

National Assembly for Wales
Enterprise and Business Committee

The Future of the Wales and Borders Rail Franchise

December 2013



Cynulliad
Cenedlaethol
Cymru

National
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Wales

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The Committee was established on 22 June 2011 with a remit to examine legislation and hold the Welsh Government to account by scrutinising its expenditure, administration and policy, encompassing economic development; transport and infrastructure; employment; higher education and skills; and research and development, including technology and science.

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Welsh Conservatives
Monmouth



Mick Antoniw
Welsh Labour
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The Committee's Recommendations

The Committee's recommendations to the Welsh Government take the form of a Charter for the next Wales and Borders Franchise. Please see paragraph 138 below.

Foreword

1. A great deal is hinging on the future Wales and Borders Rail Franchise from 2018. The franchise has the potential to significantly improve rail services for passengers and deliver better value for money for the taxpayer.
2. The next franchise will be a huge undertaking and in our view preparation for the new franchise needs to start happening now. First and foremost we believe the current lack of certainty about the exact roles of Welsh Government and UK Department for Transport in developing and procuring the next franchise needs to be resolved quickly so that the whole franchising process can be set in motion and on the right track.
3. There needs to be early and wide consultation with all stakeholder groups on the identification of the key outputs and outcomes required from the franchise.
4. Procuring and delivering the rolling stock (trains) that will be needed over the term of the franchise and beyond will take some years. There is therefore a need to take prompt action on this. One of the issues that concerned us is that rolling stock will need to be planned to comply with disability regulations and to cope with the phasing in of the electrification programme, both of which will post-date the next franchise. We also concluded that the Welsh Government needs more staff with the necessary experience and expertise in this important area as well as in franchise procurement more generally.
5. We have listened to arguments for and against the different possible models for managing the next franchise. We are not fixed on any one approach but we agree with some witnesses that the key criterion should be choosing the model that delivers the best outcomes for passengers and taxpayers. The Welsh Government also needs to be clear about how the risks involved in the chosen management model will be managed. A decision on this has to be made by 2015 at the latest.
6. One of our priorities is to ensure that the current franchise map is retained if not expanded so that cross-border routes and services are protected for passengers in both the Welsh and English domains of the franchise.

7. Finally, we believe that all these complex factors need to be brought together within a coherent plan for the next franchise. Furthermore, the franchise needs to be considered within the Welsh Government's wider strategic objectives, such as the proposed Metro for south east Wales and policies for city regions.

8. Our Charter sets out a clear set of actions that the Welsh Government will need to implement to secure and deliver an effective franchise for the future.

Introduction to the inquiry

9. We were pleased to hear from a number of stakeholders that our inquiry in the future of the Wales and Borders Franchise has been well timed. As Arriva Trains Wales told us:

“This committee is happening at the right time, because it is far enough ahead for us to build those consultation processes with passengers into the process. So, I think that it is very timely that we are having those thoughts now.”¹

10. We began this inquiry by launching a consultation for written evidence over the summer of 2013. The terms of reference for the inquiry are attached as Annex A. We received 95 written submissions, which are listed at the end of this report.

11. Our first oral evidence session consisted of an engagement event in the Pierhead in Cardiff Bay where Committee Members engaged in informal round-table discussions with representatives of rail user groups from the Wales and Borders Franchise area. We would particularly like to thank Passenger Focus² for its assistance in making the session such a success. The summary of the discussions, which provided a sound platform of evidence for the rest of our inquiry, is attached as Annex B.

12. The remainder of the inquiry consisted of oral evidence sessions with a range of witnesses, including the Minister for Economy, Science and Transport and her officials, the UK Department for Transport and the Scottish Government.

13. We are grateful to all the people who contributed their views, and we hope that our Charter for the next franchise does justice to the comments that have been made.

¹ Record of Proceedings paragraph 120, 3 October 2013

² Passenger Focus is the statutory watchdog for rail passengers throughout Great Britain, and for bus, tram and coach passengers in England (outside London)

The Current Franchise

Rail franchising law and policy

14. Franchising is primarily addressed through the *Railways Act 1993* (as amended). The UK Secretary of State designates rail passenger services to be delivered by franchises in England and Wales; prepares and issues an Invitation to Tender; and selects the franchisee from the tenders submitted. Under the *Railways Act 2005* (as amended) the Secretary of State must consult the Welsh Ministers regarding franchise agreements that include a Welsh Service.³ The Welsh Ministers must be a joint party to any franchise that includes a Wales-only service.⁴

15. The current Wales and Borders Franchise was awarded by the Strategic Rail Authority (SRA) for a 15-year term, commencing in 2003. The *Railways Act 2005* abolished the SRA and transferred its powers in relation to Welsh franchises to the Department for Transport and the Welsh Government. The Welsh Government became responsible for managing and funding the Wales and Borders Franchise in April 2006.

16. Arriva Trains Wales is the current franchisee; its performance is monitored and reviewed every five years.

Views on the current franchise

17. Most of the written evidence we received was critical of the current franchise agreement. Criticisms included the lack of demand forecasting and provision for passenger growth and investment by the operator, failure to reflect Welsh Government policies and priorities, limitations in the performance management regime, inadequate rolling stock, poor core services standards, inadequate provision to support community rail, and the cost and complexity of fares.

18. The witness from the Association of Train Operating Companies told us that he was involved in the letting of the current franchise. In explaining its limitations he said that the franchise was awarded at a time when budgets were limited.⁵ Given that preparations for the next

³ A Welsh service is a service that begins, ends or makes at least one scheduled stop in Wales

⁴ A Wales-only service is a service that begins and ends in Wales and does not make any other scheduled stops outside Wales

⁵ Record of Proceedings paragraph 117, 3 October 2013

franchise are also being made during a time of austerity, we trust this will not lead to similar limitations in the next franchise agreement.

19. Some respondents such as SWWITCH, the regional transport consortium for south west Wales, commented that Arriva Trains Wales has done well given the limitations of the franchise.⁶ This view was also expressed by some stakeholders who attended our round-table discussion in the Pierhead, Cardiff on 3 October.

20. Arriva Trains Wales described the current franchise agreement as an “effective contract”⁷ that has helped deliver a “high performing railway” with significant growth in passenger usage and “record” levels of passenger satisfaction as well as improvements in punctuality. At the same time Arriva Trains Wales also noted a number of areas that would have been “worthy of more consideration” such as provision for passenger growth, capital investment, alignment of incentives, stakeholder expectations and the flexibility of the franchise. Arriva Trains Wales stated that while the current franchise agreement required it to invest only £400,000 over a 15-year period, it has invested £30m in a range of areas.⁸

21. Passenger Focus disagreed that the current franchise agreement has been “effective”: it believed that certain elements were good but that the contract “was flawed from the start”⁹ in not planning for future growth.

22. The National Passenger Survey, conducted annually by Passenger Focus confirmed that satisfaction levels with the current franchise are highest in the Valleys and south Wales (90 per cent and 87 per cent respectively) and lowest in north Wales (84 per cent).¹⁰ Passenger Focus also highlighted research that shows Welsh rail passengers identify value for money, frequency, punctuality and seating capacity as priorities for improvement.

23. The fact that the current franchise was accepted on the basis of no planned improvements was described by Railfuture¹¹ as

⁶ South West Wales Integrated Transport Consortium written evidence paragraph 1.2

⁷ Arriva Trains Wales written evidence paragraph 2.1

⁸ ATW written evidence paragraph 2.7

⁹ Record of Proceedings paragraph 11, 3 October 2013

¹⁰ Passenger Focus written evidence Appendix A

¹¹ Railfuture is an independent organisation campaigning for better rail services for passengers and freight

“astonishing”.¹² Sewta made the important point that because the Welsh Government was not involved in the procurement of the current franchise, little consideration was given to its transport, spatial planning and environmental priorities.¹³

The Scottish rail franchising programme

24. During the course of our inquiry witnesses referred to Transport Scotland,¹⁴ which is currently in the process of procuring two rail franchises. We therefore took oral evidence from Transport Scotland’s Head of Rail Policy, and we are very grateful to Transport Scotland for helping inform our inquiry at such short notice.

25. The current ScotRail franchise agreement expires on 31 March 2015. The Scottish Government has decided to separate the current franchise into two: the ScotRail Franchise awarded for 10 years (with a five-year break clause), which will continue to provide the regional, suburban and inter-city services on the Scottish Rail network; and the Calendonian Sleeper Franchise awarded for 15 years, which will provide overnight rail passenger services from London Euston to each of Edinburgh, Glasgow and Inverness.

