

Enterprise and Business Committee

Meeting Venue:

Committee Room 2 – Senedd

Meeting date:

4 February 2015

Meeting time:

09.15

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



For further information please contact:

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Agenda

Pre-meeting (in private) (09.15–09.25)

1 Co-investment in Skills Inquiry – Scoping Paper (in private)

(09.25–09.45) (Pages 1 – 5)

Attached Documents:

Co-investment in skills scoping paper

2 Introductions, apologies and substitutions

3 Wales and Borders Rail Franchise Follow-up Scrutiny (09.45–10.45)

(Pages 6 – 20)

Professor Stuart Cole, Emeritus Professor of Transport, Wales Transport Research Centre, University of South Wales

Attached Documents:
Research Brief

Break (10.45–11.00)

4 Wales and Borders Rail Franchise Follow-up Scrutiny (11.00–12.00)

(Pages 21 – 23)

Edwina Hart, Minister for Economy, Science and Transport

James Price, Director General, Economy, Science and Transport

Attached Documents:

EBC(4)-04-14 (p.1) Minister for EST – Wales and Borders Rail Franchise

De-brief (12.00–12.15)

5 Papers to note

5.1 The future of the Wales and Borders Rail Franchise – Submissions from Porterbrook and Angel Trains (Pages 24 – 31)

Attached Documents:

EBC(4)-04-15 (p.2) Porterbrook submission

EBC(4)-04-15 (p.2a) Angel Trains submission

5.2 Letter from Minister for Economy, Science and Transport to William Graham regarding Trade and Inward Investment (Pages 32 – 33)

Attached Documents:

EBC(4)-04-15 (p.3) Minister for EST letter to William Graham

Agenda Item 1

Document is Restricted

Agenda Item 3

Document is Restricted

Written evidence to the Enterprise and Business Committee about the Wales and Borders Rail Franchise Charter – 4 February 2015

Background

In December 2013, I welcomed the Committee's recommendations contained in its Charter for the future of the Wales and Borders Franchise.

Under the current arrangements, many of the issues raised by the Committee are the responsibility of the Secretary of State for Transport as the franchising authority for passenger rail services. The announcement at the economic investment summit in November to transfer executive responsibility for Welsh rail franchising to the Welsh Ministers is welcome progress in achieving a more equitable devolved settlement for rail services.

The Silk Commission recommended that there should be further devolution of powers to Wales reflecting the devolved settlement in Scotland. This remains our ambition, including responsibility for setting Network Rail's priorities and funding in relation to the Wales Route. In the light of the Smith report following the independence referendum in Scotland, our objective remains that Welsh rail devolution should be as extensive as the new settlement being proposed for Scotland.

Specifying and awarding the next rail franchise will be a significant step forward. It will offer us an opportunity to design Welsh rail services that more fully contribute to an integrated public transport system to better support our wider economic and social ambitions.

I accept that public involvement is essential for on-going management of both the current and the next rail franchise. The quality of the service we deliver to passengers must be at the heart of decision making for rail services in Wales. The decision to maintain services to Fishguard Harbour and the introduction of improvements on the Heart of Wales and Cambrian lines are testimony to our commitment to listen to the needs of passengers.

Progress

One year on from the publication of the Charter and in response to the Committee's first recommendation, we have made significant progress with the UK Government in determining our future role in rail franchising.

The conclusions of the work that has taken place between the Department for Transport, Wales Office and Welsh Government over the past twelve months is a clear commitment that decisions about the next Welsh rail franchise will be taken by the Welsh Ministers. We have established framework setting out the work that needs to be undertaken to ensure a smooth transfer of responsibility for rail franchising by early 2017.

Modernisation

The funding agreement between the Welsh Government and Department for Transport announced in November enables us to proceed with work to modernise the Valleys Lines infrastructure. This will create the conditions necessary for planning rolling stock requirements across the Welsh rail network.

Modernisation of the existing rolling stock operated in Wales under the current franchise is the responsibility of train operating companies. They are required to secure and operate appropriate rolling stock on our railways in line with requirements set out in our franchise agreement.

