funding)

73. In Committee on 6 April 2017, Network Rail welcomed the idea of ‘divesting’ control of the CVL to the Welsh Government, on the grounds that having a comparator would provide it with useful data about alternative ways of managing its assets in the rest of the UK.

74. Tim James said Network Rail officials were opening their books to TfW and the four bidders to ensure that whoever ends up running the railway has the full knowledge to do so.

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34 Written evidence
35 Written evidence
36 Written evidence
“I think that's our job, really—to make sure that the Welsh Government and TfW have got enough information to make an informed decision about something that’s really important for the people and the economy of Wales.”

Tim James, Head of Strategy and Planning, Network Rail

75. While engineering experts were broadly supportive of the transfer, and potential to improve services, they were mindful of the risks in transferring ownership of “a 150-year-old infrastructure that has been underfunded for ever”.38

“So, risks—information is a big risk. The asset information in the railway network in the UK is continually improving and will need to continually improve forever, I think. The risk there is that if you, say, on one day, ask Network Rail to pass all their asset information over to the new operator—in my experience, I think that’s impossible. I think it would take quite a considerable period of time to do that. So, how do you operate an asset when you don’t know what it is? And a railway asset is quite a complicated thing.”

Neil Sadler, Chair, ACE Cymru Wales

76. ICE Wales Cymru suggested that even with the full co-operation of Network Rail, it may not be possible to know all that needs to be known about the state of the network in Wales.

“One of the challenges of the cost of electrification of the London to Cardiff to Swansea line is knowing what’s there—the asset. It’s said that the last surveyor out on the line was a guy called Brunel. And, really, they were struggling to find what was there before they could assess what is needed to be put right. And I would suggest if they don’t know the assets on the London to Cardiff to Swansea line, then there will be a lot of missing information within the Valleys.”

Keith Jones, Director, Institution of Civil Engineers Wales Cymru

77. The unions expressed specific concern that divesting some of the network from Network Rail could be the thin end of a wedge leading to the break up the network.

78. Mick Cash of the RMT said:

“There are two issues that would concern us around the ideas being put forward, one of which being that we could see that, if we had vertical integration in Wales, with the franchise operators being private sector, effectively, you’re giving control of the infrastructure over to the private sector. You’re privatising that infrastructure, which was a disaster last time and would be a disaster this time, as far as I’m concerned. The other aspect of that, I think, which causes concern, is that you end up breaking up—to start the role of breaking up Network Rail.”

Mick Cash, RMT

37 Para 31, 6 April 2017
38 Para 417, 6 April 2017
39 Para 414, 6 April 2017
40 Para 418, 6 April 2017
41 Para 167, 29 March 2017
Conclusion 11. While discussions are on-going at time of writing, it remains unclear how any transfer agreement will provide for latent defects or for emergency remedial work. Following the transfer of ownership Network Rail and the UK Government will no longer incur the future costs of maintenance, renewal and enhancement of the Core Valleys Lines. The Welsh Block Grant should be increased to reflect this change on an on-going basis.

Conclusion 12. While vertical integration of the Core Valleys lines has its critics, there is plenty of evidence to suggest that it also offers opportunities to improve rail services. But this is a complex area, full of potential liabilities and the arrangements for funding/debt/liability that accompany the transfer will be key.

Recommendation 7. The Committee believes there is significant risk associated with the transfer of ownership of the Valleys lines to the Welsh Government and that it will not be possible to fully understand this risk in the time available. In particular it will be impossible to accurately assess the condition of the Valleys network, leaving the Welsh Government liable for potentially significant future costs. The Welsh Government must secure a robust, watertight agreement with Network Rail and the UK Government which mitigates this risk. This should include a continued UK Government and Network Rail liability for latent defects in the Valleys Network. The financial settlement with DfT should also reflect the reduction in cost to both the UK Government and Network Rail resulting from the transfer of ownership of the Valley Lines.

Procurement and community benefits

79. Contracting experts called for thought to be given to how the multi-billion pound investment in infrastructure could be made accessible to Welsh small businesses.

“A very hot topic amongst our community at the moment is a fact that SMEs in the construction industry in Wales don’t always find it very easy to trade in Wales, and actually some do more trade in England. This is largely to do with the way that—there are lots of reasons, but it’s partly to do with the way that the projects are procured and the way tendering lists are created by the questions that are asked. I’m sorry if I sound a bit petty, but one example that was given recently was for a particular specialist type of project. To be able to get on a tender list, you had to cite five similar examples of the same type of contract of that volume that you’d done in the last three years. Well, large companies that are operating all around the UK and internationally never have a problem searching out those projects, but ask a £20 million a year turnover company from Swansea to do that and they’re just not going to be able to answer the question. So, approaching procurement in a more realistic way on the selection of contractors—and designers for that matter—would help in that regard.”

80. Ed Evans of CECA called for ‘community benefits’ to be incorporated in to the procurement of the franchise, as a way to demonstrate value for money. He wanted to ensure that the multi-billion pound 15 year franchise has a positive impact and legacy on skills and employment in Wales.

\[\text{\footnotesize \textsuperscript{42} Para 399, 6 April 2017}\]
“And I would say: don’t leave it to just the supply chain—this is something that should be co-ordinated, whether through Government, city regions or whatever, so that you do have this support structure, really, put in place for those contractors who are going to be delivering this work, so that they can tap into those support structures, put people in there to pick up those skills and take people on board for employment purposes. But if it’s left to just the supply side to do it, it tends to be a little bit fragmented. So, 15 years is a long time. We could do something quite special on this.” 43 – Ed Evans, Director of CECA Wales

Conclusion 13. Alongside the procurement of the ODP, the Welsh Government is also procuring contracts for infrastructure works. Welsh Government should ensure these contracts offer the maximum benefits for Wales, allow smaller Welsh businesses to compete, and include comprehensive community benefits to develop skills in the Welsh workforce.

Value for money

81. The AGW’s report on Welsh Government investment in rail services and infrastructure (September 2016) recommended that the Welsh Government “develop a mechanism which enables it to demonstrate the value for money of the franchise component of the new contract, when compared with the current and other franchises”. This was partially accepted by the Welsh Government, which said it agreed that it should “demonstrate value for money in the procurement”, but said “this is best done by focussing on our own process, rather than making artificial comparisons with either the past or with other franchises”.

82. This impasse remains, with the Cabinet Secretary saying in evidence that the presence of four rival bidders in the competitive dialogue process gives him confidence that the government will achieve “maximum value for money”. 44

83. DfT officials suggested it would be difficult to assess value for money relative to other franchises due to the unique nature of the procurement method being used.

“I think it would be really difficult to do so, because I think no two franchises are the same in terms of the background environments in which they are bid, in terms of the process that’s used. So, just as a crude example, most of our franchises recently have been let bid on a pre-Brexit assumption, rather than a post-Brexit assumption and things like that. So, it will be very difficult to make a direct comparison, but I’d be interested in trying, and we really will be interested in seeing how this works out.” 45 – Eddie Muraszko, DfT

84. When the Auditor General for Wales met the committee he discussed how the competitive dialogue approach could provide a basis for improved value for money. However, when it comes to the final bidding process, the less certainty that there is about the Welsh Government’s objectives and the technical contract specification – as well as wider issues relating to legal and financial arrangement and future relationships with Network Rail – the more likely it is that bidders may build a

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43 Para 393, 6 April 2017
44 Para 531, 6 April 2017
45 Para 182, 6 April 2017
risk premium into their bids. Similarly, both Prof Cole and the engineers we took evidence from explained the need for clarity in the final specification.

85. It will be clear from this report as a whole, and particularly chapters one and two, that significant areas of uncertainty remain. This is a cause for concern given that the Welsh Government intends to publish the final tender specification in July 2017. During oral evidence the Cabinet Secretary was asked whether the bidders will “know with certainty, at the point the specification is published, the ownership arrangements for the Valleys network and the funding available”. We have reproduced the response from the Welsh Government’s Director of Transport in full for clarity:

“I was in London earlier this week, trying to get to the bottom of that. We have set a target of resolving that within the next few weeks with both Network Rail and with UK Government. I think we are relatively confident that we’re going to get to that position. In order to be able to give the bidders clarity, we have to sort that issue out, whether or not the asset is going to be transferred, and we need to do that rapidly. The ball is in Network Rail’s and DfT’s court. We are sitting down with them next week to lock ourselves in a room to try and thrash out the answers to the various questions.

I think it’s true to say that there are two sets of issues here to deal with: a broad issue about how we deal with the financial arrangements for the transfer of the assets. So, Network Rail, as you know, has considerable debts. So, there is a question of how the debt that comes with that asset is apportioned and how that’s managed in future on the one hand. Then there are a whole load of other practical issues, which Network Rail are quite rightly concerned about, about protecting staff, long-term liabilities for the asset and a whole load of other practical considerations. I think our focus will be to deal with those two as two separate issues. Dealing with the finance is not an issue for Network Rail; it’s an issue for the Department for Transport to work out with us and the UK Government as a whole. Dealing with the practical issues is something that we’re working with Network Rail on next week to flush those issues out.”

86. This response neatly illustrates the complexity of the situation, and does not display the level of confidence that we would wish to see weeks before the publication of a tender specification for a contract estimated to have a total value in excess of £4bn. The Committee sympathises with the position that the Welsh Government finds itself in since it is dependent on other partners to give it the certainty it requires. Equally, the transfer of ownership of the Valley Line raises complex questions for Network Rail and the DfT.

Conclusion 14. At time of writing there is a significant risk both that bidders will be forced to build a risk premium in to their bids and that the procurement process will not provide value for money. This must be resolved now.

Conclusion 15. In the context of the AGW’s recommendation, the Committee recognises the difficulties involve in benchmarking procurement of the franchise element of the contract (i.e. excluding the Metro) against other franchises. However, it does not

46 Para 550 – 551, 6 April 2017
accept that it will be impossible for the Welsh Government to demonstrate the relative value for money of the franchise element against the current Arriva Trains Wales franchise. Given the significant uncertainty around the procurement process we believe it will be particularly important for the Welsh Government to demonstrate value for money.

**Conclusion 16.** The Committee will write to AGW and Public Accounts Committee sharing our concerns around value for money and supporting any plans to undertake further work on the process after it has been completed.