26. Transport Scotland may be addressing similar issues to Wales but it is operating in a more devolved setting. The Scottish Government has executive powers in relation to franchise procurement and infrastructure specification, and it produces its own High Level Output Specification which sets the objectives for the rail industry for each five-year rail Control Period.

27. Powers to change the overall structure of the industry are not devolved however. Transport Scotland made clear to us that the Scottish Government was pursuing a standard franchise approach using private sector operators because “Ministers made a number of representations to Westminster for changes to the 1993 Act that devolved powers to them, but all of those representations were rejected.”¹⁵

¹² Railfuture written evidence paragraph 1

¹³ South East Wales Transport Alliance written evidence paragraph 5

¹⁴ Transport Scotland is an agency of the Scottish Government, accountable to the Scottish Parliament through Scottish Ministers and responsible for rail and trunk road networks, major public transport projects, concessionary travel and the National Transport Strategy

¹⁵ Record of Proceedings paragraph 300, 23 October 2013

28. It was very interesting to hear that Transport Scotland is including within its franchise specifications for greater public transport integration, including integrated ticketing and requesting bidders to come forward with propositions for integrating rail with buses and active travel (cycling and walking).¹⁶

29. We were also interested to hear about the extensive public consultation exercise that Transport Scotland carried out between late autumn 2011 and February 2012, which consisted of:

“23 stakeholder events right across Scotland for 160 organisations, and 16 station events.[...]it was probably the most extensive consultation that we had ever undertaken, because our Ministers believed that setting the rail agenda for the next 10 or 15 years was that important to the people of Scotland.”¹⁷

30. We asked Scottish rail user groups for their views on Transport Scotland’s public consultation. The Capital Rail Action Group (CRAG) informed us that some of the controversial ideas floated, such as closing stations close to each other, were “quickly dropped” and that “a good many of the points raised by railway groups and other bodies in response seem to have been incorporated in the Draft Invitation to Tender just issued by Transport Scotland”.¹⁸

31. Following the consultation, we heard that more detailed work was carried out to translate public aspirations into policy documents which shaped the specifications for the new franchises. It was also interesting to hear that Transport Scotland extended the current ScotRail franchise by about five months to give it sufficient time to consider fully its various options before making final decisions. We were encouraged to learn that Transport Scotland has been speaking to Welsh Government officials so that Wales can learn from its experiences.¹⁹

¹⁶ Record of Proceedings paragraph 302, 23 October 2013

¹⁷ Record of Proceedings paragraph 317, 23 October 2013

¹⁸ Email to the Committee Clerk dated 21 November 2013

¹⁹ Record of Proceedings paragraphs 323-325, 13 October 2013

Developing the New Franchise

Responsibility and devolution

32. The UK Department for Transport retains statutory responsibility for the specification and procurement of the Wales and Borders Franchise. The Welsh Government will be a party to the next franchise but its precise role in developing the new franchise is not yet clear.

33. As the paper from the Minister for Economy, Science and Transport stated, the Department for Transport (DfT) and Welsh Government have commenced discussions about the possible devolution of further powers in relation to rail and the appropriate financial settlement.²⁰ The Minister confirmed that:

“Discussions with the UK Government are currently on-going and we expect to make progress in the early part of next year. At the moment, however, I suppose that we are defining priorities and outcomes[...]to understand where there could be a DFT-led franchise process or a process that would be led by us. So, it is about what we want out of it. The position should therefore be clear by the end of 2014 for the necessary engagement.”

34. Both governments have identified the need for further devolution in relation to rail franchising in their evidence to the Silk Commission. The Welsh Government has stated it sees scope for change in the settlement as it applies to rail services *and* infrastructure. The UK Government’s evidence to the Silk Commission stated:

“The current devolution boundary in respect of the Wales and the Border franchise means that the in-franchise financial risk sits with the Welsh Government but the financial risk of a new franchise (and catastrophic failure) remains with the UK Government. We believe this is undesirable. The Welsh Government has expressed a keen interest in the transfer of the UK Government’s residual rail responsibilities in respect of the franchise, as set out in the Joint Parties Agreement.”²¹

²⁰ Welsh Government written evidence paragraph 10

²¹ UK Government’s evidence to the Commission on Devolution in Wales – Part II: The Welsh Devolution Settlement, 13 March 2013 page 59

35. In our report on Integrated Public Transport in Wales we recommended further devolution of rail powers in relation to both rail franchising and infrastructure. We therefore wholeheartedly agree with the Minister for Economy, Science and Transport’s comment that “we want to take control of our own destiny” on the next franchise.²²

36. The Department for Transport’s evidence²³ to the Silk Commission stated that any “complete transfer” of franchise responsibilities to Wales could necessitate “limited” changes to the franchise map.

37. This comment is significant given that Arriva Trains Wales told us that the English routes in the franchise were the most financially sustainable and therefore its advice was to keep those routes within the franchise area.²⁴ A map of the current franchise area showing cross-border routes and English destinations is included as Annex C.

38. In our view it is essential that the franchise map does not significantly change so that east-west links between Wales and England can be protected together with the financial sustainability of the network as a whole.

Timescales

39. An important point highlighted by Arriva Trains Wales was the need to plan the future Wales and Borders Franchise alongside the next stage of the Great Western Franchise and the future Virgin trains franchise for the north Wales coast routes, both of which will be the responsibility of the Department for Transport.²⁵ The Cross Country franchise is also due for renewal in 2019.

40. According to the Department for Transport, the key dates for procuring the Wales and Borders Franchise are:

- March 2017: publication of a notice in the Official Journal of the European Union
- August 2017: issue of the Invitation to Tender (ITT)
- June 2018: contract awarded
- October 2018: start of the franchise.

²² Record of Proceedings paragraph 134, 23 October 2013

²³ UK Government’s evidence to the Commission on Devolution in Wales – Part II: The Welsh Devolution Settlement, 13 March 2013 page 59

²⁴ Record of Proceedings paragraph 173, 3 October 2013

²⁵ Record of Proceedings paragraph 175, 3 October 2013

41. These may be key dates but as we go on to highlight, work needs to start happening now to ensure the deadlines can be met.

Expertise and resources

42. Several consultation respondents raised concerns about the current level of expertise and resources within the Welsh Government to develop the franchise specification and procure the contract. Professor Stuart Cole argued that there are currently “limited” skills within the department for procuring rail rolling stock.²⁶ He argued there needed to be “a team of expertise... All of these things require experienced railway management and operational people in various levels, on the rolling stock side more than anywhere else”.²⁷

43. Arriva Trains Wales told us that the management model that will be followed largely defined the expertise needed from the Welsh Government:

“If there is a not-for-dividend or gross-cost contract-type arrangement, that implies far more administration and management by the Assembly. If it is more of a net cost, where the operator takes the risks and does the planning, that requires less administration and less risk.”²⁸

44. When we spoke to the UK Department for Transport (DfT) we heard it had:

“Set up our franchise teams[...]as teams of eight within the department. However, that is proving to be, in my view, quite tight. In addition to that, we have to hire technical advisers, financial advisers and legal advisers. We also draw very widely upon other skills within the department that are not directly within the team. There are support people within the franchising directorate who help design policies. There are people who help us with consistent procurement process. There is also wider support from colleagues in strategy, rolling stock, rail performance, timetable experts and fares experts

²⁶ Professor Cole written evidence page 13

²⁷ Record of Proceedings paragraph 216, 9 October 2013

²⁸ Record of Proceedings paragraph 126, 3 October 2013

that we draw upon. When it comes to evaluation, we have a team of about 50 external and internal people.”²⁹

45. DfT stressed the importance of having in-house expertise:

“Before the west coast franchise, it was our ambition that we kept as much of the process in-house, and that was borne of experience that the wider use of external consultants and interim managers leads to a specification that is not as robust and deliverable as one that has been procured by people with long-term interest and experience inside the department’s procurement process. So, there is a high value to the core team being internal people who have worked long-term for the department.”³⁰

