



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Cofnod y Trafodion The Record of Proceedings

[Pwyllgor yr Economi, Seilwaith a Sgiliau](#)

[The Economy, Infrastructure and Skills
Committee](#)

06/04/2017

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Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynnddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd. Lle y mae cyfranwyr wedi darparu cywiriadau i'w tystiolaeth, nodir y rheini yn y trawsgrifiad.

The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included. Where contributors have supplied corrections to their evidence, these are noted in the transcript.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Hannah Blythyn Bywgraffiad Biography	Llafur Labour
Hefin David Bywgraffiad Biography	Llafur Labour
Russell George Bywgraffiad Biography	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Vikki Howells Bywgraffiad Biography	Llafur Labour
Mark Isherwood Bywgraffiad Biography	Ceidwadwyr Cymreig Welsh Conservatives
Jeremy Miles Bywgraffiad Biography	Llafur Labour
Adam Price Bywgraffiad Biography	Plaid Cymru The Party of Wales
David J. Rowlands Bywgraffiad Biography	UKIP Cymru UKIP Wales

Eraill yn bresennol
Others in attendance

Alexia Course	Cyfarwyddwr Rhaglen (Llwybr Masnachol a Newid), Network Rail Programme Director (Route Commercial & Change), Network Rail
Ed Evans	Cyfarwyddwr, Cymdeithas Contractwyr Peirianeg Sifil Cymru Director, Civil Engineering Contractors Association Wales

James Jackson	Prif Noddwr Rhaglen Ailfasnachfreinio a'r Metro, Network Rail Principal Programme Sponsor Refranchising & Metro, Network Rail
Tim James	Pennaeth Strategaeth a Cynllunio, Network Rail Head of Strategy and Planning, Network Rail
Keith Jones	Cyfarwyddwr, Sefydliad y Peirianwyr Sifil Cymru Director, Institution of Civil Engineers Wales Cymru
Simon Jones	Cyfarwyddwr Trafnidiaeth a Seilwaith TGCh, Llywodraeth Cymru Director Transport and ICT Infrastructure, Welsh Government
Eddie Muraszko	Dirprwy Gyfarwyddwr, Marchnad Canolbarth a Gogledd Lloegr a Chymru, Yr Adran Drafnidiaeth Deputy Director, Midlands, North & Wales Market, Department for Transport
Neil Sadler	Cadeirydd, ACE Cymru Wales Chairman, ACE Cymru Wales
Ken Skates Bywgraffiad Biography	Aelod Cynulliad, Llafur (Ysgrifennydd y Cabinet dros yr Economi a'r Seilwaith) Assembly Member, Labour (The Cabinet Secretary for Economy and Infrastructure)
Stuart White	Cyfarwyddwr y Rhaglen, Gwasanaethau Rhwydwaith Llundain a De Ddwyrain Lloegr, Yr Adran Drafnidiaeth Programme Director, Network Services London and South East, Department for Transport

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Sean Evans Y Gwasanaeth Ymchwil
 Research Service

Robert Lloyd-Williams Dirprwy Clerc
 Deputy Clerk

Andrew Minnis Y Gwasanaeth Ymchwil
 Research Service

Gareth Price Clerc
 Clerk

Dechreuodd y cyfarfod am 09:15.

The meeting began at 09:15.

Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau Introductions, Apologies, Substitutions and Declarations of Interest

[1] **Russell George:** Croeso, bawb, **Russell George:** Welcome, everyone,
i Bwyllgor yr Economi, Seilwaith a to the Economy, Infrastructure and
Sgiliau. Skills Committee.

[2] I'd like to welcome you all to the Economy, Infrastructure and Skills
Committee this morning. I move to item 1 and note that we do not have any
apologies this morning. Are there any declarations of interest? There are
none.

Network Rail—Ymchwiliad i Ddarparu Masnachfaint y Rheilffyrdd a'r Metro

Network Rail—Inquiry into Rail Franchise and Metro Delivery

[3] **Russell George:** In that case, I move to item 2. Item 2 is in regard to
our inquiry into the rail franchise and metro delivery. This morning, we've
got colleagues from Network Rail before us. I'd be very grateful if you could
just introduce yourselves for the record.

[4] **Ms Course:** I'm Alexia Course. I'm the programme director for
commercial and business change in the Wales route for Network Rail.

[5] **Mr Jackson:** I'm James Jackson. I'm the principal programme sponsor
in the Wales route for Network Rail. My specific role surrounds our response
to the new franchise and to the south Wales metro proposals.

[6] **Mr James:** Bore da. I'm Tim James and I'm head of strategy and planning for Network Rail in Wales.

[7] **Russell George:** Can I start by asking: how are you supporting the procurement process?

[8] **Mr James:** Could I first, Chair, say thank you to the committee? Diolch yn fawr for the opportunity to give evidence today. We look forward to working with new Members during the course of this term. This clearly is an important subject for railways in Wales and it's clearly going to define how transport is provided for future generations. Clearly, the railway is important for the economy, for jobs and for communities and we look forward to giving evidence today.

[9] I just wanted to add that my colleagues Alexia and James are working very closely to support Transport for Wales with advice on procurement and, as such, they are subject to some confidentiality arrangements, which are in place to protect the integrity of the procurement. So, if there is a question that they feel that they may not be able to fully answer because it crosses that line, they will say so, but I don't think that should be a problem today.

[10] **Russell George:** Thank you very much, Tim, for pointing that out. It's helpful that you've said that.

[11] So, I was asking how you are involved in the procurement process and how you're supporting it.

[12] **Mr James:** Of course. Alexia.