In acknowledging the Committee's recommendation to develop and publish a rolling stock strategy as a matter of urgency, I have had useful meetings with both rolling stock leasing companies and rolling stock manufacturers. I will maintain this dialogue to ensure that appropriate action is taken to ensure rolling stock in Wales is compliant with the Persons of Restricted Mobility (PRM) requirements by 2020 and is able to meet expected future passenger demand.

The Committee's third recommendation highlighted the need to ensure that the Welsh Government has the right staff with the required experience and specialist skills to develop and deliver the new franchise and the necessary rolling stock.

I recognise the need to base the development of rail routes and services on a detailed understanding of passenger flows within and outside of Wales as well as the passenger demand our rail services will need to meet into the future. In 2015 we will continue to enhance the skill base within my department and secure access to the key evidence needed for the continued effective management of the Wales and Borders franchise.

Delivery model

In December, I announced that I am establishing a not for dividend wholly owned subsidiary company of the Welsh Government, as a key part of our approach to delivering a more effective integrated transport system in Wales. This company will, in its first instance, concentrate on providing advice and technical expertise to drive forward the linked projects of the Metro, specifying and procuring the next Welsh rail franchise and the implementing the Valleys Lines modernisation project.

This new company will enable me to bring in the technical and commercial expertise necessary to augment my department in delivering these exciting projects.

Other services

The Committee highlighted the need to work constructively 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. In addition to focusing on the Wales and Borders franchise, I am

taking a proactive approach in discussions with the Department for Transport to ensure that long distance rail services operated by other franchises meet the needs of people travelling to and from Wales. Connectivity between Wales and key urban and economic centres in the rest of Great Britain are fundamental to our economic success.

Edwina Hart MBE CStJ AM

Agenda Item 5.1



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06 January 2015

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Dear Siân

Follow up to Porterbrook Leasing Company Limited's submission to the Enterprise and Business Committee regarding its inquiry into the future of the Wales and Borders Rail Franchise

1. This letter is in response to your email of Thursday 18 December regarding The Business Committee holding a follow-up scrutiny session with the Minister for Transport regarding the above and your request for an update in our thinking since we gave evidence to The Committee.
2. Having reviewed the submission that we made dated 9 September 2013, all of the points and issues included at that time still hold true. However, you have asked two specific questions in your email which we will deal with accordingly.

First question: Discussions we had with the Welsh Government about future rolling stock requirements

3. In February 2014 we were contacted by the Welsh Government with the following request;

"The National Assembly for Wales' Enterprise and Business Committee published its recommendations for the future of the Wales and Borders franchise in December after taking evidence from a variety of rail industry stakeholders including the train operator for the current franchise and rolling stock leasing companies. One of the recommendations made by the Committee, and accepted in principle by the Minister, is that the Welsh Government should develop a rolling stock strategy for rail in Wales.

As a response to this recommendation, we have undertaken an initial assessment of the current rolling stock deployed within the Wales and Borders franchise area and have noted that a number of the Diesel Multiple Units currently in service are likely to reach the end of their economic life in the next five to ten years, depending on the level of

investment required to be PRM-TSI compliant. We appreciate that our assessment is being undertaken in the context of the ongoing programme of electrification across Britain which will reduce the number of diesel units in operation.

In developing our thinking about the future requirements for rail services in Wales, we are keen to explore;