46. Transport Scotland told us that it had 65 people who deal with rail issues, almost all of whom were engaged in some aspect of the consultation exercise referred to in paragraph 29 above. 14 people were involved in taking forward the detailed specification. Its commercial team, which takes forward the “franchising of the specification” has 12 people. It also supplements its staff resources with financial advisers, technical advisers and legal advisers, all of whom are contracted out from parties that have bid for the work and who have good experience in franchising within the UK.³¹

47. In her evidence to our scrutiny of the Welsh Government draft budget proposals 2014-15 the Minister for Economy, Science and Transport highlighted a shortage of rail revenue funding, which we believe may have an impact on the Welsh Government’s capacity to procure and manage the next franchise. This is especially so in light of Transport Scotland’s comment that “roughly speaking, for a Government to go through a franchising exercise would cost in the order of £4 million”.³²

Franchise term

48. Consultation responses differed on the issue of the preferred length of the next franchise. Most suggested that a long franchise would encourage investment, although recognised the need for

²⁹ Record of Proceedings paragraph 38, 23 October 2013

³⁰ Record of Proceedings paragraph 42, 23 October 2013

³¹ Record of Proceedings paragraph 345, 23 October 2013

³² Record of Proceedings paragraph 346, 23 October 2013

flexibility to support innovation and the need for regular review and break clauses to address underperformance. Angel Trains,³³ for example, suggested that a longer franchise would encourage investment in rolling stock and whole life costs,³⁴ an issue we return to in paragraphs 78-101 below.

49. The Brown Review, commissioned by the Department for Transport in the wake of the cancellation of the InterCity West Coast Franchise in 2012, questioned the benefit of long franchises in terms of incentivising investment and suggested they increase risk. The Review therefore cautioned against franchises of more than 15 years without break clauses, although it acknowledged that they may be justified for smaller franchises with stable revenues, suggesting an initial term of 7 to 10 years with a continuation option of 3 to 5 years.³⁵

50. Railfuture suggested that the current franchise could perhaps be extended for a short, specified length of time to facilitate a move to not-for-dividend rail.³⁶

51. The Department for Transport informed us that long-term franchises had not proved as attractive as they had once appeared and therefore its policy on length of franchise term was currently “horses for courses”.³⁷

52. The Minister for Economy, Science and Transport implied that she “would favour going for more of a long-term relationship”.³⁸

³³ Angel Trains is a rolling stock operating company (ROSCO) which owns about 37% of British rolling stock, including the class 158 fleet that operate in the current franchise

³⁴ Angel Trains written evidence paragraph 3.4

³⁵ DfT, The Brown Review of the Rail Franchising Programme, January 2013, pages 25-26

³⁶ Record of Proceedings paragraph 54, 3 October 2013

³⁷ Record of Proceedings paragraphs 58-61, 23 October 2013

³⁸ Record of Proceedings paragraph 239, 23 October 2013

Franchise specification and performance monitoring

53. A range of issues emerged in the evidence that relate to the structure of the franchise and the content of the agreement.
54. A significant number of consultation respondents suggested there should be clearly defined minimum service standards/outputs included within the new franchise, including frequency, punctuality, capacity and quality of rolling stock, cleanliness, integration with other transport modes, station facilities, dealing with complaints, clear protocols for delays and disruption, and affordable fares.
55. Several respondents mentioned the need for flexibility to cater for short-term needs, such as major incidents and events and adverse weather conditions.
56. Passenger Focus suggested that the specification should include “hard” measures such as overcrowding of trains and fare structure simplicity and transparency, but also “softer” measures relating to service quality.³⁹ Arriva Trains Wales agreed that managing overcrowding on trains was a priority.⁴⁰
57. Passenger Focus suggested that the franchisee should produce annual or even half-yearly statements about how it was performing against the specified targets, although performance against some measures such as punctuality could even be monitored on a continuous basis for individual routes or services.⁴¹
58. Professor Stuart Cole suggested that “the current penalty system relies too heavily on timekeeping alone” and that the new franchise should consider factors such as passenger growth, journey experience, train cleanliness and passengers’ personal security.⁴²
59. A number of respondents recommended the Service Quality Incentive Regime (SQUIRE) applied in Scotland, where 10 Transport Scotland staff monitor the service quality of ScotRail’s 200 train and 347 station facilities every four weeks, checking service areas such as graffiti, toilets, timetables, train cleanliness, staff service and the

³⁹ Record of Proceedings paragraphs 36 and 40, 3 October 2013

⁴⁰ Record of Proceedings paragraph 152, 3 October 2013

⁴¹ Record of Proceedings paragraphs 24, 36 and 47, 3 October 2013

⁴² Professor Cole written evidence page 3

public address system. Performance results are published quarterly and can be shown by station, by train or by line of route. ScotRail is financially incentivised to improve performance and penalised for failure to meet those targets.

60. Transport Scotland informed us that it had invested £0.25 million into giving its inspectors laptop devices so that they can produce instantaneous monitoring reports. It deemed the regime a success given that in 2008-09 the operator received penalties of £1 million, but the current figure was less than £200,000.⁴³

61. The Minister for Economy, Science and Transport told us she was “quite attracted” to elements of the SQUIRE approach.⁴⁴

62. The Capital Rail Action Group (CRAG) from Scotland believed that

“SQUIRE has, on the whole, been a good thing”. However, a target-setting culture is one where micro-management prevails and there's a real danger that you begin not to see the wood for the trees. If something's not a target, it doesn't get attention. Thus a piece of chewing gum or litter on a seat or carpet or one strip light out in a train is a disaster - but not losing hundreds of thousands of pounds through uncollected fares on a single line (the North Berwick line, especially between Musselburgh and Edinburgh) where no SQUIRE target is in place.⁴⁵

63. CRAG therefore suggested that Passenger Focus could do some work with passengers and managers on reviewing current targets and perhaps setting some new ones.

64. We were interested to hear from the Department for Transport that it had a “two-way” incentive regime whereby a benchmark is set with a rising trajectory in order to encourage improvements; franchise bidders will be rewarded financially if they overachieve from that benchmark but will have to pay financially if they underperform.⁴⁶

65. Regarding data sets, several respondents, including the rail user groups we spoke to at our engagement event, identified the need for

⁴³ Record of Proceedings paragraph 362, 23 October 2013

⁴⁴ Record of Proceedings paragraph 223, 23 October 2013

⁴⁵ Email to the Committee Clerk dated 21 November 2013

⁴⁶ Record of Proceedings paragraph 112, 23 October 2013

the Welsh Government to develop a thorough understanding on how, why and where people travel across the network and how rail transport links with demand for services such as hospitals and healthcare, housing, business and leisure.

66. Network Rail's written paper indicated that its work on assessing and planning for future demand on the railway until 2034 through the Long Term Planning Process (LTPP) will "help inform" the franchise specification.⁴⁷ In the oral evidence session we were told that work is already underway and will be completed by summer 2015,⁴⁸ although we believe that Network Rail should have a more structured programme of direct engagement with rail passengers to canvass their views.

Stakeholder engagement

67. Several witnesses - Passenger Focus, Arriva Trains Wales and the Association of Train Operating Companies - identified passenger involvement as an essential element of the development and on-going management of the next franchise. This position was also widely supported by consultation respondents. Passenger Focus believed that passengers should have a role in monitoring the franchise, such as through performance assessment against agreed targets.⁴⁹ Enhanced roles were also perceived for the Public Transport Users' Committee⁵⁰ and Passenger Focus in that process. Capital Traffic Management Limited suggested there should be a "franchise panel" of users.⁵¹

68. Arriva Trains Wales stated that it "commits fully" to engaging with Welsh stakeholders, but it also acknowledged that the rail system is complex: stakeholders will often request more stops, at the same time as wanting faster services.⁵² Nevertheless we were pleased to hear from Arriva that "any new franchise has to have a strong mechanism for ensuring that passengers' views are at the forefront of everything that the train operator does".⁵³

69. During the engagement event we held in the Pierhead in Cardiff on 3 October several stakeholders expressed concern about the lack of

⁴⁷ Network Rail written evidence page 1

⁴⁸ Record of Proceedings paragraph 30, 17 October 2013

⁴⁹ Passenger Focus written evidence paragraph 3

⁵⁰ We note that the Committee will be replaced by a Public Transport Users' Panel

⁵¹ Capital Traffic Management Limited written evidence paragraph 3.2

⁵² ATW written evidence paragraphs 2.11-2.13

⁵³ Record of Proceedings paragraph 157, 3 October 2013

direct representation for those passengers living within the franchise area but outside Wales.