**Recommendation 8.** The Welsh Government should ensure that it demonstrates how the franchise element of the next Wales and Borders rail franchise offers better value for money than the current franchise.

**Recommendation 9.** The Welsh Government must ensure that the tender specification provides the certainty required to ensure the procurement exercise provides value for money. With the final specification due to be published in July, any source of uncertainty must be resolved immediately.
03. Delivery of the rail franchise and South Wales Metro

Management model

87. Although “franchise” is generally used to describe contractual arrangements for rail services in Great Britain, contracts are normally awarded on one of two models:

- A standard “net cost” franchise model: this is the most common model where operators accept commercial risk and receive fares revenue in return for the opportunity to increase revenue if it can grow passenger numbers. The operator accepts risks arising from fluctuations in fare income, as well as fluctuations in energy and other costs.
- A “gross cost” concession model: where operators are paid a fee to provide services. Revenues are received by the authority which therefore carries commercial risk from fluctuations in fare income. Examples include Merseyrail.

88. The Welsh Government has made clear that it intends the next rail franchise and Metro contract to be a form of concession, although the precise form of concession is unclear at time of writing. It argues that this approach will allow it to limit the profit margin of the private company operating services, providing better value for money and permitting surpluses to be reinvested. However, it also argues that it will be able to introduce not-for-dividend elements.

89. Merseytravel told the Committee that a concession model, like the one operated in and around Merseyside, can lead to effective partnership and joint working between the owner and the service delivery company.

“...That’s a very effective model. That is a concession that is owned by Merseytravel, but services are delivered by Serco-Abellio, by private sector companies that are clearly incentivised to make a profit, but there are profit-sharing agreements built into the way that the franchise works. Ultimately, if the franchisee does not deliver, Merseytravel has the ability to review that arrangement to become the operator of last resort. But what that’s led to, particularly as it’s a 25-year concession, is a very meaningful partnership, a very deep partnership and a good joint working arrangement on both sides that’s helped facilitate investment from both Merseyrail and from Merseytravel, and other public sources.”

47 – Huw Jenkins, policy manager at Merseytravel.

90. Evidence from the RMT and Aslef Unions argued that irrespective of the model, using a private sector provider to deliver services means, “money still leaks out of the business”. However, they acknowledged that the current statutory framework doesn’t allow for the Welsh Government to run the service themselves.

91. TfW indicated that they were close to achieving a model which met their vision.

“I have talked before about wanting to see a model that is much closer to a concession, and much less like a franchise. What we’re currently in the process of doing is trying to come up with a model that works, which is based on a concession model, which provides protections to the public sector, and

47 Para 76, 9 March 2017
48 Para 178, 29 March 2017
incentivises the private sector to get growth, in areas potentially where they might be putting on additional services, in wider Wales, for example—we want them get people on those trains, we want them to work, but we don’t want them to make supernormal profits. Equally, we don’t want them to sit back, have no-one on the trains and come to us for a bill at the end of a year. And we’ve got a couple of models we’ve worked on that seem to do that.”

“Officials from the DfT cast doubt over whether the concession model could work outside urban areas like London and Liverpool.

“The department’s policy is that revenue risk and cost risk both best sit with the operator…”

But if you take on the revenue risk yourself—like Transport for London do—you then have to get into the whole bit about having your own marketing department—you know, it’s much more different that having a franchise where you kind of let the operator get on with it. So, I think our experience is that concession models can work in urban environments, where it’s very easy—you just specify, ‘There’s a train every 10 minutes on this route’; it’s very simple. But our view is, on wider franchises such as Wales and borders, giving bidders the flexibility to innovate, develop new services, develop new ticket products, being incentivised to do so by the profit motive, is preferable.”

“However, the Committee heard from Transport Focus that quality management and investment seemed to be the most important drivers of passenger satisfaction:"

“The thing that [franchises with happy passengers] seem to have in common is good management and lots of investment. It’s that, more than anything else, I think, that drives satisfaction.”

“The Committee heard evidence of the risks around a concession model and the importance of an incentivising an operator in receipt of a contractual fee. Many respondents, including the HoW LDC, Prof Cole, Transport Focus, the North Wales and Mersey Dee Rail Task Force, and the RDG highlighted shortcomings of the current franchise agreement and stressed the need for the future franchise agreement to address this by taking account of passenger growth. Prof Cole stated that passenger demand forecasts should be factored in to protect both the Welsh Government and the ODP.

Transport Focus echoed this stating that the contract must be based on well-evidenced projections of passenger demand and ensure there are mechanisms within it to respond to changes.

The RDG stated:
“When the current franchise was originally let, the rate of passenger growth was not foreseen. We expect that passenger growth will continue to rise, particularly around the main conurbations, and as such believe that the future franchise should be let on a basis that can respond to increasing demand.”

97. The franchise agreement itself was seen to be key in accounting for growth with a need for break clauses and review points to assess progress and review modelling — particularly in a long-term franchise of the type proposed by the Welsh Government. The incentive and penalty regime will also be critical. Prof Cole told us how the current franchise has an incentive regime based on one metric — timeliness. He explained how timeliness alone can create perverse incentives:

“The only financial penalty currently available is, ‘Do you stick to time?’, and if you look carefully at many timetables, you’ll find for some amazing reason that it takes less time to get from Swansea to Neath than it does from Neath to Swansea on the public timetable, because the penalty is incurred when a train arrives at its destination.”

98. While timeliness should continue to feature in the performance regime, based on the evidence the Committee heard the key factor to be reflected in the performance regime is passenger satisfaction. Transport Focus told the Committee how passenger satisfaction had increased in the current franchise up to 2010, but declined since then because of a lack of investment. Turning this around, we believe that if the contract contains a powerful performance regime based on passenger satisfaction and allows the operator flexibility to improve services, it will go a long way to address the limitations of the current franchise and overcome risks associated with a concession approach. Again, Transport Focus summed this up in telling us how the National Rail Passenger Survey could feature in franchise performance monitoring:

“We have examples. Passenger satisfaction is one of the contractual outputs that is committed to. The bidders are invited to bid at a certain level of customer service, train service and stations, and there’s an incentive or a penalty regime attached to it. So, where you put the money into a franchise or a concession in terms of targets, then there’s somebody within that franchise or concession who manages it. Where there’s a manager, then there’s attention given to it. So, it drives a sort of virtuous circle of improvement.” — Mike Hewitson, Transport Focus

Conclusion 17. The examples in London and Merseyside show that concession models can be effective. However, it remains to be seen whether what works in urban areas, can also be effective across rural parts of Wales.

Conclusion 18. The Committee can see the benefits of the not-for-dividend ambitions set out by Welsh Government/TfW and a concession model – but this must not come at a price of having an operator with no interest in investing in, improving, developing and extending rail services in Wales, improving rolling stock or meeting growing demand.

53 Written evidence
54 Para 192, 23 March 2017
55 Para 310, 6 April 2017
Recommendation 10. Welsh Government/TfW must ensure that there is sufficient incentive in the final contract for the operator to innovate, invest in and to work hard to grow passenger numbers to meet the anticipated growth in demand over the lifetime of the franchise. The incentive and penalty regime should also be linked to passenger satisfaction as measured through the National Rail Passenger Survey, in addition to wider issues such as punctuality, reliability and the condition and maintenance of rolling stock.

Rolling Stock (accessibility)

99. Over a third of respondents to the Committee’s call for written evidence saw rolling stock as a key priority to be addressed by the franchise specification. Many respondents highlighted the need for rolling stock to meet legal obligations to comply with the Persons with Reduced Mobility Technical Specification for Interoperability (PRM-TSI) accessibility standards by 2020 as a key risk. Stakeholders also called for a range of other measures such as for all stock to be replaced, an increase in fleet size, the availability of spare stock to accommodate peak demand (e.g. during international rugby matches), easy access to additional stock to accommodate passenger growth and for bespoke rolling stock solutions that result in units that are suitable for their intended use.

100. The HoW LDC stated that rolling stock is the single most important factor in meeting customer demand and that the specification needs to consider different service needs eg requirements of intensive commuter services differ from those used on longer distance services. The Users of the Maesteg to Cardiff rail service recognised the three-year lead in time for new rolling stock and emphasised the risk of little improvement in the short term in advance of orders being placed.

101. On accessibility compliance by 2020, Prof Cole stated that around 70% of the current ATW fleet will not be compliant and that the DfT has "made clear it is not minded to provide derogation".

102. Even if a whole new fleet of diesel trains were ordered today, the three year construction time means they would be unlikely to arrive in time to comply with the January 2020 deadline. Yet DfT, TfW and the Cabinet Secretary were very explicit in oral evidence that there would be no backsliding on the 2020 date. Ken Skates said the new operator “must” comply. However, when asked whether it is reasonable to expect the bidders to come up with a solution, Porterbrook confirmed this would be difficult:

> “I think it’s likely to be too late to enable that to be done in sufficient time and to meet the legal requirement for 1 January 2020, because of the timing of the franchise.”

103. The Committee put this view to the Welsh Government and was told:

> “So, one of the challenges that we face is that, as the Cabinet Secretary said, as we sit here at the moment, this is a DfT franchise that we manage on their behalf. And because they haven’t transferred the powers to operate a franchise to us, our hands are slightly tied. One of the things that we could do, perhaps, if we had the powers, would be to enter into an arrangement with some of the rolling stock companies ourselves now to, say, modify some of the fleet in order to be able to overcome some of these PRM issues or begin to acquire rolling stock ourselves. Those powers have not been transferred by UK Government,

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56 Para 30, 29 March 2017
and that’s why this transfer of functions Order is so important to us. The 2014 letter talked about that being transferred at the beginning of this year, and because it hasn’t been, it’s very difficult for us. Having said that, we have been speaking with DfT about perhaps an early release of the ability for us to be able to go and make those arrangements with rolling stock companies, in order to deal specifically with that point.”

Simon Jones, Welsh Government

104. Yet again the failure to transfer powers is affecting procurement, generating risks for the Welsh Government and on this issue in particular undermining its ability to develop effective contingency plans. Yet there was a clear sense from DfT officials that – as responsibility was going to be devolved – this was not their problem.