- I. The future availability of diesel units that may become available in the GB rail market over the next 30 years, based on the current programme of electrification continuing, and how this rolling stock could meet future passenger demand in Wales; and*
 - II. Given the continuing need for some 'self powered' units to be required where electrification is unlikely, your organisation's and the wider industry view about the future of any type of train which cannot collect electricity from an overhead or third rail source when in motion".*
4. Over the subsequent weeks and months we had a number of conversations and meetings with members of the Welsh Government team who were tasked with this project. We were also in dialogue with Arriva Trains Wales (ATW) at the time discussing with them potential refurbishment and upgrade work to the trains they are operating.
 5. We have taken members of the Welsh Government team to view a Class 156, a train similar to a Class 150, so that they could appreciate the effect on the passenger environment of an interior refurbishment and the modifications which make the unit compliant with the forthcoming PRM TSI legislation. We are also planning to invite all stakeholders to see one of our Class 150 fleets which has recently received PRM TSI work.
 6. The discussions with ATW centred around the fact that at this point in time we are undertaking a piece of work known as a C6 exam on the Class 150 units whereby we carry out certain repairs, modifications and upgrades to the body and interior of the trains. It is our view that this is the ideal time to undertake the modifications necessary to comply with the PRM TSI legislation and we could at the same time refurbish the trains to give a higher level of passenger satisfaction. All of this would make the trains suitable for operation well into the next franchise. The cost of this work to the 72 Class 150 carriages that ATW operates is approximately £•.
 7. We made an offer to ATW and brought the Welsh Government into the discussion. The offer was that we would undertake this work and contribute £• of the cost on the basis that the remaining costs were covered by ATW and or the Welsh Government. This could either be by paying the remaining cost or alternatively Porterbrook would pay and recover this by and increasing the lease rental. The latter brings with it the added benefit that we would take a residual value position past the end of the current franchise.
 8. We also discussed this proposition with the Welsh Government and understand that ATW made a similar approach but as yet we have not been able to bring things to a conclusion. Unfortunately, as we have needed to continue with the C6 work on the trains

we may well have missed the boat on this opportunity; if not on the whole fleet then certainly on part of it. It would still be possible to carry out the work but it will mean bringing the trains that went through the programme early, back into the factory for a second time. This unplanned event will obviously have an effect on train availability.

9. We continue to look at alternative commercial models with ATW for the introduction of the PRM TSI work and refresh work across all of the fleet, such as an initial up front capital payment so as to reduce the increase in capital lease rental.
10. In December 2013 we had a meeting with James Price, Director General, Department for Economy, Science and Transport for the Welsh Government. At this meeting we made a short presentation of our view of the future potential issues with the current rolling stock fleet and the effect that any delay in electrification could have. We also suggested solutions to deliver a contingency plan should electrification be delayed which was in line with discussions we were having with ATW and subsequently had with the Welsh Government in response to their approach detailed in paragraph 3 above. The presentation we made to James Price is included here as Appendix i.

Second question: Our views on planning for rolling stock for the newly electrified lines – particularly the implications of any delay in construction of the electrified lines resulting from the dispute over funding Valleys electrification.

11. It is our view that planning for rolling stock for the newly electrified lines should only take place once a resolution to the situation with the current diesel train fleet has been agreed and enacted. Only then will the time scales available for planning the introduction of electric trains be accurately known.
12. On the basis that the diesel train situation has been resolved and as a result of this a contingency plan is in place should either the route electrification or electric trains be delivered late, or both, it is right to now consider the electric train supply. There are 3 options available;
 - a. Buy new trains
 - b. Cascade in existing trains
 - c. A mixture of both of the above
13. Buying new trains is theoretically a simple process but not one that should be underestimated if the correct train is to be specified. The cost of new trains will depend on a number of parameters but the main objective must be to keep them as standard as possible while making them suitable for the operation. One complexity which will come into play here is that it is almost certain that the train that will be required for service on the Valley Lines will be different from the one which is needed for main line use; so there will need to be two specifications.
14. If new trains are the solution then it's a matter of picking the point in time in the future that they are required to be in operation (when the electrification is complete) and working back from that to determine when the procurement process should start. We would suggest that the process should start about 4 years before the full fleet is needed

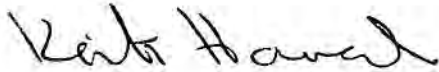
in operation. What must be avoided is that all of the trains have been delivered before the route electrification has been completed as having new trains standing idle is both expensive and detrimental to the condition of the trains.