[13] **Ms Course:** We've been involved in the procurement process since about late 2015. That is when we started having conversations and dialogue with Welsh Government and Transport for Wales. In January 2016, our chief executive, Mark Carne, signed a memorandum of understanding with Welsh Government for Network Rail to work in partnership and close collaboration with Welsh Government to help facilitate their procurement programme throughout this process. Since then, we've created a small team within the Wales route to provide that direct interface and support throughout the process. We published an in-principle commitment in July last year as well, which articulated our overall commitment to the procurement exercise and to the refranchising programme in general. We've been working through both the technical and commercial implications of the procurement exercise since

April last year through until now.

[14] In addition to the small team that we have dedicated to this programme, we're working with around 40 people from within Network Rail who are supporting in providing technical input into the programme. This is ranging from our asset management teams, through to our finance and legal teams, through to regulatory teams and economic teams, to support the programme throughout. So, that's where we are with it. We're working very, very closely with Transport for Wales throughout all of this.

[15] **Russell George:** I'm just picking up a bit from your written evidence that you've provided to us. You've said that

[16] 'the procurement timeline is both understandable and very challenging'.

[17] Including the implications of the challenging timeline, can you expand on that a little?

[18] **Ms Course:** Yes, certainly. In terms of standard, more traditional refranchising procurement programmes, which we've worked on with DfT on the English side of the border, they roughly take about two years or so. That is what we would call a standard procurement exercise. But, for this procurement, Transport for Wales and Welsh Government are keen to do something novel and very different with the core Valleys lines, in addition to the usual refranchising of the Wales and borders franchise overall, and we're doing that within the same time frame as we would for a standard refranchising programme, i.e. within that two-year parameter. So, that's what we mean by being challenging—we're doing a lot more within the same period of time. It's a challenging time frame to do it, but we're confident that we can meet it.

[19] **Mr Jackson:** I think the competitive dialogue procurement that Welsh Government have selected to procure this new franchise is unusual for Network Rail to respond to. It's unusual in the industry for franchise renewals, but it does have massive benefits as well as a lot more intense work. I'll give an example that we were working on just last week with Transport for Wales. In competitive dialogue, we met with all four bidders separately and we had the opportunity to look at some of their timetable proposals and give feedback through the process. Then, we'll be meeting them again in a few weeks' time to see how they can respond to that. That's

a dialogue opportunity the normal franchise process wouldn't give us. So, there are different ways to do these procurements and there's certainly some advantages to this one that we've really appreciated.

[20] **Mr James:** I think, Chair, the timing is important in the sense that it aligns very nicely with Network Rail's income for the next five years—control period 6, 2019–2024. Essentially, the franchise starting afresh then gives us the chance to work with whoever is the successful bidder to align our targets. You will have heard evidence that the current franchise was set in 2003. Clearly, it was thought about long before then. Since then, the railway's seen massive growth, massive success, and we want to have the opportunity to be able to work to the same performance and safety standards as the franchisee. Currently, the franchise targets for performance are different to Network Rail's regulatory targets. It's a great opportunity to bring it together so we can actually work as one railway for passengers in Wales.

[21] **Russell George:** Thank you, Tim. I'm going to move on now to Vikki Howells who's going to move us onto a new area.

[22] **Vikki Howells:** Thanks. I'd like to ask some questions around the core Valleys lines infrastructure and some of the possible risks involved there. Alexia, you referred earlier to the four in-principle commitments given by Network Rail. I wonder whether you'd be able to provide us with some further detail about those and the circumstances in which each might apply.

[23] **Ms Course:** Sure. In terms of the in-principle commitments that we made last July, that was very much around Network Rail supporting whichever outcome was right for passengers and for the railway in Wales. That's ultimately what we're working towards and looking to achieve. From our perspective as Network Rail, the core Valleys lines and the potential divestment of that asset to an alternative mode, which is one of the considerations, actually gives us a great opportunity to provide a completely separate contestable comparator railway, as it were, for Network Rail—so it provides benchmarking opportunities and efficiency opportunities for us in the remaining GB rail network as well. So, for us, we think it's a great opportunity. I'd probably like to ask James to just expand a bit more on some of the more detailed pieces of work we've done around the in-principle commitment.

[24] **Mr Jackson:** Absolutely. So, the commitment itself said that we would support a range of options, from Network Rail retaining that network if that

was the outcome of the procurement process, to divesting the assets fully and facilitating changes around the interface points at Radyr and Cardiff Central, primarily, as we understand it. There's a lot of things that flow out of that. You'll anticipate that there'd be system changes for us. If train service patterns change, we have to change the infrastructure to facilitate that. There's management structure changes and changes for our people as well. So, we want to support those people through our process.

[25] I think what Alexia has just mentioned around a true cost comparator is really good, because, while there are other railways where Network Rail provide services et cetera—high speed 1, for example, or coming up in the Crossrail lines—there are very few examples of where we have transferred an asset in full, as one of our current railway assets, as an asset that's been used for a long time to run a railway. We think there's a great opportunity to learn between the different networks, from ours and from theirs, to pull learning together as to how we do this efficiently, how we best deliver for passengers, and for taxpayers, ultimately, as well.

[26] **Vikki Howells:** Thank you. If we are going down the road of vertical integration, do you see that there could be any wider risks there to the Welsh Government and Transport for Wales, for example if we're thinking about latent defects and the need to accurately survey the network too?

[27] **Ms Course:** Ultimately, running any railway, there'll be positives and negatives that go with that, and we have that within the current railway that we operate as Network Rail. Just building on the comparator point, that's where the real benefit from a Network Rail perspective comes from: divesting an asset to Welsh Government, or to the operation and delivery partner, as part of the franchise, to really see that comparator. So, you get the pros and cons of it all coming together, so you can really see how that would work. But, saying that as well, we're also working very closely with Transport for Wales on what any transition arrangements would look like—for debt, for liability, for defects and for all the operational requirements of running a railway. So, we're looking at the whole spectrum of options, ranging from a full transfer with everything, through to what that transition period may look like and the length of that transition period, as well.