“With regard to proposals for new rolling stock and, indeed, complying with the accessibility regulations, the department’s policy is that this is a matter for the bidders to manage. They have to propose something, as part of their submission, that they will comply with the regulations that will be in force from the beginning of 2020. I would suggest that if the feedback from the bidders is that that won’t be possible without action taking place in the current franchise then that is something that Welsh Government would have to take up with the current operator.” – Eddie Muraszko, DfT

105. This is unacceptable and underlines our earlier recommendation that the question of powers must be resolved as soon as possible. As noted elsewhere based on the evidence heard the Committee will have many questions for the DfT should issues arise in the procurement process. However, given that this issue was well known – it was identified by the Enterprise and Business Committee in the Fourth Assembly in 2013 – and that agreement has been in place on Welsh Government procurement of the franchise since 2014, a clear plan should already be in place.

106. The Committee heard evidence of a number of potential solutions to meet PRM-TSI obligations including: importing rolling stock from other countries; amendments and adaptations to the existing rolling stock; bi-mode trains - allowing them to run on lines not yet electrified; and one company contacted Members to say it could convert and refurbish former London Underground train carriages.

Conclusion 19. The Committee is disappointed that earlier action was not taken by DfT to address the issue of aging sub-standard rolling stock, particularly as this was highlighted as an issue in the Enterprise and Business Committee’s report in December 2013.

Recommendation 11. The Welsh Government must ensure it has a suitable contingency plan in place should it prove impossible for the bidder to comply. It should provide the Committee with assurance that this contingency plan is in place before the contract is awarded.

107. Railfuture Cymru expressed a desire for the franchise to be let on the basis that all passenger rolling stock be replaced with new stock within five years of the franchise commencement. It highlighted possible complications to the future rolling stock solution as a result of uncertainty around the Great Western Mainline electrification between Cardiff and Swansea.

57 Para 565, 6 April 2017
Whilst electrification of the main line to Cardiff from London will be completed in the next few years, uncertainty remains over the Cardiff-Swansea route and the lines to Bristol Temple Meads. This creates difficulties in the planning/ordering of new rolling stock and may result in orders having to be placed for more expensive “bi-mode” stock which can operate under both diesel and electric power.

Rolling Stock (2020 and beyond)

Revisiting the 2013 report of the Enterprise and Business Committee, it seems clear that a range of factors has led to the current situation where aging stock is a growing source of discontent for passengers. DfT assumed responsibility would have transferred to the Welsh Government by 2020. The Welsh Government argue they are powerless to act until that transfer takes place. Arriva Trains Wales knows their franchise expires before the deadline — and contains no obligation to update the rolling stock.

Conclusion 20. DfT appears to have taken a hands-off approach to procurement of the next Wales and Borders franchise since agreeing it would devolve responsibility, without actually devolving the responsibility that would allow Welsh Government to get on with the job. This accountability gap has led to too much finger pointing, and too little action.

The Committee learned that in 2011, Welsh Government was advised not to buy any new diesels, as electrification would make them obsolete.

“The Welsh Government, at that point, approached a number of—all of them, in fact—train-building companies, including ROSCOs, and the answer from everyone, including from the DfT at official level, was, ‘Don’t be silly, no-one will be buying any more diesel trains in the UK ever again because of the electrification programme.’ That—and I’m sure people will give you evidence to back this up—has created an industry, at the time, that wouldn’t make any diesel trains, because why would they make something that no-one was going to buy? That has caused the situation that we’re in now, as a consequence of the rolling back of the electrification as a result of price rises.”

— James Price, Chair, TfW

Renewal and renovation

Beyond the immediate need to comply with new accessibility regulations, there is a consensus that the franchise will need new (or at least newer) rolling stock to replace the aging rolling stock in use at present which can neither be replaced nor added to during busy periods.

Prof Cole said:

“…what the public want, from all the research that we have, is new, modern trains, amongst other things.”

“Abellio’s job in the ScotRail franchise is to provide a completely new fleet over the period of their franchise. We should be looking for the same thing here, but we have a much bigger problem than the Scots.”

— Prof Stuart Cole

58 Para 432, 29 March 2017
59 Para 155, 23 March 2017
60 Para 227, 23 March 2017
Sharon Hedges, Franchise Programme Manager, Transport Focus highlighted that passengers expect to see new rolling stock as part of the new franchise:

“...we can’t get away from the fact that the current rolling stock is largely deemed to be unsatisfactory. Much of it is very old and quite unsuitable for purpose for a number of reasons, and we’d certainly be suggesting that that needs to be addressed here.”

The Committee’s survey of passengers showed passengers want clean and reliable rolling stock. The survey received a number of comments about dirty or dilapidated rolling stock. (See Annex 3)

**Conclusion 21.** Replacing the rolling stock used on the Franchise, and maintaining it at a high level is a priority for passengers. It should be a priority for operators too.

### Compatibility

Different parts of the Franchise have different needs – the rolling stock needed for services between Cardiff and Holyhead is different to that needed on the Valleys Lines, which is different to the Heart of Wales line services. However, we heard how ensuring rolling stock is compatible across the fleet can maximise flexibility and manage fluctuation in demand to the benefit of passengers:

“Rowland was talking there about putting two sets of stock together. That is one of the key things, across the fleet, that there needs to be that ability to connect two different sets of rolling stock, particularly to support peak period demand and things like that. So, whatever is bought and brought in has to be compatible.”

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**Recommendation 12.** All new rolling stock should be compatible with that on the rest of the network, to afford maximum flexibility to the operators to meet unusual or additional passenger needs.

### Alternative fuels

Transition Bro Gwaun suggested that procurement could be used to encourage bidders to offer alternative fuel options for rolling stock for non-electrified sections.

Ynni Glan submitted detailed evidence making the case for hydrogen trains as an alternative to diesel, electric or bimode units. It suggested these could offer an alternative to electric traction since the upfront cost premium for hydrogen units would be offset by lack of requirement for new electrified infrastructure.

**Ynni Glan** highlighted the “runaway” costs of the Great Western Mainline electrification programme in relation to electrification of the Core Valleys Lines.

“The runaway GWR costs should serve as a caution to the electrification aims of the Rail Franchise and the Metro; especially given the many tunnel, bridge and topography challenges of laying-down electrification infrastructure within Wales’ towns and cities, in rural areas and in the Valleys. Lines on the rail and

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61 Para 254, 23 March 2017
62 Para 396, 23 March 2017
Metro network may be better suited to hydrogen trains than conventional electrification on the grounds of infrastructure costs, civil engineering upheavals, appearance and power-supply constraints."^{63} – Ynni Glan

119. Rolling Stock company Porterbrook was also enthusiastic about the potential of hydrogen as a fuel source.

“I think hydrogen is probably a good solution. I know that Alstom, a train manufacturer, is running a prototype in Germany, because it happens that, on that line in Germany, at the two extremities of the line there are chemical plants that are producing hydrogen as a waste product. So they use that and they power the trains and it works."^{64}

… I have asked the technical team to do some more work on the capacity and the performance of hydrogen, because apparently you need quite a lot of volume to carry the hydrogen on board, and the range and the power are quite limited. So, I’m not quite up to speed on what the performance would be, but I think in principle it is a very, very good idea. With Wales being at the end of the national grid, any renewable energy that’s producing electricity at night or off-peak hours could be used to produce hydrogen and power the trains for free, basically. So, there is stuff to explore on that one, yes."^{65} – Olivier André, Commercial Director, Porterbrook Leasing Company

120. The Welsh Government has passed two laws in recent years – the Environment (Wales) Act 2016, and the Well-being of Future Generations (Wales) Act 2015 – which commit it to reducing CO2 emissions and achieving sustainable development objectives. Professor Calvin Jones of Cardiff Business School has suggested it is impossible to meet these targets while the diesel trains provide rail services across Wales.

Conclusion 22. While the potential of hydrogen power – currently being tested in Germany – is attractive, given the many risks involved in this procurement process the Committee was reluctant to recommend adding another unknown in to the mix. We also note that the technology is at a very early stage and so is likely to take time to develop, come at a premium and may suffer from early faults and failures. However, this is clearly a development with huge potential to reduce carbon emissions and costs.

Rolling Stock – Welsh Government ROSCO

121. Merseytravel advocated that the Welsh Government explore innovative rolling stock solutions, including the acquisition of new, bespoke rolling stock by the Welsh Government, which could be leased to the franchise operator. Merseytravel noted that, from its own experience, “this approach could be 30% cheaper than a conventional ROSCO [rolling stock operating company] model over the lifetime of the fleet, with no risk that the new stock is subsequently cascaded to another franchise area”.^{66}

^{63} Written evidence.
^{64} Para 124, 29 March 2017
^{65} Para 125, 29 March 2017
^{66} Written evidence
122. Rolling Stock leasing company Porterbrook said that cost benefits would depend on the cost of borrowing to purchase new stock, and warned that at £2 million for a single car, total costs would be in the hundreds of millions of pounds. They warned that buying rolling stock carried a risk that you could be stuck with an asset for 30 years even if you no longer wanted or needed it.

123. Welsh Government confirmed that they had considered both points of view, and that a final decision would depend on the approach taken on the Core Valleys Lines, and the availability of capital funding.

Conclusion 23. The Committee has no firm view on the approach to procurement of rolling stock, believing the outcome is more important than the method. It is pleased to hear that the Welsh Government has given serious consideration to the potential benefits and disadvantages of purchasing its own rolling stock. It will monitor how these are taken forward in the new franchise.

Recommendation 13. The Welsh Government/TfW should develop a rolling stock strategy in partnership with the successful operator which includes and looks beyond the end of the current franchise to monitor and anticipate passenger needs across the whole franchise area for the next 20-25 years. In line with Welsh Government’s commitments to de-carbonise the economy, the strategy should consider hydrogen and other low-pollution alternative fuel sources as a long term replacement for diesel on non-electrified parts of the network.

Freight operation

124. The Welsh Government’s initial priorities document states that capacity for freight traffic should be protected across the network, including north Wales. For the Core Valley Lines, the document is clear that even if the lines run light rail or trams, freight should be protected. “The future Core Valley Lines system is expected to retain or modify freight operations including co-existing with other potential modes.”

125. In evidence the Committee heard scepticism that light rail could co-exist with freight traffic on the Core Valley Lines.

