

Written Response by the Welsh Government to the report of the Economy, Infrastructure and Skills Committee entitled 'On the right track? The Rail Franchise and South Wales Metro

Our train services provide crucial links to communities within Wales, linking people to jobs and leisure opportunities and supporting our diverse economy.

Our ambition for the next rail franchise is to lay the foundation for a transformed transport network across Wales and the South Wales Metro has the potential to deliver much more for the region than an improved public transport network. It will shape the region's economic and social infrastructure, social mobility and equality of opportunity and act as a blueprint for how we approach integrated transport across Wales.

Passengers expect a high quality and efficient service that is affordable and accessible to all. We know this from the wide-ranging engagement which we have undertaken to gather public views on the policy priorities for the next franchise, including two formal consultations. The views expressed have been a fundamental part of our thinking throughout the procurement process, and we are seeking to deliver on these priority areas.

Transport for Wales is now engaged in a process of competitive dialogue with bidders which will help to ensure the next franchise will deliver the best possible solutions for passengers.

I welcome this report, many of the priorities outlined by the committee align with Welsh Government's own policy priorities for the new rail service. Our vision is for an improved, high quality, integrated transport network for Wales.

We have considered the report and its findings and will give further consideration to its recommendations alongside findings from our own recent consultation which was designed to allow respondents to prioritise which aspects of a potential new rail service is important to them as we develop the programme .

Detailed Responses to the report's recommendations are set out below:

Recommendation 1

The Committee recommends that

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.

Response: Accept

We accept the Committee's recommendation. The Welsh Government continues to work with the UK government to deliver on the UK government's commitment to transfer rail franchising functions for the Wales and Borders franchise. We welcome the Department for Transport's recent website update (<https://www.gov.uk/government/publications/rail-franchises-summary/rail-franchises-summary>) dated 20th July 2017, that states "Subject to final agreement and Westminster Parliamentary approval, it is intended that these functions should be transferred during 2017" although DfT officials may be working to a delayed timescale.

Financial Implications – None anticipated.

Recommendation 2

The Committee recommends that

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.

Response : Accept in Principle

Should we be successful in seeing the repeal of section 25 of the Railway Act, as has been the case in Scotland, we would take steps to ensure that future franchises are developed on a not for profit model. Until the circumstances, context and timing of any future repeal are understood it is not possible to speculate on what the Welsh Ministers may choose to do.

Financial Implications – None anticipated.

Recommendation 3

The Committee recommends that:

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.

Response: Accept

We will publish a summary of the key requirements the Welsh Government is expecting for future Wales and Borders rail service with sufficient detail to allow the plans to be understood. The level of detail we be able to publish will have regard to the competitive dialogue process undertaken by Transport for Wales, where we have a duty to treat bidders fairly and equally, adhere to procurement legislation, and achieve value for money for public expenditure from the procurement.

The Welsh Government intends to publish a version of the entire contract post award, along with the tender specification.

Financial Implications – None. Where additional costs do emerge then an appropriate source of funding will also be identified. Where necessary additional costs not covered will form part of our bid for funding in future year budget rounds

Recommendation 4

The Committee recommends that:

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.

Response - Accept in Principle

We have established TfW to provide support and expertise to the Welsh Government in connection to transport projects in Wales. TfW's structure has been designed to be agile and flexible with the ability to scale resources up or down to meet project need and variable requirements.

TfW must assure the Welsh Government through its annual Business Plan that it has the resources to deliver its remitted activity, and comply with the Welsh Government's monitoring arrangements.

Financial Implications – None. The cost of the appropriate resources are accounted for in TfW's running cost which are included as part of its business plan.

Recommendation 5

The Committee recommends that:

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.

Response: Accept

The capital funding agreement has been discussed between the Cabinet Secretary for Economy and Infrastructure and the Secretary of State for Transport, who agreed that the Welsh Government could determine how the agreed funding would be spent on the modernisation of the Valley Lines. The Secretary of State confirmed he had no grounds to revisit the eligibility of the commitment..

Our Operator and Development Partner and Infrastructure Delivery Partner procurements are designed to drive value for money in the solutions we build.

Financial Implications – None. Funding from the DfT will be available to contribute towards the modernisation of the Valley Lines. The remaining funding will partly be funded, by ERDF money c.£125m, with the remaining element of c.£500m to fall to the Welsh Government. The capital costs of the Metro enhancements we expect to fall to the Welsh Government in the period 2018-19 to 2020-21 are provided for within draft budgets. Funding beyond 2021 will need to be considered as part of future budget considerations.

Recommendation 6

The Committee recommends that:

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.

Response: Accept in Principle

The Cabinet Secretary for Economy and Infrastructure met with the Secretary of State for Transport to discuss the financial context in which the devolution of franchising functions is taking place. The underlying issues were recognised and discussions will continue between the Welsh Government, Wales Office and HM Treasury to seek a resolution to the financial implications. Continuing these discussions while we procure future rail services is the best outcome for passengers, who will not face the uncertainty

of whether the Welsh Government will be transforming rail services at the end of the current franchise term.