[28] **Mr Jackson:** We've been working hard in Network Rail to give access to our information systems, and, indeed, actually to go out on the railway as well. So, when we were commissioning the Cardiff area signalling renewal work over the most recent Christmas break, Transport for Wales were able, in

the opportunity that our access to the railway provided, to do a walk-out through Caerphilly tunnel, which is a major engineering structure, and they were able to go out with experts to be able to assess those issues.

[29] **Ms Course:** We've given access to all our data information, as well, and Transport for Wales and the four bidders have got access to our asset managers, as well, who are the technical experts in track, bridges, signals and the whole spectrum of our assets that we maintain, and we're having that dialogue all the time at the moment.

[30] **Mr Jackson:** In fact, it's going on today.

[31] **Mr James:** I think that's our job, really—to make sure that the Welsh Government and TfW have got enough information to make an informed decision about something that's really important for the people and the economy of Wales. That's why Alexia and James have got tens of experts giving information so that—. We don't know what the final solution will be, because, clearly, the bidders haven't submitted their final tenders, but we are here to support that decision making. I think your question, really, about the Cardiff Valleys is really relevant, because while there are lots of risks involved with owning and running your own railway, there are lots of opportunities. So, I was just looking—yesterday, 98 per cent of the trains ran on time. That's 518 out of 525. So, if the solution makes that better, then it's going to be really great for the people who live there to get access to jobs, and that's why we're doing it.

[32] **Vikki Howells:** Absolutely. My final question: both of you talked about getting the outcome that's right for passengers, and there seems to be a growing body of opinion that that could be light rail, but are there any technical issues that you feel could be raised by the proposals to operate light rail on the core Valleys lines?

[33] **Ms Course:** Do you want to step in on this one?

[34] **Mr Jackson:** I think that's a matter for Transport for Wales and Welsh Government. Network Rail is the operator of the UK heavy rail system, the interoperable rail system, and that's where our matter of expertise is. So, transition to other modes is something you'd have to discuss with Welsh Government.

[35] **Vikki Howells:** Thank you.

[36] **Russell George:** We'll ask them later. Hefin David.

09:30

[37] **Hefin David:** With regard to the devolution of the Valleys lines, I've been looking at your two-step approach—well, it starts off as a two-step approach—transfer of the core Valleys lines from the ownership of Network Rail to Welsh Government and the relinquishing of Network Rail's infrastructure manager role over the core Valleys lines. It seems to be a bit of a laissez-faire kind of approach to the devolution of the lines, kind of step by step. One of the things you say in your evidence is that this might even be done on a line-by-line basis.

[38] **Mr James:** I think, really, if I can, Hefin, those decisions haven't yet been made, so, clearly, TfW look for lots of options, which may mean retaining the heavy rail network or it may mean, as Alexia and James have indicated, some form of divestment, where it's part of a separate infrastructure arrangement, and we don't actually know yet what is happening. We're very much being led here by the solutions that the bidders provide and what TfW decides upon.

[39] **Hefin David:** That's what's worrying.

[40] **Mr James:** Yes. And our commitment, really, is that we will support TfW to make the right decision on that.

[41] **Hefin David:** I was also struck by what James Jackson said about this is an opportunity to learn about the process. The problem with learning is that a big part of learning is making mistakes. How are you going to mitigate those with the transfer?

[42] **Mr Jackson:** If I can, for a moment, if that's okay, I think one of the benefits for Network Rail is that, once we're in a final solution, we have two railways side by side, where we can learn from each other. It wasn't learning from the process itself; the process will depend on the solution selected by Welsh Government.

[43] **Hefin David:** So, you're confident that this process is going to work fine.

[44] **Mr Jackson:** Yes.

[45] **Hefin David:** Okay. Well, one of the issues that Transport for Wales mentioned was that transfer of ownership is a prerequisite before European Union funding can be secured for the metro. Are you happy that this will be timely and that this kind of step-by-step process is going to work?

[46] **Ms Course:** We have a joint programme with Transport for Wales to meet their procurement time frame and to meet both the award of the new franchise, leading into a go-live of the new franchise in October 2018 next year. And we are working to that programme at the moment. As I mentioned earlier, there's a lot to get through, both in terms of a standard refranchising, but also in terms of a divestment of the assets, and the challenge, primarily, is that we are being driven, as Tim has mentioned, by the procurement programme, and waiting for what the award decision will be, which will then determine the type of asset divestment and the type of transition, and the type of transition for infrastructure manager role, as well as ownership of the assets. So, that's why we mentioned both of them in parallel, because they are two different types of accountability and capability requirements.

[47] **Hefin David:** And the fact that they don't have to happen at the same time doesn't cause any major difficulties.

[48] **Ms Course:** No. As long as we've got a plan that we agree with Transport for Wales and work together to deliver that plan, then we can work that in parallel.

[49] **Hefin David:** Okay. Well, you seem very chilled about it all—that's pretty good. That's it, Chair.

[50] **Russell George:** I'm looking over at Adam, Mark, and David: do you want to come in at any point? No. In that case, Hannah Blythyn.

[51] **Hannah Blythyn:** Thanks. In your written evidence, in some of your aspirations for the new service, you talk about deeper collaboration between Network Rail and the operator and development partner. What do you see would be the benefits, both to services and passengers, of a closer working relationship, and how do you think that would work in practice?

[52] **Mr James:** Can I say, Hannah, while lots of the questions have naturally

been about the core Valleys lines, because that is, really, the novel part of the procurement, we're also dealing here with all of the Wales and borders franchise, and therefore we think that there are lots of opportunities, not just in the Cardiff Valleys, but across Wales, and, of course, the border counties that we serve, to get better alignment with the winning bidder? So, some of the things that we would like to see as part of the next franchise are things that make sense to passengers and communities. So, for example, one of Network Rail's core requirements is to control effluent that's currently dumped on the tracks, because it's bad news for passengers, bad news for track workers and bad news for people who live next to the railway. So, we think that that is a core requirement that a modern franchise should address. There are lots of other joint initiatives, and, perhaps, Alexia, you could talk about the performance ones and so on.