“I spend all my life designing bridges up in the Valleys that have to carry heavy rail to carry freight. If you put light rail up there, you won’t be able to carry freight. So, this was my question that you raised, Adam, about: do we want the Valleys lines to transport people to work into Cardiff or do we want to re-industrialise the Valleys so that we have to carry freight from the main lines up into the Valleys?” – Neil Sadler, ACE Cymru Wales

126. The Cabinet Secretary and his lead official refuted this point.

Recommendation 14. The Welsh Government must make clear in its final specification and summary document how provision for freight will be maintained on the Core Valley Lines.

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68 Paras 594-596, 6 April 2017
Cross border priorities

127. Many respondents highlighted the need for good cross border governance arrangements and for the integration of cross border services. In summary, respondents emphasised the need for:

- governance arrangements that maintain accountability, enable cross border engagement and the inclusion of English regions in the franchise specification and ongoing governance;
- sufficient rolling stock to service cross border needs;
- the maintenance of close links with DfT franchises to ensure that existing services such as Llandudno to Manchester are maintained;
- the integration of non-Wales and Borders Franchise services;
- co-ordinated development of the West Coast Partnership and Wales and Borders franchise; and
- the need to and ensure that there are no artificial barriers and a seamless delivery of services.

128. Merseytravel stated that transport networks rarely respect administrative boundaries and that cross-boundary travel planning can be fragmented and complex. It cited the effective governance model adopted by Rail North as an example how engagement can lead to transformational improvements to the specification of franchises.

129. Wrexham Bidston Rail Users' Association (WBRUA) stated:

“Rail connectivity linking communities and employment locations in North-East Wales and across the border into North-West England is poor, forcing many to drive to work on heavily congested roads and denying work opportunities to those who can’t afford, or who are unable to drive to work.”

130. Herefordshire Council, Merseytravel, North Cheshire Rail Users’ Group and Telford and Wrekin Council broadly agreed on the need for greater connectivity of rail services with a range of international gateways, High Speed 2 (HS2) and intercity rail services.

131. On the benefits of future connectivity to HS2, Herefordshire Council stated that:

“[future connection to HS2] will allow businesses from Herefordshire to benefit from sustained economic growth and maintain competitiveness in a developed economy.”

Conclusion 24. Developing effective connectivity and cross border links will require constructive relationships with DfT and devolved bodies involved in rail franchise procurement and management, and other train operators. The Committee will monitor this element of the new franchise.

The voice of English passengers

[69 Written evidence]

[70 Written evidence]
132. The committee heard a lot of evidence, including at the committee’s stakeholder event in Shrewsbury and in responses to the survey, that the voice of passengers in England may not be heard effectively in the new franchise. Cllr Samantha Dixon, said it was her role, as chair of a cross-border group working on rail issue, to ensure that English concerns were heard in the franchise procurement process.

133. David Beer from Passenger Focus highlighted feedback from the Committee’s stakeholder event. He said:

“One of the key issues, I think—it particularly came up with the committee’s outreach event—was a very useful point about the inclusion of English members in terms of their say and how they are actually included in consultation and in terms of the ongoing accountability to the English side, as well as the Welsh passengers.”

— David Beer, Passenger Focus

134. Iwan Prys Jones from the North Wales Economic Ambition Board noted that it was equally important for English passengers to be heard in the Wales franchise, as for Welsh passengers to be heard in franchises in England.

“A very small point: I think, in the context of that question, it’s probably also important to note that by far the biggest constraints that there are to improving rail services in north Wales are actually all in England, so it needs to be a two-way street. The big issues for us are Crewe, Manchester, Liverpool, Birmingham and the West Coast main line, and it’s just as important for us to have a voice in how those services and infrastructure are funded as it is for passengers in England to have a say within the Welsh franchise.”

— Iwan Prys Jones

135. The Chair of TfW, and his Welsh Government colleagues told the committee that talks were going on between the Welsh Government and DfT on this issue.

Conclusion 25. Passengers and potential passengers in the Marches have a real and justified concern that running the franchise from Wales, will somehow make them second class citizens on their railway. The Welsh Government’s commitment in response to the Welsh Affairs Select Committee to reply to correspondence from MPs in border constituents as they would an AM/Welsh MP is welcome and necessary, but not sufficient.

Conclusion 26. The Committee asked TfW whether it should appoint a board member with specific responsibility to represent the England element of this cross-border franchise. TfW said that none of the current board had a “representative function”. However it is clear that some mechanism should be found to ensure that the voice of all passengers – including those in England – is sought, heard and acted upon.

Recommendation 15. The Welsh Government should establish robust passenger and stakeholder engagement structures including strong representation from the English regions. The Welsh Government and TfW must set out clearly how these will influence them in franchise management. Additionally, the contract must require the operator to

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71 Para 332, 23 March 2017
engage with these structures, and this should be considered in the context of our recommendation that passenger satisfaction levels should be central to the penalty and incentive regime.

Relationships with Network Rail

136. While the Welsh Government is working towards the transfer of ownership of the Core Valleys Line, the question of the relationship between Network Rail and the successful bidder on the remaining network remains to be decided. The Network Rail Wales Route was established in 2011 as part of Network Rail’s devolution strategy with the aim of taking decisions at a local level which reflect local needs, and enhancing collaboration with train operators.

137. Alongside this devolution, Network Rail is developing “alliances” with operators to align priorities and actions through shared incentives and objectives. Network Rail already collaborates with Arriva Trains Wales, for example through a joint control centre. Despite this, we are aware that there are concerns about the effectiveness of this collaboration. For example, CCRTA’s evidence suggested “train and track operators are independent and do not co-operate effectively for the benefit of the customer”.⁷³

138. The submission from the Users of the Maesteg to Cardiff rail service stated that “the relationship with Network Rail is a risk especially with regards to funding and also the priority given to improvement schemes”.⁷⁴

139. Network Rail told us that their aspirations for the new rail service included deepening collaboration with the ODP, aligning performance and punctuality incentives and bringing Network Rail and the ODP teams together to improve communication. It told us:

“Network Rail believes the new rail service provides a great opportunity for the infrastructure provider and the train operator to work more collaboratively in order to improve the public transport offer to passengers in Wales and the English borders. We have spoken with bidders about the potential for deepening our mutual incentives through the duration of the rail service grant to better align both partners in delivering for customers.”⁷⁴

140. In oral evidence, Alexia Course of Network Rail highlighted how this financial year has seen the launch of a new set or performance measures with “45 per cent of our performance metrics to run the Network Rail business in Wales are exactly the same and jointly aligned with Arriva Trains Wales”. However, she described this as “the first step”, continuing:

“...there’s a lot more deeper and closer collaboration that we’d like to do, both with the operator and development partner, when they start, but also with Transport for Wales and with Welsh Government as well to drive that collaboration, both at an operational, delivery level, but also at a strategic investment level as well. So, we’re very keen to work a lot more closely with the franchisee when they start.”⁷⁵

⁷³ CCRTA written evidence
⁷⁴ Written evidence
⁷⁵ Para 57, 6 April
Conclusion 27. The Committee is aware that in the past the Welsh Government has been dissatisfied with the performance of Network Rail in delivering Welsh Government funded projects. It is also clear that the Welsh Government (and others) believe that Wales does not get its fair share of investment (although in terms of major projects and enhancements we recognise that these decisions are taken by funders rather than Network Rail itself). The Committee welcomes Network Rail’s desire to work closely and collaboratively with both the Welsh Government / TfW and the ODP.

Governance of Transport for Wales

141. Railfuture Cymru highlighted the risk that Transport for Wales will have “indistinct links with government, local authorities and local communities as it has no clear democratic accountability”. The Committee questioned the governance arrangements of TfW which is currently chaired by Deputy Permanent Secretary James Price, a civil servant in the Welsh Government.

142. Mr Price set out why he had added the role of chair of TfW to his existing duties.

“We did discuss this, quite a bit, and I could have appointed someone else to do this. My honest view—I may be proved wrong at the end of all of this—was that if I was sat in front of Public Accounts Committee in nine months’ time and this had all gone wrong, which we’re not planning [Laughter.] And if one of my defences was, ‘Well, the chair of Transport for Wales was responsible for that,’ I think people would say, ‘Actually, you’re responsible for that, James. It’s the biggest thing Welsh Government has ever done, and you chose to hive it off to someone else.’ … For this stage, if we were running it within the Welsh Government, my role would be synonymous with the role of chair, which is why I’m choosing to do both, certainly for this stage.”

76 – James Price, Chair, TfW.

143. Mr Simon Jones, who reports to Mr Price in his substantive role as Deputy Permanent Secretary, is the lead civil servant when Mr Price is occupying the role as Chair of TfW. The Committee struggled to think of similar examples of such a governance structure.

“… It’s an odd dynamic, and one which has been tested by our audit and risk committee on a few occasions. I think the argument for why we have that is that it isn’t an arm’s-length company at the moment, it’s an extension of Government. And ultimately, James Price, who you’re referring to there, is responsible for the expenditure of the company anyway, whether he’s in the civil service, or he’s acting as the chair of the company. And the decision has been taken that, actually, James having his hand of the tiller of how the company operates, given that it’s acting as an extension of the civil service, gives him more control as the additional accounting officer than if he were to step back from the company.”

77 – Simon Jones, Welsh Government

144. The unique circumstances of establishing a new body, to manage the unique arrangements for procuring the franchising, have led to unique governance arrangements. While the Committee understands the Government’s reasons for reaching this situation, and notes Mr Price’s bold decision

76 Para 320, 29 March 2017
77 Para 619, 6 April 2017
to put his own reputation on the line by taking on these dual roles, these arrangements are highly unusual and not sustainable. While the chair of a body like TfW would normally be accountable to scrutiny from a committee of the National Assembly, having a civil servant in the role could dilute that accountability.

**Conclusion 28.** While the governance arrangements for TfW are unusual, the Committee consider them to have been appropriate to this stage of the organisation’s development where it is effectively an advisory body. However, they will not be suitable in the longer term.

**Recommendation 16.** While TfW is a new and evolving organisation there are clear weaknesses in its governance arrangements – particularly the accountability of its chair. The chair of TfW should not be line managed by his own deputy. Governance arrangements should be reviewed and strengthened as TfW evolves.