70. We were encouraged to hear that the approach adopted by the UK Department for Transport (DfT) will “change considerably” for upcoming franchises:

“We need to get much better in engaging with passengers directly, rather than just through stakeholders. We have previously gone through passenger groups.[...]. we refused to accept comments from individual passengers during a consultation process. At the moment, there is a formal stakeholder consultation process, which takes place as part of the development of the specification, but we do not believe that it engages widely enough with passengers. Far too many passengers do not realise that their franchise has changed until the first day it operates and they suddenly have a new announcement and new colours start appearing on some of the carriages. There is already a project just starting in the department to look at this.”⁵⁴

71. DfT also referred to the “step change” in the communication that it will expect between franchisees and their passengers and stakeholders by making it obligatory for the franchisee to publish an annual customer report, setting out exactly what it plans to achieve in the following year, what it achieved in the previous year, how it engages with passengers directly, how it has taken their views into account, how it is engaging with stakeholders and how it is engaging with local authorities.⁵⁵

72. The Minister for Economy, Science and Transport told us that she was minded to “look at some sort of forum” of passenger groups.⁵⁶

Routes and infrastructure

73. Consultation responses called for a range of new routes and services in the new franchise, with an emphasis on connectivity to England, particularly the north West including Liverpool and Manchester Airports, as well as Birmingham and London.

⁵⁴ Record of Proceedings paragraph 50, 23 October 2013

⁵⁵ Record of Proceedings paragraph 53, 23 October 2013

⁵⁶ Record of Proceedings paragraph 198, 23 October 2013

74. We have referred in paragraph 37 above to the importance of the English routes within the current franchise map. It was interesting to hear from Arriva Wales how significant these routes are to the network as a whole:

“Very simplistically - and I am simplifying - the routes within Wales do not cover their operational cost. When we go cross border and into England, those routes do cover their costs, and, in fact, contribute a little to the cost of the franchise. So, our advice to the committee would be that it is important to keep those routes, not only from a financial aspect, but also because it is a key customer flow.”⁵⁷

75. A number of respondents called for an enhanced service from Aberystwyth to Shrewsbury and beyond on the Cambrian line. Continuation of the current trial services to Fishguard was also identified.

76. In terms of infrastructure enhancements, respondents called for the reopening of an internal north to south Wales rail link via Carmarthen and Aberystwyth; the electrification of rail in north Wales; and light rail in a number of towns and cities in south east and south central Wales.

77. We believe that the Welsh Government’s aim should be to secure improvements to the infrastructure across the whole franchise area to encourage further growth and ensure that the rail network delivers Welsh aspirations. However, to take full advantage of these developments the franchise agreement must be flexible. Where improvements to the network or developments in rail technology make improved services or extra capacity possible, the franchise agreement must ensure that these are fully exploited.

⁵⁷ Record of Proceedings paragraph 173, 3 October 2013

Rolling Stock

78. The age, capacity and quality of current rolling stock was felt to be an issue by many respondents. They identified a need for the next franchise to provide more rolling stock, more comfortable carriages, Wi-Fi and plugs, disabled access, refreshment and toilet facilities and greater provision for bikes and luggage.

79. There appeared to be a difference of opinion as to whether new rolling stock should be purchased or existing stock “cascaded” from other franchises, and also whether rolling stock should continue to be leased from rolling stock companies (ROSCOs) or bought outright by the Welsh Government.

80. In his written evidence, Professor Stuart Cole suggested there was “an argument” for the Welsh Government becoming a ROSCO in its own right, pointing to the Department for Transport’s role as indirect financier of the Intercity Express Programme which is procuring trains for use on the post-electrification Great Western Franchise. Professor Cole did not explicitly support this approach, but highlighted that with appropriate borrowing powers and funding the Welsh Government could become the owners of the Wales and Borders railway fleet from 2018.⁵⁸ In oral evidence he later told us that “unless it had partners, it should probably not become” a ROSCO.⁵⁹

81. Angel Trains believed that upgrading existing fleets provided better value for money than procuring new rolling stock, and that refurbishment can be to a high standard.⁶⁰ Arriva Trains Wales, however, suggested that new trains would “impact positively” on reliability and punctuality.

82. Porterbrook Leasing Company Ltd⁶¹ “strongly” advised that if new trains were to be procured and financed through a ROSCO the

⁵⁸ Professor Stuart Cole written evidence page 16

⁵⁹ Record of Proceedings paragraph 217, 9 October 2013

⁶⁰ Angel Trains written evidence paragraphs 4.2-4.3

⁶¹ Porterbrook is a rolling stock operating company (ROSCO) which procures and leases train fleets to franchise operators. It owns about 31% of British passenger rolling stock including 97 diesel units, accounting for 40% of the current franchise rolling stock

financier should be involved early and well before any contract was signed.⁶²

83. It was significant to hear from the Minister for Economy, Science and Transport that:

“We will consider both new and refurbished trains. I was a bit sceptical about refurbished trains, but I have met some of the individuals involved and they have shown me what refurbishment could do and it is a reality in terms of the standard - that is, the standard would actually be quite good.”⁶³

84. The procurement of rolling stock is problematic however because the lifetime of the stock is likely to be significantly longer than the length of the franchise term.

85. Arriva Trains Wales emphasised that Welsh rolling stock is nearly 40 years old and that there will be a need to upgrade existing, older stock to comply with the Person with Reduced Mobility (PRM) Regulations by 1 January 2020.⁶⁴

86. Porterbrook estimated that 73 per cent of the current fleet will be unable to operate after 2020. It pointed out that any contracts for PRM work will therefore need to be let during the current franchise. It believed this was a “major challenge” facing the Welsh Government at the moment because “during this franchise, there is no obligation on the franchisee to make that rolling stock compliant” and “you will not be able to make all of these trains compliant in that 14-month period.”⁶⁵

87. Rolling stock policy is further complicated because the phasing of electrification of the Great Western Mainline to Swansea and of the Valleys Lines (which according to the Minister will commence in October 2018 and complete by December 2019)⁶⁶ will also take place after the next franchise begins.

88. Porterbrook stated in its written evidence that although it would be “good practice” to introduce electric trains as soon as the Mainline route is electrified, it would be “more sensible” to wait until the Valleys

⁶² Porterbrook written evidence paragraph 25

⁶³ Record of Proceedings paragraph 155, 23 October 2013

⁶⁴ ATW written evidence paragraphs 3.1-3.2

⁶⁵ Record of Proceedings paragraph 23, 9 October 2013

⁶⁶ Record of Proceedings paragraph 171, 23 October 2013

Lines are electrified in order to acquire a single homogenous fleet.⁶⁷ Angel Trains told us that the timescale for Valleys electrification was “critical”, and that if it occurs after 2020 there would be an additional cost for making trains PRM compliant for just a short period of time.

89. We also understood from Porterbrook that no diesel trains are currently being manufactured for the UK market.⁶⁸ Porterbrook therefore suggested that if the Welsh Government were to decide to undertake PRM work it may be better value for money to use refurbished diesel trains on the electric network to prolong the period of use.

90. Professor Stuart Cole suggested that there was a need to assess the mix of rolling stock in terms of the types of service required – he listed metro-style electric trains, regional electric express services, regional diesel trains and local diesel trains.⁶⁹

91. We held an interesting conversation with the rolling stock companies about the lack of provision for carrying bikes on trains, particularly in light of the objectives of the *Active Travel (Wales) Bill* to encourage more people to walk and cycle.⁷⁰ We appreciate there are challenges to carrying bikes on trains and that it may compromise seating capacity and the length of stop at stations for bikes to be loaded on and off the train.

92. On the other hand, the Association of Community Rail Partnerships told us that we were in “danger of...being led down a blind alley about the business of carrying bicycles on trains”, and that in the Netherlands “they have concentrated on ways of leaving a bike at a station and ways of hiring a bike at the other end. So, you might have to look at the issues slightly differently”.⁷¹

93. We believe this issue has to be resolved to meet Welsh Government priorities for transport and health as a whole.

94. The Association of Train Operating Companies suggested that the best approach was to ensure rolling stock policy is “flexible, managed

⁶⁷ Porterbrook written evidence paragraph 16

⁶⁸ Record of Proceedings paragraph 26, 9 October 2013

⁶⁹ Professor Stuart Cole written evidence page 14

⁷⁰ Record of Proceedings paragraphs 110-128, 9 October 2013

⁷¹ Record of Proceedings paragraphs 219 and 221

by the franchisee, and takes account of the best value for the operator and taxpayer”.⁷²

95. Arriva Trains Wales told us “we need to think long term” about a rolling stock strategy.⁷³ Clarity on future plans will give confidence to the industry and reduce costs by improving procurement efficiency.