[53] **Ms Course:** Yes.

[54] **Russell George:** Just to say, I think we're going to come on to some questions on beyond the core Valleys lines a bit later. I know that Jeremy's got some questions on that. Sorry, what was your original question, Hannah?

[55] **Hannah Blythyn:** It was more generally about how that deeper collaboration working would work in practice. We visited the Network Rail operators and I know that there is a bit closer working between the providers now, so it was just if you could expand on how that could work under the new franchise.

[56] **Ms Course:** Yes, I can comment on that. So, we've actually, just this week, started our new financial year and we've started it with a brand-new scorecard, which is a set of annual metrics that we've now agreed with Arriva Trains Wales, as the incumbent franchisee. For the first time, 45 per cent of our performance metrics to run the Network Rail business in Wales are exactly the same and jointly aligned with Arriva Trains Wales. So, that is a massive step forward for us. It's part of our commitment to being more collaborative with a franchisee and getting ourselves ready for the new franchisee, when they start next year with the franchise.

[57] So, that's a big commitment that we've made between our route managing director and the managing director of Arriva Trains Wales and we've launched that this week. So, that's the first step that—. We're starting it now, already. We're very keen and committed to building on that, ready for the new franchisee as well. So, there's a lot more deeper and closer

collaboration that we'd like to do, both with the operator and development partner, when they start, but also with Transport for Wales and with Welsh Government as well to drive that collaboration, both at an operational, delivery level, but also at a strategic investment level as well. So, we're very keen to work a lot more closely with the franchisee when they start.

[58] **Hannah Blythyn:** Do you think that there is scope or it would be possible to have any of that agreed as part of the franchise, part of the contract?

[59] **Mr Jackson:** I think there's an element of that that's related to the current procurement and that's something that we've been working with the ODP bidders on in closed sessions around competitive dialogue, so it's probably not appropriate for us to comment much further on that.

[60] **Mr James:** If I can, what's probably appropriate to say is that Network Rail is now a devolved business in Wales. We started the journey in 2011, when, I think, the First Minister opened the new head office in Wales. Since then, we've really transformed the business. So, earlier this month, the new route leadership structure went live and most decisions are now made in Wales and we are, therefore, devolved and we are ready for more devolution of any powers in future. That's really our message, because, clearly, that's the best thing for customers.

[61] **Hannah Blythyn:** Thanks.

[62] **Russell George:** Thank you. In regard to the procurement and delivery of the early contractor involvement, what is the risk of cost overrun in the delivery of metro infrastructure?

[63] **Ms Course:** In terms of the costs and the delivery of the metro infrastructure, that's ultimately a question for Transport for Wales and Welsh Government, as they are owning that part of their programme.

[64] **Mr James:** I think it's worth reiterating the value to us of being able to interact with bidders far more closely during the procurement of the competitive dialogue phase, and I mentioned earlier timetables being one example of where an iterative process means that we can help them and they can help us. That's through the procurement element; in terms of delivery, that would be an issue for Transport for Wales and Welsh Government.

[65] **Russell George:** Neil Sadler said to us that the early contractor involvement procurement is

[66] ‘an ambitious and possibly complex high value procurement such that identification of the favoured provider is likely to be a significant challenge’.

[67] Would you agree with that?

[68] **Ms Course:** Again, it’s Transport for Wales’s procurement programme. Our role is very much to provide data and evidence and technical input to that. But, ultimately, the method of their procurement model is a question for Transport for Wales.

[69] **Russell George:** Okay. Jeremy Miles.

[70] **Jeremy Miles:** Thank you, Chair. I just want to take you to the wider question of rail infrastructure across Wales, not limited to the core Valleys lines. You described a very collaborative way of working, which is great to hear. We’ve had evidence from other witnesses that the fundamental issue is that there isn’t enough investment in the rail infrastructure in Wales generally. Why do you think they would say that?

[71] **Ms Course:** Do you want to—

[72] **Mr James:** Of course, yes. I think, clearly, railways in Wales have seen massive growth. In the last 10 years, passenger growth has increased by 50 per cent and our forecasts suggest that that will continue in the future. So, the railway has been a massive success story. Clearly, there are capacity issues currently on the network. We read about it frequently in the press and we see it when we travel on trains. Passengers’ No. 1 priority is more seats. I think we see that.

[73] In terms of Network Rail’s business, the way that we fund our operations, maintenance, renewals, is no different in Wales to any other part of GB. So, we fund that on the basis of asset life, asset condition, number of trains, and so forth. So, I don’t think that there is any different treatment of our business in Wales than in other parts of Great Britain when it comes to those core activities.

[74] I think the question is more around the funding of enhancements and, really, those are choices for Governments—both the Welsh Government and

the DfT. We are seeing massive investment currently in electrification into Cardiff and then, of course, to Swansea. We're seeing new trains. So, I think sometimes we tend to look at the investment that's physically made in Wales, forgetting that investment in other parts, such as between London and Bristol, has massive benefits to the economy of Wales.

[75] If you think about what's likely to happen in control period 6, with investment in a western spur to Heathrow—again, that's not money being spent in Wales but it will be of massive benefit to the Welsh economy. So, I think those commentators who draw those comparisons perhaps should look a bit wider around the agglomerated impact of investment elsewhere on Wales.

[76] **Jeremy Miles:** The issue most recently was that Cardiff—sorry, just before I move on, is it basically your position, then, that you feel that enough money is being spent on rail infrastructure in Wales?