The Welsh Government has modelled that the Wales and Borders rail services and Metro operation can be delivered within £155m per annum (2016/17 prices) revenue funding envelope once new Metro services are operational, and that it will remain at this level (adjusted for inflation). Additional funding for Metro infrastructure will be in addition to this.

Financial Implications – None Discussions are continuing with the Wales Office and HM Treasury to resolve the financial implications.

Recommendation 7

The Committee recommends that:

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.

Response: Accept

Discussions are currently on-going between Welsh Government officials (supported by Transport for Wales) and Network Rail regarding the transfer of the Core Valley Lines. Initial headline terms have been developed and agreed that enable further and more detailed development work to be undertaken alongside the procurement process..

The Welsh Government has engaged with the Department for Transport to develop the principles of the asset transfer. It is expected that the transfer will attract a future financial settlement that broadly aligns with the current levels of investment.

Transferring ownership to the Welsh Government means that we can create a mitigation for the significant risk associated with entering into an emerging cost contract with Network Rail – currently the only type of contract Network Rail will enter into. These contracts provide no cost certainty for the Welsh Government, and pass all of the financial risks of the project to us. This compromises the Welsh Government's ability to actively manage risks and costs for the project.

There are numerous and well documented examples in Wales and across the UK of Network Rail's difficulty delivering integrated programmes, to both cost and time. The Great Western Main Line electrification scheme increased in cost from £2.6bn to £5.7bn, and a similar percentage increase would see the South Wales Metro rise to £1.6bn and a potential delay of a number of years. However, the client still pays irrespective of the duration of any delay or the extent of compromised outcomes. By taking control of the project the Welsh Government would be able apply mitigation to any such risks and make the decision on progressing, which is the opposite to the UK Government's recent decision to cancel the commitment to electrify to Swansea.

Financial Implications – None – the assumption is that any charge to operate the core valley lines will be met by a comparable financial transfer from the DfT, for which they currently incur, via Network Rail, to operate rail services in this area.

Recommendation 8

The Committee recommends that:

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.

Response: Accept

We are using a competitive procurement process under the Utilities Regulations 2016. The aim of a competitive dialogue is to develop one or more suitable alternative solutions capable of meeting our requirements, which we deemed necessary as we are seeking innovative solutions for delivering rail services.

The competitive process drives value for money in complex and high value infrastructure procurement projects. The process maintains competition, delivers improved solutions with a better deal for the public sector, and provides greater control over scope changes and cost increases often found when delivering complex projects.

We have developed evaluation criteria and a scoring methodology tailored to the complex procurement that responds to our priorities.

The Welsh Government intends to publish a version of the entire contract post-award as part of its demonstration of how we have achieved better value for money.

Financial Implications – None. The franchise has been modelled to deliver an enhanced level of service at a specific revenue cost of £155m per annum (2016/17 prices), with additional funding for the Metro infrastructure to be provided in addition to this. As part of the competitive process we expect innovative approaches to be used within this funding envelope to offer enhanced services for passengers.

Recommendation 9

The Committee recommends that:

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.

Response: Accept

The competitive dialogue process will lead to a tender specification that we can be certain all bidders are able to bid against, within the budgets we have identified. This means that drive for value for money during the competitive dialogue will be embedded in the specification.

To ensure the robustness of the process and value for money for public funds, the tender specification documentation will be subject to review and governance processes, including a Gateway Review, prior to being issued to bidders.

Financial Implications – None. The tender documentation clearly identifies the available fixed funding envelop for operating the franchise along with details of the services that are required.

Recommendation 10

The Committee recommends that:

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.

Response: Accept

Bidders are incentivised to offer enhanced services in addition to being required to demonstrate how they will ensure sufficient capacity is provided to meet future growth.

The incentive and penalty regime will use measures that include train service punctuality and reliability, capacity provided versus capacity planned, and benchmarks for National Rail Passenger Survey, Customer Satisfaction Survey and Mystery Shopper Survey scores.

Financial Implications – None. Incentives will be specified as part of the contract, the monitoring of these activities is included as part of TfW's business plan.

Recommendation 11

The Committee recommends that:

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.

Response: Accept

The Welsh Government is finalising arrangements to deal with the event that there is not a suitable bid for the next contract, or if the next operator is unable to comply with the contract to provide rail services. Suitable contingency plans will be in place before the contract is awarded.

Financial Implications – None anticipated.

Recommendation 12

The Committee recommends that:

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.

Response: Accept in Principle

At the start of the procurement process, bidders were provided with the Welsh Government's priorities for high quality rolling stock.

Bidders are required to demonstrate how they will ensure that sufficient trains will be available to deliver their train service proposals, including flexibility to meet the demands of a dynamic and customer focused environment, including continued passenger growth and managing major events around Wales. This will take into account the rolling stock requirement for the Core Valley Lines, which will be determined by the proposed infrastructure solution.

Financial Implications – None - Rolling Stock plans are included in the cost of providing the rail services.

Recommendation 13

The Committee recommends that:

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.