96. A long-term rolling stock strategy was also supported by Angel Trains on the grounds of achieving “more efficient procurement of trains, a better cost in terms of refurbishing existing rolling stock and, generally, a lower cost that can only benefit the Welsh Government and, ultimately, the paying passenger”.⁷⁴ It stated in its written evidence that it would like to work with Network Rail, industry stakeholders, the Welsh Government and Department for Transport on the development of an industry rolling stock strategy and that:

“Rolling stock should not be considered in isolation but rather as part of the wider long term rail strategy and demand forecasting that links to economic development strategies and plans for future employment distribution in Wales.”⁷⁵

97. The Department for Transport did not favour a rolling stock strategy but rather specifying outputs and requirements and leaving it to the franchisee to deliver.⁷⁶ In contrast, the Minister for Economy, Science and Transport told us that the Welsh Government “should look at a long-term strategy in terms of what rolling stock we require”.⁷⁷

98. The Welsh Government is already exploring its options for acquiring rolling stock, including purchasing its own rolling stock. We were told by the lead Welsh Government official that:

“Rolling stock leasing companies, in my view, are quite expensive. The current stock is very expensive. We have tried to buy it several times over the last 10 years, and we were unable to buy it because the company was making so much

⁷² ATOC written evidence paragraph 18

⁷³ Record of Proceedings paragraph 131, 3 October 2013

⁷⁴ Record of Proceedings paragraph 46, 9 October 2013

⁷⁵ Angel Trains Ltd written evidence paragraph 3.1

⁷⁶ Record of Proceedings paragraph 126, 23 October 2013

⁷⁷ Record of Proceedings paragraph 184, 23 October 2013

money in leasing it to us. So, there is more than one way to go about this.”⁷⁸

99. As the Minister later added “the way in which this might have been done historically is not necessarily the way that we will take it forward”. The Minister also confirmed that the Welsh Government was minded to agree the purchase of rolling stock before it let the franchise.⁷⁹

100. It was interesting to hear that Transport Scotland has followed a similar approach:

“At the end of the current ScotRail franchise, we have agreed that we will novate some of the electric rolling stock into the next franchise. So, effectively, the current franchisee in ScotRail was able to sign up a 17-year agreement, even though its franchise had only seven years to run.”⁸⁰

101. Professor Stuart Cole warned that options to lease rolling stock, whether new or cascaded, should be in place by the end of 2014.⁸¹ We agree with this given that we were informed by Angel Trains that it typically takes two to three years to procure and deliver new trains.⁸²

⁷⁸ Record of Proceedings paragraph 157, 23 October 2013

⁷⁹ Record of Proceedings paragraph 165, 23 October 2013

⁸⁰ Record of Proceedings paragraph 336, 23 October 2013

⁸¹ Professor Cole written evidence page 15

⁸² Record of Proceedings paragraph 33, 9 October 2013

Future Management Model

102. Potential management models proposed by respondents to our consultation fell into three broad categories.

- A standard “net cost” franchise model, where operators accept commercial risk and receive revenues, with either a subsidy paid by the authority (the Welsh Government) or a premium returned by the franchisee.
- A concession “gross cost” model, where operators are paid a fee to provide services specified by the franchising authority. Revenues are received by the authority who also carries commercial risk. Examples include MerseyRail.
- A not-for-dividend model, which might include various permutations such as a not-for-dividend franchise; a state-owned not-for-dividend company operating at arm’s length; and a cooperative franchise.

103. There was little consensus among consultation respondents on this subject, a pattern that was reflected in the stakeholder event we held in the Pierhead. While many respondents thought not-for-dividend rail was at least worthy of further consideration and a number supported it strongly, there was a lack of clarity about what it might involve.

104. A number of respondents suggested that the form of the management model was less important than the objectives the model needed to deliver, such as quality and value for money. Others warned that the choice of model would affect the level of risk held by the Welsh Government and that this issue had to be considered.

105. The Welsh Local Government Association stated that it would not support any model that did not improve service quality.⁸³

106. Professor Stuart Cole suggested franchising has benefits largely arising from competition during the procurement process (supply-side competition) and stability of the network and services. He argued that the primary drivers of any change of model should be to reduce costs, increase revenue and maintain or improve service quality. He also stated that the investment and contractual decisions relating to the

⁸³ WLGA written evidence paragraph 14

management model would need to be finalised by 2015 to allow an “orderly transition”.⁸⁴

107. In his oral evidence, Professor Cole outlined the merits of each of the management models and questioned which would give the best improvement in service to the customer:

“The only option.[...]that is proven in the transport industry on a large scale is the conventional method of having a public limited company running the franchise following a bidding process.”⁸⁵

108. In his view, there still needed to be a competitive franchise process to give best value in terms of public spend and quality of service, but he predicted that the not-for-dividend company, based on the Network Rail and Glas Cymru model was probably the most popular option. He believed that if the Welsh Government were intent on managing the railway through an arm’s-length company, it was essential that it work with partners such as MerseyRail and ScotRail to bring in expertise in franchise procurement and acquisition of rolling stock.⁸⁶

109. Railfuture expressed a clear preference for a “government-owned, arm’s length, not-for-dividend [and vertically integrated]⁸⁷ Welsh rail company”.⁸⁸ Its justification was that franchise procurement is a “wastefully expensive” process; that payments to shareholders lead to “huge sums of money being lost” rather than being reinvested; and that a state-owned operator would be better equipped to cope with economic downturn such as by reducing fares.

110. In contrast, Arriva Trains Wales stated that only 6 per cent of its earnings are retained as profit and that without the profit incentive, along with the transfer of risk from government to the operator and the economies of scale resulting from “a powerful industry player” such as Deutsche Bahn AG, government costs and liabilities would increase.⁸⁹ Arriva told us that should the Welsh Government adopt

⁸⁴ Professor Cole written evidence paragraph 9

⁸⁵ Record of Proceedings paragraph 172, 9 October 2013

⁸⁶ Record of Proceedings paragraph 212, 9 October 2013

⁸⁷ Vertically integrated means that both the track and train operations are combined in a single organisation

⁸⁸ Railfuture written evidence paragraph 3

⁸⁹ ATW written evidence paragraphs 2.26-2.27

another model it must do so “with its eyes open about the risk”⁹⁰ (such as increased labour costs, fuel price fluctuation and falling revenues).

111. The Association of Train Operating Companies (ATOC) has published a report based on analysis by KPMG which it states, provides “powerful evidence” that the competition between franchise operators since privatisation “has been crucial to the success of the railway over the last 20 years”.⁹¹ It also argued that passenger satisfaction and passenger growth have increased, subsidy has reduced and investment sustained.

112. The paper submitted by the Institute of Transport Studies at Leeds University questioned some of KPMG’s conclusions, however. It argued that passenger growth before 2006 was largely the result of economic growth, increased fuel prices and road congestion, although further work was needed on why passenger growth has continued through the recession. It also argued that franchising has been less successful cost wise, as between 2000 and 2006 costs per train km “rose substantially”.⁹²

113. Railfuture sent us a report by the Centre for Research on Socio-Cultural Change (CRESC).⁹³ This argued that there is an imbalance between direct subsidies to train operators and an indirect subsidy through low track access charges, which undervalues the cost of operating and developing infrastructure and so contributes to significant debt held by Network Rail.⁹⁴ It suggested these indirect subsidies undermine ATOC’s view that subsidies have reduced. It also argued that Network Rail’s debt was unsustainable in the long term and represented a mechanism to debt finance investment at arm’s length from Government so that it does not appear in Government borrowing.

114. CRESC also identified a correlation between passenger growth and Gross Domestic Product (GDP), suggesting this and other factors such as petrol prices account for passenger growth as opposed to the action of franchise operators themselves.

