

Written Response by the Welsh Government to the report of the Enterprise and Business Committee - Report on the Inquiry into the Future of the Wales and Borders Rail Franchise – January 2014

The Wales and Borders franchise provides essential connectivity for the people it serves and has the potential to further improve the employment and social opportunities for many people. I very much welcome the Committee's recognition of the franchise's importance and strongly support its view that the focus for the future needs to be on delivering the best possible outcomes for both passengers and taxpayers.

As the Committee recognises, we are now in an important phase for the development of our rail passenger services. Regardless of whether the Department for Transport or the Welsh Government is the franchising authority, I want to ensure that we use this opportunity to deliver considerable improvements for current and potential rail users, in all the areas served by the franchise.

There are important lessons to be learnt from the present franchise which has not stood the test of time. The importance of building in provision for growth and incentivising investment back into the services offered is clear. I agree with the Committee that the Welsh Government is best placed to specify and award the next franchise but only with the appropriate resources being made available. I will continue to press for a transfer of relevant functions, subject to a fair financial settlement.

As we move forward, I would welcome the Committee's ongoing engagement in this complex area. It is important for us to all understand the choices available and their implications.

My detailed response to each of the recommendations made is below. I have made clear in my responses where my acceptance of a recommendation is predicated on a transfer of functions relating to rail franchising to the Welsh Ministers. If such a transfer does not go ahead, then the relevant recommendations will inform the approach that I would take in setting out the Welsh Government's views to the Department for Transport.

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

Recommendation 1

The Committee recommends that the Welsh Government continues to lobby the UK Government for the necessary powers and requisite funding to be devolved so that the Welsh Government is responsible for specifying and procuring the next Wales and Borders Franchise.

Response: Accepted. The Welsh Government welcomes the Committee's recommendation and agrees that rail franchising functions, subject to an equitable settlement, should be transferred to Welsh Ministers. Negotiations

have started between the Welsh and UK Governments about the Welsh Ministers role in respect of rail franchising.

Financial Implications – The funding associated with the next Wales and Borders franchise will be subject to further negotiation between the Welsh Government and Department for Transport.

Recommendation 2: The Committee recommends that the Welsh Government ensures it has sufficient revenue and capital resources in place to deliver an effective franchise.

Response: Accepted. The Welsh Government is not the franchising authority for the Wales and Borders franchise at present. Any decisions about funding in respect of the future franchise will be subject to further negotiation between the Welsh and Department for Transport.

The Welsh Government's aim is to ensure that the future franchise and associated funding settlement provide for an effective franchise model which meets passengers' expectations.

Financial Implications: The funding associated with the next Wales and Borders franchise will be subject to further negotiation between the Welsh and UK Governments. The final settlement needs to be more than the level of funding already transferred to the Welsh Government as this is not sufficient to deliver the capacity now needed and demand is likely to increase further

Recommendation 3: The Committee recommends that the Welsh Government ensures it has the right staff with the required experience and specialist skills to develop and deliver the new franchise and the necessary rolling stock.

Response: Accepted. The Welsh Government has gained valuable experience from managing the current Wales and Borders franchise and has already invested to expand capacity in our rail team. However, we recognise that, if we were to take on the franchising authority responsibility, we would need to further strengthen our commercial, technical, legal and procurement skill base. A detailed study visit to Transport Scotland was undertaken earlier last year to inform our approach.

Financial Implications: Transport Scotland's experience indicates that costs associated with procuring a franchise could be as much as £4m over three years. This cost and the ongoing additional costs associated with managing a franchise should be taken account of in any funding settlement reached with the Department for Transport.

Recommendation 4: The Committee recommends that the Welsh Government base the development of routes, service levels and future infrastructure requirements on a detailed understanding of the socio-economic drivers of rail traffic flows within the Wales and Borders Franchise area, and

the potential market and future demand scenarios, including cross-border flows.

Response: Accepted. The Welsh Government is not the franchising authority for the Wales and Borders franchise at the present. However, we agree that it is important to base decisions about service enhancements on the best information available about future demand levels and likely socio-economic benefits.

Financial Implications: Work to better understand future demand levels and traffic flows will be undertaken during the specification of a new franchise. Cost will be taken account of in any funding settlement reached with the UK Government.

Recommendation 5: Protect and enhance cross-border routes within the current franchise map and ensure the needs of the English domains of the franchise area are reflected in the development and delivery of the next franchise.

Response: Accepted. The Welsh Government agrees that the current Wales and Border franchise map should be taken as the starting point for the next franchise. Any proposed changes to the franchise map in advance of the new franchise being awarded would be subject to consultation by the Department for Transport with the Welsh Government.

