



Llywodraeth Cymru
Welsh Government

Nick Ramsay AM
Chair, Public Accounts Committee
National Assembly for Wales

c/o committeebusiness@wales.gsi.gov.uk

30th September 2016

WELSH GOVERNMENT INVESTMENT IN RAIL SERVICES AND INFRASTRUCTURE

Dear Chair,

Please find enclosed a copy of the Welsh Government's response to the Auditor General for Wales' report on Welsh Government investment in rail services and infrastructure.

I can confirm that we accept or partially accept all the recommendations and work is underway to address them.

Yours sincerely,

A handwritten signature in black ink that reads "James Price,".

James Price

Recommendation 1

We recommend that where the Welsh Government wishes Network Rail to deliver a project it is funding, it should seek to develop bespoke contracts. Bespoke contracts should better protect the Welsh Government's interest by recognising the greater assurance that it can give about the financing of contracts as well as reflecting the circumstances and risks of individual projects.

Accept. We accept that the standard contracts do not adequately reflect our role as a government funder and can be improved. We will seek to develop a suite of Welsh Government bespoke model contracts for use on future rail infrastructure projects. We will continue to seek improvements on this issue with the regulator.

However, we also recognise that whilst Welsh Government will seek to develop the recommended bespoke contracts, as powers over rail infrastructure are not devolved there will be no obligation on either Network Rail or the regulator to reciprocate. We cannot therefore provide assurance that this course of action will deliver the desired results.

Recommendation 2

We recommend that as the procurement progresses the Welsh Government review the effectiveness of the Memorandum of Understanding and ensure that any lessons are applied to its ongoing relationship with Network Rail.

Accept. With Network Rail's agreement, we will incorporate a review of the Memorandum of Understanding into the agenda of the Welsh Government and Network Rail joint board meetings, which take place on a 4 weekly basis.

Recommendation 3

Consistent with the recommendations in the Auditor General's January 2011 Major Transport Projects report, we recommend that the Welsh Government:

- A. Record information to track the performance of the Metro phase 2 projects at key stages of their delivery;

Accept. We have made Transport for Wales aware of this report and asked them to propose how this can be achieved. We expect a proposal for taking this work forward within the next TfW business plan.

- B. Incorporate the information needed to facilitate benchmarking project performance against projects in other parts of the UK;

Accept. The regulator monitors Network Rail's performance. The most recent report (issued in July this year) has within it a section dedicated to the railway in Wales. The monitor covers all aspects of Network Rail's performance in Wales, including on project delivery and infrastructure reliability and compares the performance of

Network Rail in Wales to the national benchmarks on certain metrics. This is a relatively new approach from the ORR and they have made a commitment, in the latest report, to continue to develop this. We have previously provided cost information to the ORR relating to the delivery of Pye Corner station for this kind of purpose. We will continue to work with the regulator to assist and obtain relevant benchmark information.

- C. Record all changes in project costs that occur through the lifecycle of the project; and

Accept. Our infrastructure projects invariably have change control processes which record decisions or events that affect project costs. We are working with our supply chain to standardise the format of these processes.

- D. Record and share the reasons for any cost increases and delays to inform other Welsh Government transport projects.

Accept. We have changed the structure of the Transport Department so that one division is responsible for all the Welsh Government's infrastructure projects on both the trunk road network and the railway which will improve sharing of information across projects. We will review our system for sharing information, such as lessons learnt, across this function and strengthen if necessary.

Recommendation 4

We recommend that:

- A. The relevant Welsh Government Audit and Risk Committee scrutinises the governance of the Transport Company and its progress in procuring the integrated Wales and Borders and Metro infrastructure contract and the related development of the approach to managing and acquiring rolling stock to enable it to comply with the requirement to make all trains accessible to persons with reduced mobility by 2020. To include the Audit and Risk Committee assuring itself that the Welsh Government is addressing in a timely manner the recommendations of the March 2016 Gateway review.

Accept in principle. Given the advisory role the Audit and Risk Committee occupies within the Welsh Government, the Principal Accounting Officer will bring this recommendation to the attention of the Chair of the Economy, Skills and Natural Resources Audit and Risk Assurance Committee, which has already initiated a programme of work to scrutinise Transport for Wales and the governance arrangements it has in place.

- B. The Welsh Government should ensure that its project and risk management arrangements for the procurement have taken full account of relevant lessons and recommendations from recent National Audit Office reports on rail franchising and rail-infrastructure programmes, and related reports by the UK Parliament's Public Accounts Committee.

Accept. We have written to Transport for Wales to incorporate these lessons and recommendations into their work to develop and implement the procurement of the Wales and Borders franchise and Metro Phase 2. Transport for Wales is currently finalising one of the key procurement documents – the “Invitation to Submit Outline Solutions“. Once this work is complete, we will write to you again, within the next six weeks, to set out how these lessons and recommendations have been incorporated into the procurement.

- C. The Welsh Government should also actively engage with Department for Transport officials to implement the lessons from both successful franchise procurements and those that have been more challenging.

Accept. Transport for Wales is in regular contact with officials at the Department for Transport. Officials at the Department for Transport have reviewed and provided feedback to Transport for Wales on the documentation relating to the procurement. Furthermore, Transport for Wales' team includes legal, financial and technical experts who have prior experience of successfully procuring recent rail franchises on behalf of the Department for Transport.

- D. Alongside the procurement process, the Welsh Government should develop a mechanism which enables it to demonstrate the value for money of the franchise component of the new contract, when compared with the current and other franchises.

Partially accept. The unique nature of each rail franchise means that finding a metric which will be a fair comparison and an indicator of value for money is not straightforward. We are also conscious that there are fundamental differences in the market since the current franchise was let in 2003. The rail industry has fundamentally changed in that time, in terms of outlook and technology for instance.

Our view is that the best way achieving value for money is to run a fair and open competitive process using a team with the skills and experience. It is also important learning from the latest best practice and recommendations. We are also working closely with the Department for Transport and have replicated their team structures for franchising.

We therefore accept that we should demonstrate value for money in the procurement, but we think that this is best done by focussing on our own process,

rather than by making artificial comparisons with either the past or with other franchises.

Recommendation 5

We recommend that the Welsh Government's planning for the franchise takes into account the recommendations made by the Enterprise and Business Committee's 2013 inquiry into the Future of the Wales and Borders Rail Franchise.

Accept. The Welsh Government accepted the recommendations made by the Enterprise and Business committee in 2013. We have provided the report and our response to Transport for Wales for consideration when developing proposals for the next franchise. As described above, Transport for Wales is currently finalising one of the key procurement documents – the 'Invitation to Submit Outline Solutions'. Once this work is complete, we will write to you again, within the next six weeks, to set out how these recommendations have been incorporated into the procurement.