⁹⁰ Record of Proceedings paragraph 212, 3 October 2013

⁹¹ ATOC written evidence paragraph 3

⁹² Institute of Transport Studies written evidence paragraph 3

⁹³ CRESC, *The Conceit of Enterprise: train operators and trade narrative*, September 2013

⁹⁴ The Office of Rail Regulation forecasts that by the end of 2018-19 Network Rail’s debt will be over £47 billion

115. It was interesting to hear from the UK Department for Transport (DfT) that it did “not think that we have a prohibition on a not-for-dividend company trying to prequalify and entering into the tendering competition process.” Although the DfT added that it had not yet seen a model of a not-for-dividend company working effectively, and although it was not ruling out the model, it was “wary of letting a major contract become a guinea pig”.⁹⁵

116. The Welsh Government informed us that it had not explored the various management models in great detail, but the Minister for Economy, Science and Transport hinted that she was minded to consider a concession model that enabled a not-for-profit franchisee to bid for the franchise, but she would require the powers in order for that to happen.⁹⁶

117. In Transport Scotland’s experience there are no not-for-dividend organisations that have the capacity to bid for and run railways:

“Throughout the whole of our pre-franchise exercise, we have been saying that we would encourage not-for-dividend bidders to come forward. None have come forward, and we do not believe that there are any out there at the moment with the necessary competence to deliver a railway service.”⁹⁷

118. We believe that regardless of the management model adopted the Welsh Government should be clear about the benefits to passengers and how it will lead to improvements in services. We also believe it needs to fully understand the risks associated with whichever model is adopted, not least the commercial risks that the Welsh Government will have to carry if the concession approach referred to by the Minister is indeed adopted.

119. We have concerns that the Minister said “no substantial amount of work has been done anywhere” on not-for-dividend rail, given that the Programme for Government included a proposal to examine the feasibility of the Wales and Borders Franchise being run on such a basis.

⁹⁵ Record of Proceedings paragraphs 72 and 90, 23 October 2013

⁹⁶ Record of Proceedings paragraphs 242-256, 23 October 2013

⁹⁷ Record of Proceedings paragraph 309, 23 October 2013

Community involvement in rail services

120. The paper provided by the Association of Community Rail Partnerships suggested that innovative community rail projects can help reduce costs. It stated that although community rail lines are run with minimal resources and scope to reduce funding is therefore limited, experience has shown that passenger numbers have increased “dramatically” while costs have remained constant, so improving value for money.⁹⁸

121. The Heart of Wales Line Forum suggested that community rail partnerships can be useful in generating efficiencies and promoting enhancements and new modes of operation on “deep rural” services.⁹⁹ The Forum has been working on a project to explore options for more local management and operation of the Heart of Wales line, which it believes is significantly under-developed in the current franchise.

122. Arriva Trains Wales was supportive of this type of work in terms of its potential to reduce costs on branch lines.¹⁰⁰

123. However, during our stakeholder engagement event in the Pierhead in Cardiff concern was expressed that community rail partnerships received much better support in England and Scotland than in Wales. For example, there is no community rail development officer based in Wales but there are two in Scotland.

124. We were encouraged to hear from the Minister for Economy, Science and Transport that she was “strengthening relationships” with community rail partnerships “so that they can help us in terms of policy development”.¹⁰¹

125. We believe that community rail represents an opportunity to enhance service levels and improve value for money for passengers and funders alike. We therefore support the Welsh Government’s intention to work with and develop this sector although we believe that additional support from both the franchise operator and the Welsh Government will be required.

⁹⁸ ACoRP written evidence paragraph 7

⁹⁹ Heart of Wales Line Forum written evidence paragraph 10

¹⁰⁰ ATW written evidence paragraph 3.15

¹⁰¹ Record of Proceedings paragraph 282, 23 October 2013

The Franchise Operator and Network Rail

126. The “McNulty Report” commissioned by the UK Government identified a lack of alignment between train operators and Network Rail in terms of incentives and structures.¹⁰² It proposed that infrastructure managers and train operators should have a commercial interest in each other’s costs and revenues so as to reduce the costs of rail as a whole.

127. The Office of Rail Regulation identified alliancing and other developments such as devolution of further rail powers following the second Silk Commission report as providing opportunities to “align incentives for efficiency and customer service across the industry”.¹⁰³

128. The Association of Community Rail Partnerships suggested that alliancing “has the potential to bring many benefits in a more coherent approach to operating the railway as a seamless service for passengers”.¹⁰⁴

129. Network Rail’s written evidence indicated that alliancing has the potential to deliver greater continuous improvement, greater alignment of incentives between Network Rail and the franchise operator, and flexibility to deliver outputs in a more efficient way.¹⁰⁵ The paper also stated that Network Rail will be providing information to the Welsh Government later this year on alliancing, including the lessons learnt from its deep alliance with South West Trains for the Wessex Region.

130. This “deep alliance” is the first in the UK; a single senior joint management team has responsibility for both trains and tracks. A number of respondents, such as the Public Transport Users’ Committee, Sewta and Arriva Trains Wales, highlighted the benefits of this model.

131. Network Rail told us that it was “very early days” for the deep alliance and that “it is the longer term where we will see the bigger

¹⁰² DfT, Realising the Potential of GB Rail: Report of the Rail Value for Money Study – Summary Report, May 2011, page 49

¹⁰³ Office of Rail Regulation paragraph 8

¹⁰⁴ ACoRP written evidence paragraph 8i)

¹⁰⁵ Network Rail written evidence page 4

benefits come through, but it is hard to articulate those at the moment”.¹⁰⁶

132. In its written evidence, Network Rail also stressed that deep alliancing would only be appropriate where there is strong geographical alignment between route and franchise area.¹⁰⁷ While Network Rail’s Wales Route broadly reflects the Wales and Borders Franchise area, significant elements of the English domain of the network are not included (sections from Shrewsbury to Birmingham and from Chester and Shrewsbury to Crewe and Manchester).

133. Railfuture favoured full vertical integration between delivery of rail passenger services and infrastructure; Passenger Focus favoured some form of integration, which it added would be “better than disintegration”.¹⁰⁸

134. The Association of Train Operators suggested that it should be left to franchise bidders to work with Network Rail to propose options for enhancing their relationship, which would result in more distinctive bids and ensure the alignment of industry objectives and incentives.¹⁰⁹

135. We were interested to hear from the Department for Transport that it was exploring different models of contractual operations with Network Rail for the performance of stations:

“The Greater Anglia franchise, and, indeed, the Essex Thameside franchise, are being let on the basis of a 99-year lease being held by the franchisee. So, we are looking at different models, because it is an area where there has not been sufficient investment and people do not necessarily think that the current one works at its best. So, that is a case of ‘watch this space’, I think.”¹¹⁰

136. Transport Scotland told us that it was supporting bidders in their negotiations with Network Rail prior to their bids coming forward but was not mandating alliancing within the franchise.¹¹¹

¹⁰⁶ Record of Proceedings paragraph 64, 17 October 2013

¹⁰⁷ Network Rail written evidence page 7

¹⁰⁸ Record of Proceedings paragraph 105, 3 October 2013

¹⁰⁹ ATOC written evidence paragraph 20

¹¹⁰ Record of Proceedings paragraph 104, 23 October 2013

¹¹¹ Record of Proceedings paragraph 351, 23 October 2013

Charter for the Next Wales and Borders Franchise

138. Based on our scrutiny of the evidence received to this inquiry, we have identified a range of issues (our “Charter”) that we believe the Welsh Government needs to address in preparation for the next Wales and Borders Franchise, due to take effect in 2018.

139. Our Charter builds on the recommendations we made in our report on Integrated Public Transport in Wales for the Welsh Government to use all the powers at its disposal to drive public transport integration.

140. Our recommendations have been written on the assumption that powers in relation to rail franchise procurement will be devolved. Regardless of who is eventually responsible for procuring the next franchise, we believe that the Welsh Government should address all the issues we set out below and we would like to see each point considered in the Minister’s response to this report.

- 1. Continue 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.**
- 2. Ensure it has sufficient revenue and capital resources in place to deliver an effective franchise.**
- 3. Ensure it has the right staff with the required experience and specialist skills to develop and deliver the new franchise and the necessary rolling stock.**
- 4. 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.**
- 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.**

- 6. 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.**
- 7. Develop and publish 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.**
- 8. Work 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.**
- 9. 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.**
- 10. Ensure 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.**

Annex A - Inquiry terms of reference

The terms of reference for our inquiry were:

- What lessons can be learnt from the current franchise?
- What priorities can be identified to ensure that rail passenger services in Wales and the borders provide the best possible service for passengers from 2018?
- How can service delivery after 2018 deliver connectivity and value for money for passengers while reducing the burden on the tax payer?