**Metro development**

**145.** The Metro is not just a rail project – it is seen by many as a regeneration project to support the socio-economic development of South East Wales involving multiple modes of transport.

**146.** Stakeholders held different views on the economic case for the development of the Metro. Evidence from the RTPI Cymru suggested that concentrating development around Metro could contribute towards economic growth and sustainability and that connectivity to surrounding areas is key to greater productivity. The Cardiff Capital Region City Deal offered similar views, stating that the potential benefits to growth and competition as a result of large-scale infrastructure projects present a compelling case. It stated that the region is placing huge reliance on the Metro to deliver “polycentric growth across the region” and act as a “catalyst for economic development”.

**147.** However, Dr Mark Lang indicated that the evidence around the socio-economic benefits is mixed and that putting emphasis on ‘internationally competitive cities’ risks overlooking opportunities to support Wales’ existing SMEs. Dr Lang emphasised that many of the economic arguments put forward may miss opportunities to support local distribution economies in South East Wales for a more inclusive economy. Dr Lang also noted that international transport hubs have had negative, neutral, and positive impacts and that there is a need to understand the relationships and dependencies between different areas to know what the network is seeking to connect.

**148.** Dr Lang told the Committee:

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“…the public transport investments in the new territories in Hong Kong. So, that led to additional land values, which, of course, made it harder for poorer people to actually live in close proximity to those kinds of hubs that were created in the new territories. That’s happened elsewhere as well, where we’ve had this kind of approach. That makes life a lot more difficult for poor people because they can no longer afford to live near a transport hub, whereas, actually, they should be the very people who should actually benefit from this. So, that’s an unintended consequence.”

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78 Para 115, 23 March 2017
149. Dr Lang concluded that there is a risk that Metro could cut across existing local networks and weaken them further and that a rationale based on one particular view of how to grow economy could result in the negative consequence of poorer communities.

150. Whilst he acknowledged the poor transport network in South East Wales, Dr Lang stated that the “balance of international evidence suggests that transport investment is not, as some would argue, an economic ‘silver bullet’” and that infrastructure investment alone will not address the underlying economic problems of South East Wales.

151. The Users of the Maesteg to Cardiff rail service noted a lack of clearly defined scope for the Metro with references to half-hourly rail services which, it states, would not offer “true Metro status”. Prof Cole stated that the Metro must result in mass transit provision into and out of major centres.

152. The Chair of the Cardiff Capital Region Transport Authority insisted that the Metro would serve to get people to all parts of the network – not just in to Cardiff.

“This isn’t about people getting just into Cardiff. So, in Bridgend, in Porthcawl, and in the Valleys, we’ve got a tourism economy that’s £240 million. So, I need people to come from Cardiff and the rest of the UK into Bridgend, because it’s worth 2,500 jobs in Bridgend. And, at the moment, those transport links are not good enough.”\(^{79}\) – Cllr Huw David, Cardiff Capital Region Transport Authority

153. The RTPI Cymru stated that better cross-valley transport linkages could assist valley towns develop and maintain their economic position. On the Cardiff Capital Region and the Metro, RTPI Cymru stated that:

“Links to the adjoining Swansea and Bristol city regions are of growing importance to the economic future of the Cardiff City Region. It is important that planning for the Metro sits within a strategic transport and development planning framework that looks beyond South East Wales alone.”\(^{80}\)

**Recommendation 17.** Welsh Government should ensure the evidence base for future decisions and prioritisation of the Metro considers the spatial context.

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\(^{79}\) Para 82, 23 March 2017  
\(^{80}\) Written evidence
04. Priorities for the franchise specification

Committee survey findings

154. The Committee’s survey received almost 3,000 responses from all parts of the network. Full details of the survey can be seen at Annex 3.

155. Key priority areas for passengers were:

- Punctuality and Reliability (92.3% said it was a high priority or essential)
- Capacity of seats when you travel (90.2% high priority or essential)
- Journey times and frequency of service (88.5%)
- Price of fares (84.9%)
- Handling delays and disruption (83.3%)

156. Just below that level, passengers wanted to see, connections with other train services (78.8%), quality, clean trains (78.4%), Access and facilities for older people and people with disabilities (76.6%).

157. Transport Future said the results of the Committees survey were comparable with the results of their annual passenger survey:

“We ask about satisfaction with current services and we also ask, periodically, about what the priorities for improvement are. If you look at our priorities for improvement and the results, they’re much the same. The core product: punctual, reliable, getting a seat, frequency drives most attitudes to the railway. If you think of it in that sort of Maslow hierarchy of needs, we’re on the bottom bit—the basic core product. And then, things like good Wi-Fi and availability of staff are the next tier up, but it all starts from that core product. At the moment, it’s quite hard to get beyond that, so, I think the results that we’ve seen reflect the same.”

81 – Mike Hewitson, Transport Focus

158. Network Rail acknowledged that passengers wanted to see more seats on trains – particularly on busy commuter services.

“We of course, yes. I think, clearly, railways in Wales have seen massive growth. In the last 10 years, passenger growth has increased by 50 per cent and our forecasts suggest that that will continue in the future. So, the railway has been a massive success story. Clearly, there are capacity issues currently on the network. We read about it frequently in the press and we see it when we travel on trains. Passengers’ No. 1 priority is more seats. I think we see that.”

82 – Tim James, Network Rail

Franchise length

159. Respondents who commented on the franchise length, including Railfuture Cymru, the RDG and Porterbrook, were supportive of a 10 year + contract award, providing that there was flexibility for

81 Para398, 23 March 2017
82 Para 72, 6 April 2017
growth and incentives for the successful bidder to deliver benefits to rail users for the duration of the contract. Porterbrook noted that a 15-year franchise is atypical and will potentially attract more long-term investment from infrastructure investors when compared with typically shorter DfT franchises.

**Environmental objectives**

160. In light of the Well-being of Future Generations (Wales) Act 2015, RTPI Cymru recommended that “proposals for the Metro should be developed with sustainable development as the central organising principle”. Bus Users Cymru listed reduced CO2 emissions from transport as one of its priorities.

161. On the use of alternative low carbon fuel sources, Transition Bro Gwaun stated that:

> “The Wales rail network needs to address current Wales, UK and International legislation and policies by addressing the use of polluting fossil fuels, particularly important as large sections are not electrified so rely solely on polluting diesel engines for the rail stock. Whilst this poses problems it also provides an opportunity to develop a sustainable service fuelled by alternative methods/fuels.”\(^3\)

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**Service frequency**

162. Service frequency and the provision of suitably timed services emerged as key priorities of many respondents. Evidence received indicated a desire for the new franchise to secure no detriment to existing services and betterment for key routes. In addition, stakeholders emphasised the need for:

- Increased frequency on the Cardiff - Chepstow line;
- ‘Clock face’ timetabling (consistent departure times each hour throughout the day);
- Faster journey times and more long distance trains to different destinations;
- Half-hourly services as a minimum and specifically on Wrexham to Bidston, Ebbw Vale, Maesteg and Vale of Glamorgan lines;
- An hourly service as a minimum between Aberystwyth and Birmingham;
- Increased services on public holidays and weekends and services that start earlier and finish later; and
- Regular fast service between Cardiff and Carmarthen (avoiding Swansea), enhanced services to Milford Haven and increased frequency on the Conwy line.

163. Transport Focus stated that, as well as a sufficient number of trains, a key element that must feature in the new contract is “a timetable that provides the frequency needed and is aligned to passenger requirements”.

164. The North Wales and Mersey Dee Rail Task Force agreed stating that the new franchise “must improve the frequency of rail services to key destinations” and that improvements to services on Sundays and Bank Holidays are needed, as well as improvements to the timing of first and last train services.

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\(^3\) Written evidence
165. The FSB identified increased service frequency as a priority for business users and that “public transport timetables should better meet the needs of businesses and local economies”.

166. During evidence the Committee heard a number of times that the current levels of service would be the minimum requirement for the new franchise. The Cabinet Secretary was more ambitious in his evidence.

“What we’ve said with regard to the franchise is that there must be, on a cross-border basis, as a very minimum, the current levels of service must be maintained—as an absolute minimum. But, through competitive dialogue, I’m not able to divulge any detail in order to protect the integrity of the process, but in terms of the services overall, we expect to be able to see an integrated transport network that is almost unrecognisable compared to today in terms of the quality, reliability and frequency of journeys.”

Fares, ticketing and integration

Ticketing and integration

167. Ticketing is a long-standing headache for rail passengers. Equally, a lack of integration with other modes of public transport and other train operating companies can make travel difficult and encourage passengers back into their cars. The next franchise cannot fix all of the issues with ticketing and integration. However, the Committee believes there is an opportunity to bring significant improvements.

168. The North Wales and Mersey Dee Rail Task Force, Bus Users Cymru, WCR 250 and the RDG all called for smarter ticketing. The RDG stated that:

“The franchise specification should [...] aim to provide customers with an easy-to-understand and convenient-to-use ticketing proposition. The RDG retailing vision is to enable passengers to have tickets linked to a range of devices, including their smartphones and bank cards, so that they can easily access their tickets and gain entry to trains, without the need to print out paper tickets if they wish. The future Wales and Borders franchise and South Wales Metro operator should be incentivised to drive forward digital ticketing innovation that improves the customer experience in line with the principles of the RDG retail vision; a railway for the digital age.”

169. The Committee heard of some cross-border ticketing issues, which are particularly relevant in the context of the Welsh Government’s plans for a North East Wales Metro:

“...we shouldn’t underestimate the importance of ticketing as a means of improving cross-boundary connectivity. So, at the moment, for example, the Merseyside ticketing product, the Walrus smartcard, stops at the boundary. That’s not right. That’s not logical. It should logically extend to Deeside. In

84 Para 497, 6 April 2017
85 Written evidence
time, it should extend to Wrexham, of course. That’s an issue. I think that’s an important issue for the franchise.”