[77] **Mr James:** I think our position is that there are choices for funders. Last March, we were here presenting the findings of the Welsh route study, which, essentially, set out the industry's plans for the next 10 to 30 years. In there, there were 13 choices about how funders could make the railway better in Wales. So, those choices are there and those investment decisions will provide a better railway, but it's clearly for funders to decide which of those are funded. So, yes, there is more to do, Jeremy.

[78] **Jeremy Miles:** There's a list of things that we feel would be the right things to do that are not being funded is the basic message I'm taking from that.

[79] **Mr James:** That's currently the process, although the DfT is considering its choices for control period 6, and the industry, led by the rail delivery group, has put forward what it calls 'initial industry advice' and those choices are with the UK Ministers around what should be funded across GB. I think—sorry, there's another element there, which is sort of trying to ease the burden on taxpayers. We are doing our best in Wales to try and leverage funding from the commercial sector into schemes. One example is improving Cardiff Central, where we've seen massive redevelopment around the area and we're trying to bring some commercial funding into a better station to ease the burden on taxpayers, so that actually the taxpayers' funding can go elsewhere.

[80] **Jeremy Miles:** But, on that, there's no commitment yet to do that, actually, is there?

[81] **Mr James:** Not currently.

[82] **Ms Course:** Not yet.

[83] **Jeremy Miles:** Okay. Can I move on to—? You raised the question of electrification to Swansea. Sir Peter Hendy said, at the end of last year, that it wasn't a done deal, basically. You've run out of money to do it, or you may not have had money to do it in control period 5, and it isn't clear whether it'll be done in control period 6, which ends in 2024. Is that still the case?

[84] **Mr James:** I think our priority currently is electrification to Cardiff, because that will deliver massive benefits to customers. Electrification to Swansea is in the plan for control period 6. I'm not aware of any Government decisions that that should change.

[85] **Jeremy Miles:** So, it's in there and there's funding to do it.

[86] **Mr James:** Well, I think it's currently in the plan for CP6, but, of course, the CP6 plan will be determined by UK Government later this year.

[87] **Jeremy Miles:** So, by the end of this year—. Sorry to press the point, but, by the end of this year, we will have absolute clarity and a commitment, as far as you're concerned, on the deliverability of electrification to Swansea within control period 6.

09:45

[88] **Mr James:** I think that's probably, Jeremy, a matter for the UK Government on their commitment, but clearly, we are planning for that activity. But sort of earlier this month, the first Hitachi trains ran into south Wales, in test mode. The Department for Transport has specified that they're now bi-mode; so, they can run under the wires and also in diesel mode. I think, irrespective of when the wires go up to Swansea, passengers will benefit from those trains running as diesels to Swansea, and I think the time differences are very marginal. They'll still benefit from newer trains, better Wi-Fi, better facilities. Our plans are that the priority is Cardiff in CP5; Swansea's in CP6.

[89] **Jeremy Miles:** And do you think that it would have been more helpful to look at it as one project direct, straight through to Swansea, rather than split it into two?

[90] **Mr James:** I think originally it was, then it was split, then it was one project again. I guess it's been broken up into funding periods to make it more affordable, I think. That's probably the reality of it.

[91] **Jeremy Miles:** Okay. So, in terms of the overall enhancements that you describe to the infrastructure, although you've described a sort of, as it were, internal devolution within Network Rail, actually that isn't devolved under the settlement. How can a franchise agreement be structured to take account of those infrastructure enhancements over the period of the franchise agreement? Given that it's not devolved, what's the best way of doing that?

[92] **Mr James:** The franchise clearly has to be open to change. So, we've seen a franchise let in 2003. That really has—from the evidence that you've heard—had little opportunity to flex, even though Arriva has invested lots of money into its business, into making it better. So, I think, whatever we have for the next period, whether it's 10 or 15 years, has to have the opportunity to adapt and respond to enhancements, but also to the changing face of the economy in Wales. Equally importantly—I mentioned earlier on—we're seeing a sort of investment in Heathrow, there'll be high speed 2 running to Birmingham and to Crewe, and the franchise will need then to look at connectivity in north Wales, from north Wales into Manchester, Liverpool and into all the other franchises—all the other investments. So, I think it's got to be flexible, forward looking and not constrained by something that was thought up today and may not be fit for 15 years' time.

[93] **Ms Course:** I was just going to add to that point from Tim and kind of back to Hannah's previous point about alliancing. Actually, the more closely aligned we can be on the enhancements and the renewals of the railway with the new franchisee, that is one of the great examples of where we could be a lot more collaborative in how we do business and how we plan the network. We're at the process now of business planning for control period 6. We've engaged with all four bidders on that process, so that they can be aware of our renewals requirements for control period 6, and they can factor those into their bid plans as they see fit.

[94] **Jeremy Miles:** Okay. So, you're pretty confident insofar as you can be at this point that the process pre letting the contract is giving you the

opportunity to make clear what those plans are, and that there will be a mechanism for allowing the bidders to address that during the life of the franchise.

[95] **Mr Jackson:** Certainly, my colleagues in the routes are providing information through Transport for Wales and verbally in these competitive dialogue sessions that explain where we are with our current enhancement programmes—ones that are CP5 and also spanning into CP6. Of course, this is a procurement for a franchise that's going to last for CP6, CP7 and CP8. We don't know what those investment decisions are likely to look like in CP8. So, in terms of the mechanism, that is something that the Welsh Government will have to build in, if appropriate and as appropriate, as they go out to tender.

[96] **Jeremy Miles:** Okay. Thank you.

[97] **Russell George:** Mark Isherwood. Then I'll come to Adam.