Issues that we considered as part of these terms of reference included:

- Whether the current franchise meets passenger needs and what lessons should be learnt from it;
- How passengers should be involved in the franchise development and delivery;
- How communities and local government / Regional Transport Consortia should be involved. Could they be involved in specifying the franchise or perhaps even in delivering services;
- The management model to be adopted, including the Welsh Government's proposal for a not-for-dividend franchise;
- How the franchise specification should improve the passenger experience, including issues such as franchise length, targets / incentives and the core service standards which should be included;
- The routes, particularly cross-border routes, which should be included;
- The rolling stock needed for the new franchise. What factors need to be considered and how this should be procured? Will new rolling stock be required;
- Whether additional lines, enhancements to existing lines, new stations or other infrastructure are needed; and
- Whether the franchise can support an enhanced relationship between Network Rail and the franchise operator and the benefits this might bring.

Annex B - Stakeholder event, 3 October 2013

Members present: Mick Antoniw, Keith Davies, Rhun ap Iorwerth, Alun Ffred Jones, Eluned Parrott, Nick Ramsay, Joyce Watson

Purpose

The aim of the event was for Members of the Committee to hear the views of rail user groups to provide an evidence base for our inquiry into the future of the Wales and Borders Franchise.

22 people attended from the following organisations: Better Trains for Chepstow, Chester Shrewsbury Rail Partnership, Church Stretton and District Rail Users' Association, Cotswold Line Promotion Group, Crewe and Shrewsbury Passengers' Association, Forest of Dean District Council, Gloucestershire County Council, Heart of Wales Line Forum, Joint Rail Working Group, MAGOR Action Group on Rail, North Pembrokeshire Transport Forum, Passenger Focus, Pembrokeshire Rail Travellers Association, Rail for Herefordshire, South East Wales Transport Alliance, Shrewsbury to Aberystwyth Rail Passengers Association, Shrewsbury-Chester Rail Users' Association, Severn Tunnel Action Group, Trafnidiaeth Canolbarth Cymru (TraCC), Wrexham and Birkenhead Rail Users' Association.

Assembly Members facilitated discussion in small groups on the following five themes: preparation for the franchise and stakeholder involvement; franchise specification; rolling stock; management models; and infrastructure and the operator's relationship with Network Rail. The group discussions were fed back to a final summary session.

Summary of the main points made

1. Preparation for the franchise and stakeholder involvement

- There was a perceived lack of democratic representation and accountability for passengers living in the English area of the franchise - cross-border issues must therefore be handled properly. The Marches Strategic Rail Group was suggested as a possible consultation body.

- There needs to be a more solid understanding and rigorous data/research on how, why and where people travel – including where people are not currently travelling by rail. There needs to be the bigger picture of how rail transport links with demand for hospital services, housing, business and leisure.
- There needs to be flexibility within the new franchise to respond to changes in patterns of demand/growth/technological developments and to cater for major events and incidents. Cardiff and Swansea’s promotion to the premier league is having a huge impact on rail usage.
- The rail franchise should take into account integration of rail travel with other forms of public transport and connectivity with other major transport mode links such as airports and ferry terminals.
- Freight should be factored into consideration of rail transport patterns.
- There should be early, wide, meaningful consultation on the new franchise, including cross-border involvement. The Committee’s event was considered a useful forum for influencing the process, and should be held more often.
- The Community Rail Partnerships/voluntary rail user group sector should be better supported to allow volunteers to input into the franchise. In particular, voluntary user groups and partnerships should be offered support with the preparation of business cases – they may have the local evidence but lack the relevant expertise, which could be funded by the Welsh Government.
- Greater support should be given to Community Rail as it provides an opportunity to improve value for money, e.g. in operating stations. The sector is better supported in England and Scotland than in Wales.
- Lay people could also be appointed to the Board, similar to the Network Rail system.
- The early involvement of Network Rail and local authorities is also essential to the new franchise.
- Some wanted to see a longer franchise to provide greater stability and encourage investment, but this would need to be balanced by a system of review to guard against complacency.

- On the other hand, some thought prospective franchisees should be consulted on what they would consider to be the shortest length franchise that could be viable.
- Others thought that regardless of the length of the new franchise, a priority should be how the franchise is delivered and customer satisfaction should be a key target.
- Lessons should be learnt from Transport Scotland's SQUIRE model (Service Quality Incentive Regime).

2. Franchise specification

- The new franchise should focus on outcomes as well as outputs.
- The franchise should include more ambitious targets.
- The franchise public service requirement should be updated to ensure service levels match passenger needs. Passenger needs, aspirations and satisfaction need to be central to the setting and monitoring of targets in the new franchise.
- Performance monitoring/measurement and regular review should be integral to the new franchise.
- It was suggested that independent reviews could be conducted every two to three years, to which external stakeholders could contribute views.
- Provision for disabled people should be a priority.
- There should be provision for cycling and Wi-Fi to reflect the changing culture of railway use, including extra carriages to carry bikes. These facilities and others, such as the provision of more toilets and luggage/ pushchair room, may compromise the availability of seating but a "resolution has to be found".
- The franchise should specify coordination between operators regarding the timetabling and provision of services.
- Public information should be enhanced to satisfy an audience that expects to receive its information via social media.
- Aspirations and resources need to be brought into balance.
- There should be a Carmarthen to Aberystwyth "dream route" as part of a new north/south link.

- Wales needs to have an influence on routes and services that lie outside the franchise area, such as services from south Wales to Bristol and Birmingham.
- Services from Wales to northern England should be improved, including Manchester and Liverpool airport. Relatively “small” improvements in infrastructure such as the Halton Curve allowing access to Liverpool Airport, could yield significant benefits.

3. Rolling stock

- The capacity of the existing rolling stock is inadequate.
- The thing that passengers want above all else is a seat.
- There needs to be a policy of cascading rolling stock from other areas – refurbishment can be better rather than investing in new stock.
- Refurbishment should be high quality and designed appropriately for the routes on which the rolling stock will operate.
- Rolling stock needs to be comfortable and fit for purpose.
- Wales should not have to tolerate “second best”.
- The approach to rolling stock provision needs to be strategic and long-term.
- Trains need to be longer – at least three carriages in length – although current platform length is a concern that needs to be addressed. Will there be a building programme?
- The need to cater for both electrified and diesel trains across the network must be properly addressed.
- There was a view that the Welsh Government should lease, not buy, rolling stock, although some thought that the option to buy should be considered to see if this provided better value for money.

4. Management models

- The “cap and collar” system is a perverse incentive – it discourages the train operator from introducing improvements

above a certain level as the profits do not go back to the operator.