170. Dr Virender Sahota called for more flexible ticketing and a move away from 7-day tickets which include weekends.

171. The importance of integrated ticketing permitting travel on different modes of public transport was a common theme. Prof Cole advocated better integration of train, bus and active travel and highlighted the Welsh Government’s TrawsCymru Bus operations (which are physically aligned to rail stations) as a success story. On multi-modal ticketing, Prof Cole noted that:

> “Several bus stations are adjacent to rail (e.g. Rhyl, Caerffili, Aberystwyth) but integrated ticketing is limited to e.g. Plus Bus, rover tickets. A south-east Wales ticket system would be a positive element in the proposals for the Metro and a south east Wales.”

172. Similarly, Bus Users Cymru emphasised that multi-modal ticketing would “encourage more people to use public transport”. However, integrated ticketing is just one part of a wider need to integrate modes and allow people to get out of their car and travel by public transport. While integration should be central to the Metro concept, the need for the effective integration on the wider rail network was a key issue identified by many witnesses and consultation respondents. This is not simply a matter for the rail operator, as David Beer from Transport Focus made clear:

> “...the rail network only has a certain reach and, beyond that, you’ve got to bring people to the rail network as a core spine, and I think you’ve got to talk to the bus network, make sure that that integration is happening, make sure there’s that willingness and ability for the bus service providers to build that into their timetables and services. And that’s the commercial network, as well as the TrawsCymru services.”

173. Similarly, a number of witnesses and respondents, including Transport Focus and the RDG, emphasised the need to ensure the franchise integrated with the wider rail network. For example, Transport Focus emphasised that “passengers value the concept of a national rail network and the seamless delivery of service” and that the Wales and Borders services “need to retain smooth interaction with the remainder of the rail network”.

Fares

174. The written evidence received by the Committee highlighted issues with the current fare pricing structure and disparity of prices within both the existing franchise, and between operators across the wider network. Other fare-related issues included the omission of some stations from zonal ticketing arrangements, confusion around the best fares for travellers, and the need for a pricing structure that represents value for money and is competitive when compared with other modes of transport.

– The Federation of Small Businesses (FSB) highlighted that rail travel needs to be made more affordable through lower fares for greater business uptake;

86 Para 43, 9 March 2017
87 Written evidence.
88 Para 320, 23 March 2017
The Users of the Maesteg to Cardiff rail service called for Pyle to be included in zonal ticketing for the Cardiff Valleys;

Ms Anna Saunders indicated that the cost of travel along the North Wales line is extremely expensive when compared the Valley Lines and Mersey rail services, resulting in social exclusion; and

Transport Focus indicated that in a survey of rail passengers’ priorities for improvement, ticket pricing and value for money were identified as top priorities.

175. On the competitiveness of rail travel, Bus Users Cymru stated that “it’s important to pitch fares at the right level to encourage passenger growth and to demonstrate that public transport can be cheaper than using the private car”.

**Delays and disruption**

176. Transport Focus, the WBRUA, the North Pembrokeshire Transport Forum and the North Wales and Mersey Dee Rail Task Force broadly agreed that the management of delays requires improvement through the provision of timely, accurate and accessible information.

177. Based on passenger survey data, Transport Focus suggested that passenger priorities for service improvement largely focus on managing delays and the provision of information as a “basic element of the rail service”. It further states that priorities for the next franchise should minimise and effectively manage disruption:

> “Four of the top ten priorities for ATW passengers relate to avoiding and managing disruption, including accurate and timely information at stations. ATW passengers’ satisfaction for how well disruption is dealt with is 42 per cent, the same as the regional train companies’ average, which is itself low. In terms of the usefulness of information, there is a gap, with ATW at 50 per cent against the regional average at 53 per cent.”

178. The North Pembrokeshire Transport Forum agreed, noting that:

> “Information about existing, delayed and/or amended services should be accurate and up-to-date and available on all information modes.

> […] There should be a commitment to provide national GPS based train location systems, to improve train running real time information, particularly away from multiple aspect signalling areas, and an automatic system to link such real time running information into CIS [customer information systems] at stations.”

**Train specification**

179. There was broad agreement among respondents on the improvements required for trains under the new franchise specification. These include the requirement for:

- A contactable member of staff on board services;
– Accessibility including adequate space for luggage, cycle storage and prams over and above the provision of wheelchair spaces;
– Adequate space for wheelchair users and service dogs;
– Improved capacity and a greater focus on comfort with alignment of seats and windows and consideration of luxury features such as sofas in group seating areas;
– Free passage between carriages and a move away from dividing units;
– Wi-Fi connectivity, USB / plug sockets, air conditioning / functioning heating, improved cleanliness and adequate toilet facilities inclusive of baby changing facilities;
– Improved on board information and communication, including on connections; and
– The availability of catering and refreshments or at-seat trolley services that are appropriate for long journeys.

**Staffing**

180. On staffing levels, the RMT stated that passengers should expect adequately staffed rail services and that there should be a specified minimum number of staff on every train with a driver and train guard (with a safety critical role) as an “absolute minimum”. RMT strongly opposed Driver Only Operation (DOO) and other driver control systems.

181. RDG argued strongly that DOO was safe, and already in use in other parts of the UK.

“It is a safe approach. I mean, it’s been in operation for 30 years. Our members wouldn’t operate it if it wasn’t safe. We’ve also had the Office of Rail and Road, so the independent regulator, deem it safe. And, as I said, it’s in widespread use across GB rail and also across the globe.”

Richard Evans, RDG

182. Both the Cabinet Secretary and TfW described themselves as “agnostic” on this issue. Discussions are on-going with the unions and bidders.

**Conclusion 29.** The Committee welcomes the talks that have taken place between Welsh Government/TfW and the unions to try to head off the industrial disputes seen in other parts of the UK.

**Station specification and community rail partnerships**

**Stations**

183. Many respondents identified the need for broad range of station improvements, including the requirement for:

– Clean, well maintained and covered waiting accommodation;
– Fully enclosed waiting rooms at interchange stations (inclusive of accessible toilets);
– CCTV coverage, adequate platform lighting and improved notice board illumination;
– Access to real time service information including high quality audio announcements;
– A means of contacting staff or an information control centre;

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90 Para 516, 23 March 2017
– Luggage trolleys, adequate cycle storage and parking;
– Inclusive, step free accessibility that caters for both mobility and sensory impairment;
– Staffed interchange stations with basic refreshment facilities;
– Adequate car parking; and
– Ticket availability and improved interchange with bus services and taxis.

184. The evidence from Railfuture Cymru is typical of the submissions provided by many of the respondents:

“All stations should provide minimum facilities: notice boards, covered waiting accommodation, real time running information with speakers providing opportunities for announcements from a control centre, a means to call the control centre, cycle parking and access for disabled passengers to all platforms.

Provision of adequate parking and interchange facilities.

Interchange stations (rail to rail or rail to bus) should in addition provide a member of staff on duty during hours when passengers are changing services, toilets and basic refreshment facilities (vending machine).”

185. The future management of stations is an area of uncertainty, with TfW considering whether this is an area they can run themselves, or whether it is more efficient left with the train operator.

186. Cllr Andrew Morgan welcomed this idea. He said:

“All I would say is, 'At least somebody will be managing them, then'. I’d have to say, currently, that that is one of the biggest criticisms on the stations: the lack of facilities. I know that the existing operator will say they’ve invested over and above perhaps what they were originally asked to, but obviously they’re making a lot more profit than perhaps was anticipated. But what I would say is that, if Transport for Wales want to manage the stations, I wouldn’t be against that, but I think we need to be quite clear what the expectations are going to be on what we need. Because, frankly, a lot of the stations out there, which were built in the 1990s when a lot of train lines were reopened, are really not fit for purpose now and they need significant investment in the facilities.”

Cllr Andrew Morgan, Cardiff Capital Region City Deal

Conclusion 30. Stations are an essential part of the rail travel experience, and will require improvement and investment if passengers are to see an improved travel network.

Community Rail

187. Several respondents, including WCR 250, the Cambrian Railways Partnership, Chester - Shrewsbury Rail Partnership and the Association of Community Rail Partnerships (ACoRP), advocated incorporation of community rail into the next franchise.

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91 Written evidence.
92 Para 91, 23 March 2017
188. We heard evidence suggesting that public funding for Community Rail has declined in recent years. Which this in mind, we noted evidence from WCR 250 and the ACoRP indicated that there should be a minimum contractual requirement to make community rail a strong feature of the franchise that builds on, and enhances, existing community rail. The Chester – Shrewsbury Rail Partnership stated that there is a lack of clarity for community rail in Wales and the borders, but that:

“We have the opportunity to finally redress this omission [of community rail from the current franchise] and specify a Wales & Borders Community Rail Strategy that will be cross border serving the railway and the communities of the two countries.”

189. The RDG also stated that it strongly supports the “proven successful concept” of community rail partnerships. Given the extent to which the Wales and Borders Franchise depends on public subsidy, we were particularly impressed by the evidence that community partnerships can increase revenue.

“If we look back over the last 10 years at community rail and what they’ve brought to the railways, we see a 3 per cent uplift in revenue on the lines that they are a part of. So, yes, I absolutely agree that they can certainly add economic value in that respect.” - Richard Evans, RDG

Conclusion 31. Given the benefits offered by community rail, it should be a requirement for bidders to engage with and fund community rail.

The Committee’s priorities for the new franchise

190. In order to secure the ambitious vision it has for the new franchise, there will need to be clarity in the final specification presented to the four bidding companies. The RDG told the Committee that the Welsh Government “needs to be very clear about what it wants to buy”. The Welsh Government has been engaged with the bidders, and will have a clear idea of what is deliverable.

Recommendation 18. The Committee supports the Welsh Government’s aim of a 15 year contract with break clauses. While not exhaustive, the Welsh Government should consider the ten priorities identified in this chapter and set out below, in the final specification. Welsh Government will need to ensure that the assessment process for bids allocates points based on how each of its priorities is addressed.

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93 Written evidence
94 Para 457, 23 March 2017
95 Para 443, 23 March 2017
TEN PRIORITIES FOR THE NEW WALES AND BORDERS FRANCHISE

1. **Effective monitoring**
   Performance measures should include:
   - passenger satisfaction (as measured by the National Rail Passenger Survey)
   - punctuality
   - reliability
   - passenger growth
   - the condition and maintenance of rolling stock.

2. **Greener railway**
   The franchise needs to take full notice of Welsh Government’s environmental commitments – reducing CO2 emissions and providing a greener, cleaner service over the course of the franchise.