[98] **Mark Isherwood:** Thank you. You referenced north Wales, so you'd expect me to come in at that point. We've heard evidence also from a number of witnesses here and in Shrewsbury reinforcing the need for rail investment in north Wales. Obviously, I know you're very familiar with the Growth Track 360 proposals with both Governments. I wonder if you could expand on a few specific points. Firstly, the north Wales and Merseyside connectivity—the Halton curve. We know that the Liverpool city region—and they emphasised it to us when we met them—have made the decision to invest up to the border, but there's not yet been a parallel decision this side of the border. What might the potential implications of that be, or do you have—not breaching any confidences—any thoughts about how that might go forward? Similarly, with Wrexham–Saltney, or particularly Rossett, and the notorious missing two miles, what will the implication of that be if those two miles aren't filled, and the capacity issues that will result? We understand there might be capacity for one extra train per two hours, but I don't know if you're able to indicate anything about that.

[99] This week, the local government in north Wales has written to Members—I'm sure Hannah's had the same e-mail as myself—expressing concern over the connectivity to Crewe, particularly with electrification, and where the absence of a hub connection at Crewe might impact on the proposals for north Wales. Again, are you able to provide any update on, or information on where that stands at the moment?

[100] **Mr James:** Of course, yes. We'll address them as we can. So, I think on Halton curve that is going ahead. I think that's being funded by Merseyrail, isn't it?

[101] **Mark Isherwood:** It's Liverpool city region money, plus the £10 million UK money, but with Merseytravel working in partnership.

[102] **Mr James:** That's it. So, the information around that enhancement is being fed in by our colleagues into bidders, so that, essentially, they can understand what that will mean for journeys between north Wales, Wrexham and Liverpool. So, that's an example, following Jeremy's question, of how we're feeding in future enhancements into the programme. I don't know any more, Mark, around the detail, and I may need to write to you around that, around the arrangements, I'm sorry.

[103] In terms of the Saltney–Wrexham enhancement, Alexia's team has been leading there.

[104] **Ms Course:** Yes. So, that's been a scheme that part of my team have been delivering, and you're probably aware that we had the blockade last week, and the trains started running on the new track as of Saturday just gone, which obviously we're very pleased with, and is a great result for the railway, I think, and for working together on that part of the world. It will immediately provide the performance and the resilience on that part of the network now. We're working with Arriva Trains Wales on timetable improvements as well, making the best use of the infrastructure, based on their current fleet availability, and we're providing that information to the bidders, so that they can then assess that infrastructure for any service improvements as part of their bid for the new franchise. What the infrastructure has done is it's given us that provision for bidders to then maximise the use of it from October 2018 onwards, which is ultimately what it's doing.

[105] In terms of those two miles where it was de-scoped due to the infrastructure in the area, and the bridges that were over there, we believe, at the moment, that based on the demand, the additional track, level crossings and signalling capability that we have installed will provide the capacity needed. And then we will work with Government to see if any additional capacity is needed in the future, really.

[106] **Mark Isherwood:** If I may comment there, Chair, my understanding is that the north-east Wales border has the highest cross-border motor crossing anywhere in the UK daily, and rail usage is amongst the lowest in terms of travel to work cross-border, or travel to shopping, or whatever it may be, because of the limitations. What greater capacity could be provided if that two miles had been dualled?

[107] **Ms Course:** James, do you have the detail on that one?

[108] **Mr Jackson:** We don't have the detail on that. It was a good example of an infrastructure investment by Welsh Government in growing the capability of the network up in north-east Wales. The capacity available is dependent both on what the constraints of our network are, in terms of the track, but also the constraints on rolling stock, either the length of trains or the make-up of them, in terms of seats and so on. And, of course, for Wrexham, a lot of those trains are part of wider, longer journey types that stretch right from Holyhead through to Carmarthen. So, yes, it depends very much on the balance of rolling stock, as well as what our infrastructure is capable of.

[109] **Ms Course:** But we're also working closely with Welsh Government at the moment on a Wrexham area improvement scheme as well, to look at alternative places to drive increased capacity. That scheme is at its early stages at the moment, to understand where and scope, and what have you. But that's a scheme that we're keen to develop with Welsh Government for CP6.

[110] **Mr James:** And on the question of Crewe, we were pleased to meet Growth Track 360 two weeks ago, in Birmingham. We have been really clear that Network Rail has provided advice to HS2 for a report on the preferred location for a hub at Crewe. That location is at Crewe station itself, rather than south. Naturally the decision is ultimately with HS2 to make. We have talked with the Welsh Government around the need for them to engage regularly with HS2 Limited on that decision.

[111] **Mark Isherwood:** Does the DfT have a role because the correspondence we've received this week has been encouraging Assembly Members to write to the UK Minister? Is that a factor in this?

[112] **Mr James:** Yes, indeed. There's a sponsorship board for the Crewe hub, and the two primary sponsors are DfT and HS2. So, essentially, Network Rail is working on how we join up to HS2 and how HS2 fits into Crewe

station. But really, decisions on Crewe hub and services are for DfT and HS2.

[113] I was just going to add, really—and it links back to Jeremy’s question—with Growth Track 360 we agreed that we would focus on two priorities immediately: one was to improve line speeds along the north Wales coast, and the second was improving the frequency between Wrexham, Bidston and Liverpool. With Growth Track 360 we’re working on a proposal to try and secure some funding to continue engineering work on these, to be more clear on the programme, the cost and the scope, so that we can then provide that to funders and say we have a certain gist of what it will cost, what it will deliver and how quickly it can be done. I think that then helps funders to make informed decisions. So, that’s the next step for us: moving from largely early feasibility work into a plan of action where something could be delivered if funders provide some income to us to take it to a detailed engineering stage.

[114] **Mark Isherwood:** Well, if I may, Chair, just one more. Given, obviously, that Growth Track 360 is about two sides of the border, it’s about the travelling area and the commercial area of the region, what about connectivity into Manchester? Because obviously, at the moment, you effectively miss the city and have to come back in again. And obviously ensuring the sustainability of connectivity with the two main airports.