Response: Accept in Principle

As part of the procurement process for the next Wales and Borders rail services contract we have made it clear that we expect to see higher quality rolling stock introduced as part of this process. This also includes having sufficient capacity to meet passenger demand which is forecasted to grow by a further 74 per cent by 2030. We expect bidders to put forward their plans for rolling stock in line with our requirements.

We have included carbon reduction targets with incentives to improve over the life of the contract. Better trains across the rail service will help to reduce the impact of rail services on the environment, and the operator will be set stretching targets to reduce emissions that will be reviewed every five years.

Financial Implications – None - Rolling Stock plans are included in the cost of providing the rail services

Recommendation 14

The Committee recommends that:

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.

Response: Accept in principal.

Since the process started there has been a change in demand for freight services on the Core Valley Lines with the closure of open cast mining in some areas. We are therefore, currently reviewing our freight policy for the Core Valley Lines.

We will update the committee once the policy position has been confirmed.

Financial Implications – None presently anticipated.

Recommendation 15

The Committee recommends that:

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.

Response: Accept in Principle

The Welsh Government will establish robust engagement structures for future rail services. We already have a formal Passenger Transport Users Advisory Panel and an Accessible Transport Group. A Passenger's Charter will play an important role in establishing the contract between passengers and the rail services provider, and will also provide details on a range of other important issues such as safety, security, and information for disabled passengers.

Community groups have played an important role in developing and maintaining railway stations and there will be initiatives to extend and improve such schemes.

We are working with the Department for Transport to make sure the future arrangements address representation of the views of passengers and stakeholders in English regions. The Welsh Government will require TfW and the operator to set out how they will work within these arrangements as part of the bid.

We agree that it is vital that all those organisations involved in rail need to work together in partnership if we are to deliver those ambitions.

Financial Implications – None - These costs are included in the cost of providing rail services.

Recommendation 16

The Committee recommends that:

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.

Response: Accept in Principle

A Management Agreement between the Welsh Government and Transport for Wales delegates the day-to-day operations of the Company and the regularity and propriety of its expenditure (including requirements under the Companies Act 2006). In accordance with the Management Agreement this delegation is discharged through the Managing Director as the Accounting Officer.

The Managing Director is accountable to the Company Board. The Deputy Permanent Secretary (DPS) for ESNR is the designated Welsh Government Additional Accounting Officer (AAO) for the funding given to Transport for Wales, and is therefore ultimately responsible and accountable for all of these

matters. The DPS discharges their responsibilities through their appointment as the Company Chair. Any potential conflict between the role of the DPS as AAO and their appointment as Company Chair would be referred to the Welsh Government's Director for Governance.

These arrangements were developed specifically for the initial phase of Transport for Wales' life. It is accepted that the evolution of Transport for Wales, and now the intention that the DPS will take up the position of Chief Executive Officer for Transport for Wales, means there is a need to review the governance arrangements. Officials have already considered what new arrangements would be needed both during the transitional period until the DPS takes up their new role and following their move to Transport for Wales. These arrangements are being reviewed by the Welsh Government's Corporate Governance Unit. The Welsh Government will continue to monitor the effectiveness of the governance arrangements and make the necessary changes to the Management Agreement.

The Welsh Government can provide a further update to the Chair of the Economy, Infrastructure and Skills Committee once the new arrangements have been concluded.

Financial Implications – None -

The cost of the appropriate resources are accounted for in TfW's running cost which are included as part of its business plan.

Recommendation 17

The Committee recommends that:

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

Response: Accept

Future decisions will require evidence to show how proposals contribute to prosperity for all. Proposals should demonstrate how they support the region's economic development, spread jobs and prosperity, and ensure that all new and significant developments are sited within easy reach of a station.

Financial Implications – None - Any further capital costs outside of phase 2 will require a business case, including identifying the funding source, before an agreement to proceed is achieved.

Recommendation 18

The Committee recommends that:

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.

Response: Accept in Principle

The ten priorities reflect the Welsh Government's requirements for the next rail services contract and are included in the procurement specification and across the evaluation criteria, although the complexity of the specification means that they are expressed in a different way. The scoring methodology ensures that bidders maximise opportunities across all priorities.

Financial Implications – None - These are included in the cost of providing rail services.

Recommendation 19

The Committee recommends that:

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

Response: Accept

The Welsh Government is disappointed that the UK Government has taken the decision to cancel electrification to Swansea.

We continue to make the case for North Wales electrification and for investment in Cardiff Central Station. The Secretary of State for Transport referred to investment in these areas in his announcement and we are pursuing detail from the UK Government on its role in developing these schemes.

We are pressing the UK Government to commit to spend a fair share of money on rail enhancements in Wales, taking account of its historic lack of investment evidenced by only around 1.5% of enhancement spending across England and Wales being directed to Wales since 2011.

Financial Implications – None - Rail infrastructure is not devolved, therefore, these costs are presently ones the UK Government are required to pay for..

Ken Skates AM
Cabinet Secretary for Economy and Infrastructure