3. **Integrated network**
   Clock-face timetabling where possible in a franchise which prioritises integration, including smart ticketing and effective connections with the bus network and other train services.

4. **Adaptable services**
   A willingness to explore new routes and services and service frequencies which meet passenger needs.

5. **Affordable fares**
   Affordable fares with clear, simple ticketing options.
New trains
Sufficient, high quality rolling stock which meets demand now and in the future, which is accessible and with adequate space for wheelchair users and service dogs, space for luggage, cycle storage and prams. It should also have Wi-Fi connectivity, USB / plug sockets, air conditioning / functioning heating, improved cleanliness and adequate toilet facilities including baby changing facilities; catering and refreshments services that are appropriate for long journeys; and a contactable member of staff on board.

Better communication
Improved on-board information and communication on connections and delays.

Modern stations
Stations that meet or exceed the minimum expectations of passengers, a commitment to and funding for community rail projects.

Fair fares
Effective revenue protection systems to ensure all passengers can and do pay a fair fare.

Reduced disruption
Improved management of delays and disruption.
05. Infrastructure issues arising from this inquiry

Infrastructure

191. In March 2016 the National Assembly’s Enterprise and Business Committee produced a detailed report the Future of Welsh Rail Infrastructure. Consequently, this inquiry sought to avoid repeating that work.

192. However, infrastructure and services cannot be considered in isolation and several respondents highlighted the need for infrastructure enhancements to maximise the revenue potential of the Wales and Borders franchise and address known capacity issues. Although the Welsh Government has powers to invest in rail infrastructure it is not a devolved matter. The primary powers (and funding) in relation to rail infrastructure rest with the Secretary of State for Transport.

Suggestions from our written evidence

193. The Committee received a number of suggestions for infrastructure enhancements in written evidence. For example:

- A new station at Deeside Industrial Park (WBRUA);
- The re-opening of mothballed lines such as Blaenau Ffestiniog to Trawsfynydd and proposals for the Swansea Metro (Thomas Wheeler);
- Additional car parking at Lydney station (Gloucestershire County Council);
- North East Wales Metro based on electrification of Chester – Wrexham – Bidston; as well as doubling the track between Wrexham – Chester to increase services (Prof Cole); and
- Additional car parking at Leominster station (Leominster Rail Users).

In addition the committee identified three major infrastructure issues: Electrification to Swansea, electrification of the North Wales main line, and enhancement of Cardiff Central Station.

Conclusion 32. In light of the discussion above of the relationships between Network Rail, Welsh Government, TfW and the operator, the Committee believes all partners should have a strong input into infrastructure decision making. The Committee welcomes Network Rail’s stated intentions regarding such collaboration.

Electrification to Swansea

194. There is currently no date for electrification of the Great Western Mainline west of Cardiff. DfT officials confirmed there was an “assumption” that Cardiff-Swansea electrification would be part of the next 5 year plan for infrastructure investment (known as Control Periods), but that this was not yet a firm commitment.*6

Conclusion 33. The Committee was concerned to hear from DfT officials that Cardiff-Swansea electrification was still not confirmed. The DfT must give clarity on this as soon as possible.

*6 Para 183-193, 6 April 2017.
**North Wales electrification**

195. The Committee is aware that Welsh Government has submitted an outline business case for electrification of the North Wales main line. The Committee would hope to see this project included in proposals for the new control period after 2019.

**Cardiff Central Station**

196. One area of the concern for the Committee came during the evidence from DfT who stated that upgrading Cardiff Central was not yet seen as a priority for investment.

“…as part of the route study for Wales, Network Rail have led, and consulted widely upon—they have looked at Cardiff Central station’s needs and that has featured in their thinking. I would say that they don't necessarily see it being a hugely urgent priority in time on a demand basis. There are points of pressure, clearly, around Cardiff Central station, particularly linked to passenger flows, and particularly linked to sporting events at the Millennium Stadium, but there are no—at the moment there are no fundamental deep-seated demand pressures at the station. Those, as passenger growth continues, will come over time and Network Rail has clearly identified that, but we will need to take into account what we think is an appropriate time, in consultation with others, for significant investment.”

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97 – Stuart White, DfT

197. The Committee’s predecessor in the Fourth Assembly has twice recommended that plans being drawn up to modernise the station be given priority in its reports on the Future of Welsh Rail Infrastructure and Rugby World Cup Transport Planning. Finding the money to fund the redevelopment is likely to be the biggest problem, given the consensus among politicians and service providers that the station will not be able to cope with the anticipated increase in passengers.

198. The imminent (at time of writing) Final of football’s Champions’ League at the Principality Stadium in Cardiff will provide a high-profile test of Cardiff Central station’s ability to deal with a major global event, where many of the 80,000+ attending will be arriving from the East.

**Conclusion 34.** The Committee’s predecessor committee has previously highlighted the importance of investment to improve capacity at Cardiff Central Station. This station is the gateway to Wales’ capital city, and the point of entry for many visitors. Further work is clearly needed to ensure this is understood outside Wales.

**Recommendation 19.** The Welsh Government should seek urgent clarification on the electrification of the line between Swansea and Cardiff. It should continue to lobby for North Wales electrification, and the redevelopment of Cardiff Central Station, at the earliest opportunity. It is vital that there is a clear understanding of the priority these schemes have in Wales and a strong voice for Wales in the decision making process.

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97 Para 247, 6 April 2017
Conclusions

Conclusion 1. The continued lack of resolution and slipping deadlines for the transfer of responsibility from the UK Government to the Welsh Government for awarding the franchise have added extra complexity and uncertainty to a procedure which is not short of either. .......................................................... Page 15

Conclusion 2. The Committee notes that continued delays in reaching agreement between the UK and Welsh Government is blurring lines of accountability and risks jeopardising the development of a high quality rail service in Wales and the Borders. While the powers remain undevolved, it is the DfT which ultimately remains accountable for the next Wales and Borders franchise. Similar issues arise in other areas, for example the Welsh Government’s ability to develop contingency plans for rolling stock (discussed below). The Committee was concerned that evidence from the DfT did not appear to recognise this continued responsibility. Given that the delay in reaching agreement in key areas is a complicating factor in this process, it seems clear that the DfT continues to share accountability for the procurement exercise. The Committee will have some difficult questions for them should issues arise........... ........................................................................................................ Page 15

Conclusion 3. It is not clear why section 25 of the Railway Act 1993 should no longer apply to Scotland, but remain in force in Wales. ........................................... Page 16

Conclusion 4. The Welsh Government could have done more to ensure that the competitive dialogue process, and the confidential discussions it necessarily contains, was better understood by stakeholders, and provided greater clarity around the times and ways they could engage with the process.................. Page 18

Conclusion 5. The Committee understands that the dialogue process demands a certain degree of confidentiality. But, taking account of the wider engagement and consultation taking place this spring, it believes that publishing the draft specification would go a long way to reassuring the public – passengers and potential future passengers alike – that the process was leading to improved rail services. ............................................................................................................ Page 18

Conclusion 6. The Government has taken a pragmatic approach to developing TfW, and recruiting skills as needed. However, given that the process is complex and innovative, and in the light of the level of concern voiced in this inquiry, the
Committee remains to be convinced that TfW has the resources it needs to run the procurement process effectively, and is concerned that TfW does not currently employ many of the people it will need to be able to operate effectively. The recruitment of a currently unknown number of people, potentially with highly specific skills and experience, in a short period of time represents a significant risk to the effectiveness of TfW. This is particularly true, if TfW intends to take on running elements of the Metro (eg car parking/ticketing) rather than leaving this to the successful ODP. Time will be short between contract award and commencement.

Conclusion 7. The Committee notes that the previous dispute between the Welsh and UK Governments around the funding of valleys electrification was ultimately resolved in the 2014 agreement between the two Governments. We expect a swift resolution to any confusion. Given the complexity and interdependencies involved in this process, a further dispute could prove disastrous to the project.

Conclusion 8. Experts in contracting were clear in their evidence to the Committee that in order to get the best deal, it is vital to reduce risks and uncertainties. All three legs of the capital funding stool for investing in electrification of the Core Valleys Lines currently contain some degree of risk/uncertainty.

Conclusion 9. The potential involvement of TfW in operating stations and ticketing through some form of concession model will have an impact on the revenue subsidy required by potential bidders to run the Wales and Borders Franchise. It is vital that there is clarity on what the Welsh Government wants TfW to run, and what the operator will run, in the final specification for the franchise.

Conclusion 10. While there are clearly risks, and concerns, the Committee supports the Welsh Government’s proposals to bring track and trains under common management in the Metro area.

Conclusion 11. While discussions are on-going at time of writing, it remains unclear how any transfer agreement will provide for latent defects or for emergency remedial work. Following the transfer of ownership Network Rail and the UK Government will no longer incur the future costs of maintenance,
renewal and enhancement of the Core Valleys Lines. The Welsh Block Grant should be increased to reflect this change on an on-going basis. .......................... Page 27

Conclusion 12. While vertical integration of the Core Valleys lines has its critics, there is plenty of evidence to suggest that it also offers opportunities to improve rail services. But this is a complex area, full of potential liabilities and the arrangements for funding/debt/liability that accompany the transfer will be key. .......................................................................................................................... Page 27

Conclusion 13. Alongside the procurement of the ODP, the Welsh Government is also procuring contracts for infrastructure works. Welsh Government should ensure these contracts offer the maximum benefits for Wales, allow smaller Welsh businesses to compete, and include comprehensive community benefits to develop skills in the Welsh workforce................................................................. Page 28

Conclusion 14. At time of writing there is a significant risk both that bidders will be forced to build a risk premium in to their bids and that the procurement process will not provide value for money. This must be resolved now. ...... Page 29

Conclusion 15. In the context of the AGW’s recommendation, the Committee recognises the difficulties involve in benchmarking procurement of the franchise element of the contract (i.e. excluding the Metro) against other franchises. However, it does not accept that it will be impossible for the Welsh Government to demonstrate the relative value for money of the franchise element against the current Arriva Trains Wales franchise. Given the significant uncertainty around the procurement process we believe it will be particularly important for the Welsh Government to demonstrate value for money. .... Page 29