[115] **Mr James:** I think that’s been part of our discussions, and it’s also part of discussions with bidders around connectivity into those locations.

[116] **Mark Isherwood:** Okay. Thank you.

[117] **Russell George:** Adam Price.

[118] **Adam Price:** Yes, I’d like to turn, if I may—we’ve got a bit of time—to the question of the historic underinvestment in Welsh railways that Jeremy Miles raised. The Cabinet Secretary, who we’ll be seeing later this afternoon, is on record as saying that, since 2011, the share for the Wales route area of the rail enhancement, investment or expenditure that you referred to earlier, was about 1 per cent. Do you accept that figure? Do you have your own figure that you can share with us?

[119] **Mr James:** No. I’m sure that that must be correct. We haven’t got our own figure. We do not actually measure it necessarily in that way.

[120] **Adam Price:** I think I can see why. I think I can see why. I don't mean to be impolite. The House of Commons Welsh Affairs Select Committee also had a slightly different figure, which was an England and Wales. That was 1.5 per cent. So, I think we see a pattern emerging there, don't we? As a Welshman yourself, Tim, aren't you a little bit ashamed of that figure?

[121] **Mr James:** Clearly there needs to be more investment in Wales, and also in other parts of GB. I guess these are decisions for funders. Network Rail is funded for operations, maintenance and renewals, and essentially funding for enhancements are decisions by Governments, and clearly there's more that needs to be done. We've been very clear about what those choices in Wales are for the next 10 to 30 years, but we are not necessarily funded for that.

[122] **Mr Jackson:** And if I may, just very briefly, in terms of operations, maintenance and renewal we, as a route, own those plans. We look at the conditions of our assets and we build up a business plan based on what is required to keep the railway going in its current state. That's one we own; it's one we're measured against, and it's one we're pulling together now for CP6. So, we have confidence in terms of the steady-state railway, and I think your questions is, though, more on the enhancements and bringing further money in.

10:00

[123] **Adam Price:** I'll come back to this in a second, if I may, but just for me to be clear, now, in very simple terms: Network Rail would be more than happy to take that, let's face it, risible figure of 1 or 1.5 per cent back up—by the way, just to be comparable, the Wales route area in terms of population share, what proportion are we talking about of the infrastructure of the network?

[124] **Ms Course:** Well, we cover the Wales and borders area. Trying to remember a figure off the top of my head for what that is as a portion of the GB rail network, I can't—

[125] **Mr Jackson:** We're around 10 per cent of GB rail network.

[126] **Adam Price:** Right, okay. So, around 10 per cent of the network gets around 1 per cent of the rail enhancement investment. That can't be right, surely. And you would be happy—. You're kind of saying, 'Well, that isn't a

decision for us'—you'd be more than happy to increase that but your hands are tied.

[127] **Ms Course:** Yes, absolutely. So, our funding is: operate, maintain and renew, based on asset condition and sustainability of those assets. But we would absolutely value doing more enhancements in Wales, absolutely.

[128] **Adam Price:** It's the Department for Transport's fault, and we'll be seeing them in a bit. Okay, great. Thanks for that. That was very helpful. I'd just like to go back to the maintenance issue, though, because, you'll remember, there was a huge crisis that we had on many of our railway lines before Christmas, so a daily commute to work became something like something out of Homer's 'Iliad'—a daily drama. The Cabinet Secretary did say that, actually, Network Rail was to blame for that, because the maintenance level had not been maintained, and that meant that the famous 'leaves on the line' issue became serious and was damaging Arriva Trains Wales's stock. Do you accept that?

[129] **Ms Course:** We have some performance challenges, absolutely—I won't question that. I think they were rail industry performance challenges before Christmas. There are certain elements that are absolutely the responsibility of Network Rail as custodians of the infrastructure, but there are equally accountabilities and requirement on the train operator from a fleet perspective as well, and it's about how those two interface and work together. So, last autumn, ourselves and Arriva Trains Wales put in place a special performance taskforce to focus very closely on those autumn-related performance issues. That was a fantastic achievement, and we've now set up an operations governance board, which Welsh Government sit on, as well as ourselves and Arriva Trains Wales. And since we've put those measures in place—I should also say we increased our investment in our autumn resilience last year as well, by several million pounds, to improve the network resilience for autumn delays. As I say, since we've done those actions around the more collaborative performance taskforce with Arriva Trains Wales—and we've set up our operations governance board now, with Welsh Government sitting on that as well—performance levels are now regularly hitting 95/96 per cent PPM on the Valleys, as well as nationally. And Tim mentioned earlier the performance we had only yesterday as well: we were achieving 98 per cent on the Valleys. So, recognising the seasons are different now to before Christmas, we recognise the problem and we've put a lot of effort, time, people's commitment and money into addressing it. We're now working very closely with Arriva to set up a robust plan for the coming autumn season this

year as well, so that we don't have the same problems again.

[130] **Mr Jackson:** Additionally, on that investment point you make, obviously we've now commissioned fully the Cardiff area signalling renewal programme, and that's given a lot of operational robustness now around the Cardiff Queen Street core, and the real hub of the network between Cardiff Queen Street and Cardiff Central, and that's paying dividends. We've got an even better performance on that network now than we did before.

[131] **Ms Course:** And that was a £300 million scheme that we invested in as part of our maintenance and our settlement for control period 5. We're also now looking at north Wales coast re-signalling scheme as well to improve resilience along the north Wales line, and we're also looking at Port Talbot west re-signalling as well. All those schemes are there to add resilience and performance benefits for the passengers of Wales.

[132] **Adam Price:** Finally, if I may, we had Mick Cash from the RMT before us recently and he reiterated an interesting idea, which he also flagged up to the Welsh Affairs Select Committee, that the Welsh Government, if it wasn't satisfied with the franchise bidders, actually, could then, through a management contract, set up a joint venture with yourselves to run the franchise. Indeed, I think the Welsh Affairs Select Committee actually included it as a recommendation. So, anybody who can get the RMT and David Davies to agree on anything, I think, has some merit. Is that legally possible? Could you enter into a partnership? You have this arrangement in Scotland, don't you, through ScotRail?