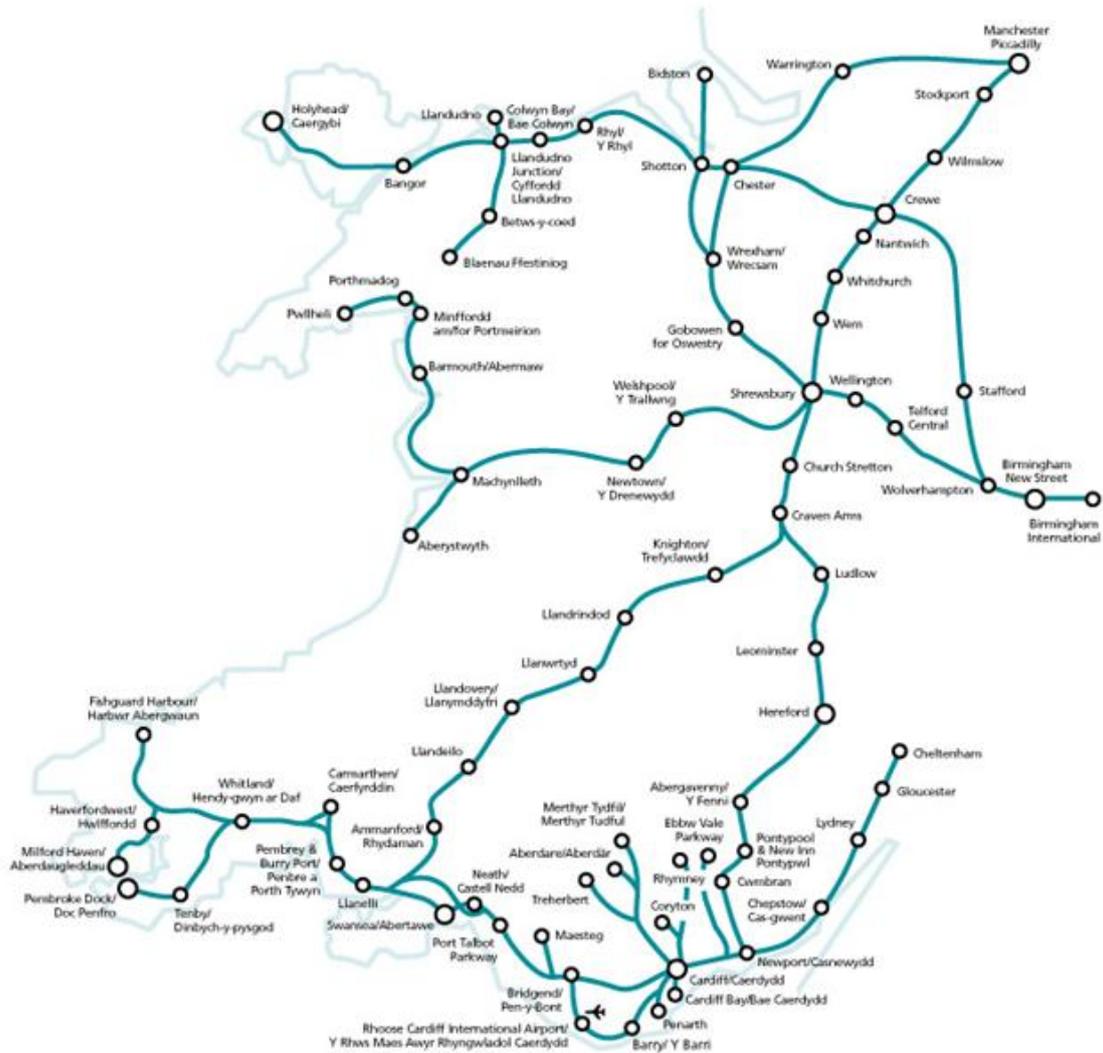
- Arriva was felt by some to have done a good job given the constraints of the current franchise.
- Different views were expressed about a new franchise model: some stakeholders preferred a private franchise model (although with a greater customer focus); some thought competition was a good thing; some had a dislike of shareholders (i.e. not for dividend) but favoured a form of public ownership, perhaps through an arm's length company based on the Glas Cymru model, where any profits could be reinvested on behalf of the people of Wales and incentivised by performance targets.
- There was another view that passengers don't really care which model is chosen, as long as they are content with the services they receive.
- Accountability of any model is very important.
- There was a view that Arriva's current profits go to Germany so in future profits need to be reinvested in Wales.
- There needs to be a balance between provision for commercially viable and non-commercially viable services.
- There needs to be clarity over who makes the final decision - the Welsh or UK Government? Some thought that the National Assembly for Wales should decide on the management model.
- If a new model is to be introduced, is there sufficient time to prepare?

5. Infrastructure and the operator's relationship with Network Rail

- There needs to be a proper partnership/alliance between Network Rail and the franchisee.
- There was concern that the Network Rail Wales route does not fully cover the franchise area, so care should be taken to ensure any alliance does not neglect English domains within the franchise.
- Network Rail was considered an improvement on Railtrack.

- Some recommended full vertical integration between rail infrastructure and passenger services, ensuring that freight and other passenger services are not neglected.
- The wheels need to control the rails, not the other way around...
- "Railways are the barometer of the economy."

Annex C - Wales and Borders Franchise area map



(Source: Arriva Trains Wales website)

Witnesses

The following witnesses provided oral evidence to the Committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed in full at:

www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?IId=1307

3 October 2013

Mike Hewitson, Head of Passenger Issues, Passenger Focus

David Beer, Passenger Executive, Passenger Focus

John Rogers, Chairman, South West Lines, Railfuture

David Mawdsley, Secretary, North Wales Lines, Railfuture

Ian Bullock, Managing Director, Arriva Trains Wales

Mike Bagshaw, Commercial Director, Arriva Trains Wales

Richard Davies, Head of Policy, Association of Train Operating Companies

11 October 2013

Kevin Tribley, Chief Operating Officer, Angel Trains

Keith Howard, Commercial Director, Porterbrook Leasing Company Limited

Neil Buxton, General Manager, Association of Community Rail Partnerships

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

17 October 2013

Mark Langman, Wales Route Regional Director, Network Rail

Tim James, Head of Strategy and Planning Wales, Network Rail

23 October 2013

Sarah Collins, Head, Franchising Procurement Unit, Department for Transport

Brian Freemantle, Head of Rolling Stock Policy and Contracts, DfT

Stephen Marshall-Camm, Head of Rail Sponsorship and Stakeholders, DfT

Eddie Muraszko, Franchise Project Director, DfT

David Sexton, HLOS Development Manager, DfT

Rowan Smith, Commercial Manager South and West, DfT

Edwina Hart AM, Minister for Economy, Science and Transport, Welsh Government

James Price, Director General, Economy, Science and Transport, Welsh Government
Frazer Henderson, Head of Rail Policy, Transport Scotland

List of written evidence

The following people and organisations provided written evidence to the Committee. All written evidence can be viewed in full at:

www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?lId=7383

Organisation

Bernard Allan

Angel Trains

Anglesey Central Railway Ltd

Arriva Trains Wales

Associated Society of Locomotive Engineers and Firemen (ASLEF)

Association of Community Rail Partnerships

Association of Train Operating Companies (ATOC)

David Austerberry

William Bamford

James Bird

Brecon Town Council

Capital Traffic Management Limited

Anne Marie Carty

Chartered Institute of Logistics and Transport (UK) Cymru Wales

Cheshire West and Chester Council

Chester-Shrewsbury Rail Partnership

Professor Stuart Cole, University of South Wales

Confederation of British Industries (CBI) Wales

Conwy Valley Rail Partnership

Dr Peter Cuthbert

Gareth Calan Davies

Councillor Matthew James Dorrance, Brecon Town Council

Kay B Edwards

Federation of Small Businesses Wales

Forest of Dean District Council
Gloucestershire County Council
Owen Godfrey
Mick Green
Joy Hamer
Roy Hancock
Carol and Robert Handcock
Bob Hargreaves
Shirley Haslam
Nathan Hazlehurst
Heart of Wales Line Forum
Lorraine Hill
John Hobbs
Professor Lorna Hughes
Phil Inskip
Institute for Transport Studies, University of Leeds
Professor Chris Nash and Dr Andrew Smith
Barry Jacob
Alan Jones
Mike Joseph
Professor Mark Lee
Lydney Neighbourhood Development Plan Community Steering Group
Catherine Macduff
James Macduff
Maesteg Line Rail Users
Magor Action Group on Rail
Dr Stephen C Martin
David Mawdsley
Siôn Meredith
Adrian Morgan

Network Rail
North Cheshire Rail Users' Group
North Pembrokeshire Transport Forum
Oakdale Links
Office of Rail Regulation
Mike Parker
Passenger Focus
Jeremy Perkins
Rob Phillips
Porterbrook Leasing Company Limited
Powys County Council
Councillor Alan Preest, Gloucestershire County Council
Professor Andrew Prescott, King's College London
Public Transport Users' Committee for Wales
Railfuture Cymru
Railfuture – South Wales Branch
Rail for Herefordshire
Alan Rees
Medwyn Roberts
Wren Rose
Severn Tunnel Junction Rail Action Group (STAG)
Shrewsbury to Aberystwyth Rail Passengers' Association (SARPA)
Shrewsbury-Chester Rail Users' Association (SCRUA)
Margaret Smallbone
South East Wales Transport Alliance (Sewta)
South West Wales Integrated Transport Consortium (SWITCH)
Sustrans Cymru
Brian Thomas
Andrew Tindall
Trafnidiaeth Canolbarth Cymru (TraCC)

Transport Consortium for North Wales (TAITH)

Roz Trueman

Sam Wakeling

Welsh Government

Welsh Local Government Association (WLGA)

West of England

Thomas J Wheeler

Dr Chester White

Harvey White

C Williams

Mary Wright

YHA Cymru Wales