Conclusion 16. The Committee will write to AGW and Public Accounts Committee sharing our concerns around value for money and supporting any plans to undertake further work on the process after it has been completed. ............ ........................................................................................................................................................................ Page 30

Conclusion 17. The examples in London and Merseyside show that concession models can be effective. However, it remains to be seen whether what works in urban areas, can also be effective across rural parts of Wales. ....................... Page 33

Conclusion 18. The Committee can see the benefits of the not-for-dividend ambitions set out by Welsh Government/TfW and a concession model— but this must not come at a price of having an operator with no interest in investing in,
improving, developing and extending rail services in Wales, improving rolling stock or meeting growing demand............................................................. Page 33

Conclusion 19. The Committee is disappointed that earlier action was not taken by DfT to address the issue of aging sub-standard rolling stock, particularly as this was highlighted as an issue in the Enterprise and Business Committee’s report in December 2013............................................................. Page 35

Conclusion 20. DfT appears to have taken a hands-off approach to procurement of the next Wales and Borders franchise since agreeing it would devolve responsibility, without actually devolving the responsibility that would allow Welsh Government to get on with the job. This accountability gap has led to too much finger pointing, and too little action............................................................. Page 36

Conclusion 21. Replacing the rolling stock used on the Franchise, and maintaining it at a high level is a priority for passengers. It should be a priority for operators too............................................................. Page 37

Conclusion 22. While the potential of hydrogen power – currently being tested in Germany – is attractive, given the many risks involved in this procurement process the Committee was reluctant to recommend adding another unknown in to the mix. We also note that the technology is at a very early stage and so is likely to take time to develop, come at a premium and may suffer from early faults and failures. However, this is clearly a development with huge potential to reduce carbon emissions and costs............................................................. Page 38

Conclusion 23. The Committee has no firm view on the approach to procurement of rolling stock, believing the outcome is more important than the method. It is pleased to hear that the Welsh Government has given serious consideration to the potential benefits and disadvantages of purchasing its own rolling stock. It will monitor how these are taken forward in the new franchise. ........................................................................................................ Page 39

Conclusion 24. Developing effective connectivity and cross border links will require constructive relationships with DfT and devolved bodies involved in rail franchise procurement and management, and other train operators. The Committee will monitor this element of the new franchise......................... Page 40

Conclusion 25. Passengers and potential passengers in the Marches have a real and justified concern that running the franchise from Wales, will somehow make
them second class citizens on their railway. The Welsh Government’s commitment in response to the Welsh Affairs Select Committee to reply to correspondence from MPs in border constituents as they would an AM/Welsh MP is welcome and necessary, but not sufficient.................................................. Page 41

Conclusion 26. The Committee asked TfW whether it should appoint a board member with specific responsibility to represent the England element of this cross-border franchise. TfW said that none of the current board had a “representative function”. However it is clear that some mechanism should be found to ensure that the voice of all passengers – including those in England – is sought, heard and acted upon................................................................. Page 41

Conclusion 27. The Committee is aware that in the past the Welsh Government has been dissatisfied with the performance of Network Rail in delivering Welsh Government funded projects. It is also clear that the Welsh Government (and others) believe that Wales does not get its fair share of investment (although in terms of major projects and enhancements we recognise that these decisions are taken by funders rather than Network Rail itself). The Committee welcomes Network Rail’s desire to work closely and collaboratively with both the Welsh Government / TfW and the ODP. ................................................................. Page 43

Conclusion 28. While the governance arrangements for TfW are unusual, the Committee consider them to have been appropriate to this stage of the organisation’s development where it is effectively an advisory body. However, they will not be suitable in the longer term.................................................. Page 44

Conclusion 29. The Committee welcomes the talks that have taken place between Welsh Government/TfW and the unions to try to head off the industrial disputes seen in other parts of the UK................................................................. Page 51

Conclusion 30. Stations are an essential part of the rail travel experience, and will require improvement and investment if passengers are to see an improved travel network. Page 52

Conclusion 31. Given the benefits offered by community rail, it should be a requirement for bidders to engage with and fund community rail............. Page 53

Conclusion 32. In light of the discussion above of the relationships between Network Rail, Welsh Government, TfW and the operator, the Committee believes all partners should have a strong input in to infrastructure decision making. The
Committee welcomes Network Rail’s stated intentions regarding such collaboration. ...................................................................................................................... Page 56

Conclusion 33. The Committee was concerned to hear from DfT officials that Cardiff-Swansea electrification was still not confirmed. The DfT must give clarity on this as soon as possible. ............................................................................................................ Page 56

Conclusion 34. The Committee’s predecessor committee has previously highlighted the importance of investment to improve capacity at Cardiff Central Station. This station is the gateway to Wales’ capital city, and the point of entry for many visitors. Further work is clearly needed to ensure this is understood outside Wales. ...................................................................................................................... Page 57
Annex 1: Terms of reference

The inquiry adopted the following terms of reference:

- The effectiveness of the Welsh Government’s approach to the development, procurement and delivery of the rail franchise and South Wales Metro, including key risks and how they can be mitigated; and

- Priorities for the franchise specification and Metro delivery to ensure rail services meet the needs of travellers throughout the franchise area and deliver value for money.

Annex 2: Stakeholder event, 9 March 2017

A summary of key points from the Economy, Infrastructure and Skills Committees stakeholder event on the rail franchise and Metro Delivery.

http://senedd.assembly.wales/documents/s64252/Notes%20of%20the%20Stakeholder%20event%209%20March%202017.pdf
Annex 3: Rail franchise and Metro delivery survey

Background
This document provides a summary of responses received to the Rail franchise and Metro delivery survey conducted by the Outreach team, as part of the Economy, Infrastructure and Skills Committee’s inquiry. This survey was open for consultation and responses between 23 January and 3 March 2017.

The Outreach Team conducted a survey in both online and paper-based formats. Participants were asked a range of questions relating to priorities for improving Wales and Borders rail services.

One survey was created with the aim of targeting the general public as a whole.

In order to promote awareness of the survey and attract participants the Outreach Team worked closely with Network Rail who shared the survey amongst their stakeholders. We were able to raise awareness using a range of methods including – placing articles on websites; signposting on social media including Facebook and twitter; and emailing participants directly. Facebook Adds were also used to target a wider audience in Wales and across the border.

The surveys were also promoted by Assembly staff with relevant groups visiting the Senedd.
Survey Analysis

2985 Total number of survey responses received

Number of survey responses broken down by local authority area

Blaenau Gwent: 37
Bridgend: 67
Caerphilly: 134
Cardiff: 398
Carmarthenshire: 106
Ceredigion: 195
Conwy: 147
Denbighshire: 100
Flintshire: 101
Gwynedd: 125
Isle of Anglesey: 25
Merthyr Tydfil: 62
Monmouthshire: 54
Neath Port Talbot: 55
Newport: 59
Pembrokeshire: 111
Powys: 140
Rhondda Cynon Taf: 273
Swansea: 121
Torfaen: 14
Vale of Glamorgan: 125
Wrexham: 114
Outside of Wales: 205
Which parts of the network do you use to travel by rail?

16.6% of responses received from those who use the North Wales and north west England/midlands

18.1% of responses received from those who use the Marches line and Crewe to Manchester/Chester

3.5% of responses received from those who use the Cambrian Lines and Shrewsbury to Birmingham

5.5% of responses received from those who use the Heart of Wales Lines

25.5% of responses received from those who use the South Wales Valleys lines, including the Vale of Glamorgan and Barry Lines

19.4% of responses received from those who use the Heart of Wales Lines

25.5% of responses received from those who use the South west & south Wales and services to Gloucester and Cheltenham Spa

0.2% of responses received from those who didn’t know

How often do you use Wales and Borders franchise rail services?

1. Daily: 21.7%
2. At least once a week: 17.5%
3. At least once a month: 32.8%
4. At least once every 6 months: 19.9%
5. At least once every 12 months: 4.8%
6. I haven’t used rail service in Wales in the past 12 months: 3.3%

Service levels and integration

Considering what you think are the priorities for improving Wales and Borders franchise rails services, please rate the following:

- Timetable information for passengers
- Handling delays and disruption
- Staff availability on trains and at stations
- Knowledge and attitude of staff on trains and at stations
- Journey times and frequency of services
- Punctuality and reliability
- Connections with other train services
- Connections with other modes of transport
- Tickets that can also be used on other trains
- Smart ticketing (mobile/smart card etc)
- The price of fares to use services

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Not a priority Low priority Medium priority High priority Essential
Train and station standards

Considering what you think are priorities for improving Wales and Borders franchise rail services, please rate each of the following:

- The quality and cleanliness of the trains used to...
- Availability of WiFi and plug sockets in carriages
- Capacity and availability of seats when you travel
- Access and facilities for older people and people...
- Security at stations and on trains themselves
- Facilities at stations
- Reduced CO2 emissions from transport

How would you rate your experience of using Wales and Borders franchise rail services over the last 12 months?

- Very good: 4.1%
- Good: 19.3%
- Fair: 36.2%
- Poor: 25.3%
- Very poor: 15.1%

Comments received as part of the survey

There were 2041 comments or recommendations made in relation to passengers experience. Below is a sample which reflects the points raised.

“Conductors are always friendly and I always feel safe on the train.”

“Not enough carriages. Old, dirty and tired stock.”

“Poor train timings (always late), trains always at capacity during peak hours and poor cleanliness.”

“I cannot fathom why most trains have only two carriages in the mornings (at the busiest times), yet four at night.”

“Always late. I arrive late to work and get home late. Filthy dirty!!!!!!!”
“Very crowded trains because of lack of carriages at peak times. This almost always leads to standing room only, and cramped conditions, terrible for the cost of trains.”

“Expensive and not cost effective for me compared to car, never enough seats or coaches at rush times and when events are held in Cardiff. Graffiti on worn out seats.”

“Slow service and poor communication on cancelled services.”

“Occasionally delays. But mainly small old trains overfilled and over priced.”

“Dirty, crowded, expensive, slow, delayed.”

“No Wi-Fi on trains, trains generally dirty/scruffy, overall standard of trains is years behind other train services.”

“Much more expensive and longer journey than simply taking the car, making it pointless to use.”

“Too many delays and cancellations, with short or no notice.”