15. Cascading in an existing fleet of trains should be substantially less expensive than buying new. However, it is possible that the product on offer, even after extensive refurbishment, may be suboptimal and not deliver the required performance or passenger environment that is required, if this is seen as a long term solution. If existing trains are to be considered as an option then the rolling stock owners should be approached and asked to submit proposals for evaluation as they will have a good idea now as to what will become available in the future.
16. There are potentially two elements to the third option; both new and existing. Firstly, with different specification trains needed for the Valley Lines and the mainline it is possible that one, probably the mainline trains, could be satisfied using existing equipment. There will be a much smaller fleet of mainline trains and as they will be of a different specification to the Valley Line trains, if purchased new, the cost could be restrictively high as a consequence.
17. The second element to the third option is a mixed fleet of new and existing trains on the Valley Lines. At first this may seem illogical but it has a great deal of merit when cost is a consideration. As with any commuter service the Valley Lines experiences high passenger loadings at the morning and evening peaks but much lighter loadings throughout the day. A sensible and cost effective solution to this may be to purchase enough new trains to operate an all day service but use existing equipment, suitable refurbished and adapted, to increase the operational fleet size during the high passenger loadings at peak times. The peak time trains will probably have less seats and more standing room and operate in fixed 6 or 8 car formations. They will sit in sidings during the day covering much less mileage than the new trains and as a result will attract a much lower rental and maintenance charge than if they operated an all day service.
18. As an additional benefit, the passenger group that needs to be attracted, the mid day social and leisure traveller, will experience new trains with the modern level of customer comfort that they will bring. This position would also be welcomed by the operator who would have a level of redundancy available which could be used to cover for trains that need to undergo unplanned maintenance or accident repair. At some point in time in the future when the new electric services have been developed and passenger numbers increase, more new trains can be purchased to replace the existing stock or to increase the overall fleet size.
19. With regard to the implications on any delay in the electrification programme, the non availability of PRM TSI compliant trains should be covered by taking the decision now to undertake PRM TSI compliance work and refurbishment on the diesel fleet. The programme of works is likely to take 3-4 years to conclude. This provides the most cost effective solution and minimises impact on service availability. This is the contingency plan.

20. The decision on the type/specification of the electric train fleet that is required should be being discussed now and the procurement process started. Whether new or existing trains are chosen, or a mixture of the two, a level of flexibility needs to be built in for any delays to the electrification programme that must be a possibility.

Thank you for the opportunity to submit our views which we hope answers the questions that you set.

Yours sincerely



Keith Howard
Commercial Director

Enc:

Copies:



Meeting with James Price 2 December 2013

South Wales electrification and issues with the current rolling stock fleet

1



- Welsh Government must have plan in the event of failure
- Work must be undertaken quickly on current DMU fleet to make them compliant
- 72 of the 188 are class 150s which will be retained by next franchisee or cascaded to other UK operators
- ATW can be given responsibility for agreeing the contractual changes
- Cost of compliance plus an element of refurbishment; £15/20m
- Work can be placed locally; Pullman at Canton (Cardiff)
- Internal modifications will include fitment of toilet module supplied by PCC from Newport South Wales
- Undertaking work now will deliver benefits to disabled passengers early; Wales could be first part of UK 100% compliant
- £5m of the work will be Pacers which may prove to be unnecessary if electrification on time but this is a small price to pay compared with the alternative; **no trains or the only part of the UK non-compliant**

3



2



- Electrification of Valley Lines due early CP6 (2019/24) but no commitment to complete before PRM TSI deadline date 31 Dec 2019
- ATW fleet currently 268 DMU vehicles, 188 of which (73%) not compliant with PRM TSI; includes all trains that operate on Valley lines
- Very good chance electrification not completed by dead line date; if trains not compliant there will be no service or will need derogation
- Electric trains cannot operate until last piece of infrastructure is completed
- There is currently no contingency plan in place
- The current franchisee has franchise to October 2018 so has no interest in undertaking compliance work
- Incoming franchisee will not have sufficient time to complete compliance work
- On 1 January 2020 Wales could be only part of UK with trains not compliant to PRM TSI or having to cancel services

- Porterbrook will make the funds available to undertake PRM TSI compliance and refurbishment work
- We will take a residual position on the work on the class 150 fleet so as reducing the cost impact on the Welsh franchise
- As the supplier of heavy maintenance we will let the contract for the work on behalf of ATW
- We will, subject to the proper commercial negotiations, place as much as possible of the work in the South Wales area
- The Welsh Government can carry on the discussions on electrification content that there is a contingency plan

4



30th January 2015

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Dear Siân

Re: Wales and Borders Franchise inquiry

Thank you for your correspondence of 18th December regarding the Enterprise and Business Committee's follow-up scrutiny session as part of its inquiry into the Wales and Borders Franchise. I was delighted to give evidence to the Committee as part of its original inquiry and am pleased to provide a further update on our work since.