Financial Implications: If any changes to the Wales and Borders franchise map are proposed by the Department for Transport, there may need to be a change to the financial settlement.

Recommendation 6: The Committee recommends that the Welsh Government take an early decision on the management model to be adopted, demonstrating how the chosen model will improve passenger satisfaction and service quality as well as value for money. The approach to managing and mitigating risk must also be clear.

Response: Accepted. The Welsh Government is not the franchising authority for the Wales and Borders franchise at present. It is agreed that the preferred model of franchise needs to be defined well in advance of procurement action for a new franchise commencing. Our ambition is that the model developed best meets the needs of passengers whilst offering good value for money for public funding.

Financial Implications: No new implications

Recommendation 7: The Committee recommends that the Welsh Government develops and publishes a rolling stock strategy as a matter of urgency, not only to ensure pressing decisions on rolling stock compatibility for electrification and accessibility legislation are taken in good time to avoid the increased cost and disruption associated with delay, but also to enhance the future capacity and quality of trains for the long-term.

Response: Accepted in principle. The Welsh Government is not the franchising authority for the Wales and Borders franchise at present. The Welsh Government agrees that it will be important that the rolling stock expectations for the next franchise are clearly defined.

Financial Implications: The funding issues associated with each rolling stock option for deployment on the Valley Lines post electrification are presently under consideration. Financial considerations associated with rolling stock requirements set out for the next franchise would need to be considered as part of the work undertaken to specify the franchise.

Recommendation 8: The Committee recommends that the Welsh Government works with the UK Department for Transport to ensure Welsh interests are reflected in the procurement of new franchises more widely, not least the Great Western and West Coast Franchises.

Response: Accepted. Under current legislation, the Secretary of State for Transport is required to consult Welsh Ministers before inviting bids for rail franchises providing Welsh Services – that is services that begin, end or make at least one stop in Wales. It is important that franchises are designed to meet the expectations of the travelling public, achieve value for money and support our ambitions for economic development. We are committed to clearly conveying our aspirations for other franchises to the Department for Transport.

Financial Implications: No new financial implications.

Recommendation 9: The Committee recommends that the Welsh Government launch a major public consultation with all stakeholders in both the Welsh and English domains of the franchise area, including passengers, user groups, local communities, businesses and local government.

Response: Accepted. The Welsh Government is not the franchising authority for the Wales and Borders franchise at present. A consultation will be carried out by the relevant franchising authority before a franchise specification is finalised.

Financial Implications: No new financial implications.

Recommendation 10: The Committee recommends that the Welsh Government ensures that the franchise clearly addresses the following other issues:

- a. Putting passenger needs at the heart of the next franchise.
- b. The need for significant investment by the operator. This may best be facilitated by a longer franchise but only with effective performance monitoring and evaluation and appropriate break clauses to address underperformance.

- c. An enhanced performance management and monitoring regime with effective incentives and penalties. The Scottish Service Quality Incentive Regime (SQUIRE) may be a useful model for monitoring service quality but it should first be carefully evaluated.
- d. The targets and outcomes required from the next franchise. These should address the need to increase passenger numbers, train reliability and punctuality and to reduce costs, but should also include safety and softer objectives such as comfort, facilities provided, cleanliness and customer satisfaction.
- e. The need for effective environmental performance indicators.
- f. A requirement for the operator to regularly report on and publish performance data at an individual route/service level.
- g. Making the financial detail of the franchise more transparent by requiring the franchise operator to publish its investment and profit data as well as any subsidy received from Government.
- h. The need for high standards for stations and a requirement to improve station facilities.
- i. Simplification of ticketing arrangements and a fares policy which controls fare increases and provides value for money.
- j. A significantly enhanced role for community rail, with additional support from the franchise operator and Welsh Government.
- k. Integration with other modes of transport, including the south east Wales Metro and the bus network.
- l. New and innovative ways of encouraging more people to integrate rail travel with walking and cycling.
- m. Effective branding to promote a positive image of Welsh rail transport.
- n. A closer working relationship between the franchise operator and Network Rail to reduce costs and enhance customer service. The needs of those areas of the franchise lying outside the Network Rail Wales route must properly be addressed

Response: Accepted. The Welsh Government is not the franchising authority for the Wales and Borders franchise at present. It remains the ambition of the Welsh Government that the agreement for the next Wales and Borders franchise should be focused on achieving passenger satisfaction, value for money and our wider ambitions for the economy.

Financial Implications: Beyond the costs associated with specifying, procuring and managing a franchise there would be likely to be additional financial implications associated with implementing a regime similar to SQUIRE.

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