Angel Trains has had a number of discussions with the Minister and her officials about rolling stock requirements, and we continue to have a regular dialogue with her department. We were particularly pleased to host a visit by the Minister recently to our Cwmbran-based supplier, PCC.eu, who support our work by providing parts for the refurbishment of Angel Trains' rolling stock to meet PRM (Persons of Reduced Mobility) requirements, and with whom we have placed orders exceeding £7.6m.

ROSCOs take a long-term strategic view of the industry, as the trains we buy have a life span of +30 years. Visibility of the future of the rail industry in Wales and a long term strategic plan for how rail can support economic development is essential for us to be able to deliver greater value for money and meet passengers' needs now and in the future.

With this in mind, it remains of vital importance to get greater detail and certainty over the future of the Wales and Borders Franchise and the electrification programme as soon as possible. In this context I would particularly highlight the need to make all rolling stock PRM compliant under EU regulations by 1st January 2020.

I would continue to encourage the Committee to consider the significant benefits of upgrading existing rolling stock to meet Wales' needs and in reducing cost. Angel Trains believes that it is possible to provide lower cost rolling stock solutions through continued service operation of existing fleet to provide an 'as new' experience for passengers, lower maintenance costs and

improved reliability. This is not mutually exclusive to the procurement of new trains and we would be pleased to share further information on our experience in new train procurement and our work in enhancing existing rolling stock, most notably a project with Arriva Trains Wales and rail maintenance specialist LNWR, funded by the Welsh Government, to refurbish 24 Arriva Trains Wales Class 158 trains running on the Cambrian line.

I hope this update assists you in your work and look forward to hearing from you should you require any further information.

Yours sincerely



Kevin Tribley
Chief Operating Officer



Llywodraeth Cymru
Welsh Government

William Graham AM
Chair of Enterprise & Business Committee

william.graham@wales.gov.uk

23 January 2015

Dear William

Following the constructive debate on the 3rd of December, I committed to reviewing elements of our response to the inquiry into the Welsh Government's approach to trade and inward investment.

One of the recommendations called for greater transparency of our inward investment statistics and for the use of capital investment to be included as a measure to record growth. A number of witnesses to the inquiry called for the Welsh Government to track the level of foreign investment in Wales by recording the amount of capital investment, rather than jobs or projects, as this was regarded as a more accurate way of measuring investment.

Following the debate, we will now publish a consolidated capital investment figure for the year as per the Committee's recommendation. However, for reasons of commercial confidentiality, we are unable to publish the full details of investments without prior consent from the company and, in many cases; the total capital investment is not disclosed to us by the company.

Where the information is made available to us, for example when we have provided financial support, we will publish a consolidated capital investment figure but it must be noted that this will not necessarily be the full capital investment figure for all foreign direct investment (FDI) projects for the whole year and cannot be used as an accurate measure for tracking investment made in Wales by overseas companies.

We will continue to publish targets and measure FDI based on the number of projects and jobs secured as these details are fully available to us and present the most accurate method of tracking investment on an annual basis. This method also enables us to benchmark our performance against the rest of the UK as it uses the same criteria.

I also made a commitment to review the quality of the information available to exporters as highlighted in recommendation seven. Our support is designed to help businesses at all stages of their export journey. We will shortly be launching a new online 'ExportZone' which will provide comprehensive information about support for exporters and I will make Assembly Members aware when the new website is available.

Many of the recommendations were accepted in part and I assure you that every effort will be made to explore the opportunities contained in these recommendations. For example, I will continue to assess our trade and investment approach and a review has been commissioned to examine the EU funded trade programme and its activities.

Edwina Hart