[133] **Mr James:** Indeed, yes. So, essentially, there are opportunities for us to form what we call an alliance with train operators. So, in Scotland, there's Abellio and Network Rail, which work as one company to deliver services. So, I think, essentially, there are a number of things that we can do with the bidders, the winning bidder, but also, of course, with Transport for Wales, so potentially there are two alliances: there's one at an operational level to address the autumn issues, operationally, and then one with TfW to address the more longer term planning issues.

[134] **Adam Price:** So, legally, using the template, there isn't anything preventing you from actually allying, as you say, with an operator.

[135] **Ms Course:** No.

[136] **Mr James:** No, not at all.

[137] **Adam Price:** That's very interesting. Thank you.

[138] **Mr James:** We have a policy on that as well, so we'd be happy to send it to you.

[139] **Russell George:** Mark Isherwood.

[140] **Mark Isherwood:** You just said you're looking at north Wales's signalling—I mean, we've been hearing that for years—when? The UK Government's been saying the same thing. When do we expect this? And in a couple of answers you gave to people before, Halton curve—. I gather from, I think, James's response that Wales may be delaying engagement, financially, until the franchisee is in place, with your reference to Merseytravel, or is this something that could move ahead before then? Finally, again, in terms of Wrexham–Saltney, if the resource was there, could the technical barriers that you identified be overcome, and if they were overcome and the rail stock was there, how many more journeys could that line accommodate?

[141] **Mr James:** On the north Wales coast re-signalling, we're currently on the ground doing phase 1, which is between Rockcliffe Hall and Chester and Llandudno. So, that will take place in this control period up to 2019. So, that's the current commitment on north Wales, which is good news for reliability and assets there. In terms of Halton curve, I understand that it's funded, Mark, but we'll need to write to you, I think, on that question.

[142] **Mark Isherwood:** The evidence we heard in Shrewsbury was that the other side of the border didn't know that yet.

[143] **Mr James:** Okay, fine. We'll look at the evidence transcript and then respond to you, if that's okay. And then on the Wrexham–Saltney—it provides capacity for one additional train every two hours in each direction. When the scheme was first conceived, it was around running an hourly service between south Wales and north Wales, because it's currently two-hourly. We think that there are options that are being considered around what train service should fill the extra path, and we don't know, yet, what's coming out of the bidding solution. So, it's quite hard to answer that question, because it's—

[144] **Mark Isherwood:** If the resource—. If money wasn't a consideration,

could those technical barriers be overcome?

[145] **Mr James:** Yes, of course. Yes.

[146] **Ms Course:** Yes.

[147] **Mark Isherwood:** It could be done.

[148] **Mr James:** Absolutely. We'd be delighted to carry out any investment in the Welsh railways, if there's funding. That's why we exist.

[149] **Mark Isherwood:** Thank you.

[150] **Russell George:** In your paper, you said that the ownership model must satisfy a Network Rail business case. What risk does the transfer bring to you?

[151] **Mr Jackson:** This is the core Valleys lines?

[152] **Russell George:** Yes, it is.

[153] **Mr Jackson:** Absolutely. We're referring to that as a divestment appraisal, so that we can be absolutely clear that the business case for the entire programme, both in terms of the wider franchise and the core Valleys lines, sits with Welsh Government, as the people best able to realise the outcomes from the investment that's being proposed. So, we're pulling together a divestment appraisal that looks at the impact on Network Rail's people specifically, and our business would be a transfer of the assets and the infrastructure manager business. We're working with Transport for Wales to understand how that can be reflected in the programme business case and how we can work together going forward.

[154] **Russell George:** The final question is: in regard to the financial aspects of the transfer, would the Welsh Government buy the lines, or at least accept a share of the debt against them?

[155] **Ms Course:** Those are two of the issues that we're working through in our commercial conversations with Transport for Wales and Welsh Government. Ultimately, the divestment of the asset could be through a sale or through a lease arrangement for the land and for the infrastructure that sits on that land. We are working with Welsh Government and with the

Department for Transport and the Office of Rail Regulation on how you would make that shift on the financial terms, as it were, so that the Network Rail business model is not adversely affected by the change, and the money sits in the right place, ultimately, with the change of ownership.

[156] **Russell George:** Thank you. In that case, I'd like to—unless there are any other questions from Members? No. I'd like to thank the witnesses for being with us this morning. Thank you for your time. We'll take a short break and we'll be back just before 10.30 a.m.

*Gohiriwyd y cyfarfod rhwng 10:11 a 10:30.
The meeting adjourned between 10:11 and 10:30.*

**Yr Adran Drafndiaeth—Ymchwiliad i Ddarparu Masnachfaint y
Rheilffyrdd a'r Metro
Department for Transport—Inquiry into Rail Franchise and Metro
Delivery**

[157] **Russell George:** Welcome back to the Economy, Infrastructure and Skills Committee. We move to item 3 in regard to our inquiry on rail, or the rail franchise and metro delivery, and we've got colleagues here from the Department for Transport. I'd be grateful if you could just introduce yourselves for the record.

[158] **Mr Muraszko:** I'm Eddie Muraszko. I'm deputy director in passenger services in the Department for Transport, responsible for the Midlands, north and Wales area.

[159] **Mr White:** Good morning. I'm Stuart White. I'm a deputy director in the network services, part of the Department for Transport, which is primarily responsible for acting as Government client to Network Rail, but my team also leads on the parliamentary process of the transfer of functions Order for the Wales and borders franchise.

[160] **Russell George:** Okay. Before we go into questions, is there anything you would briefly like to say before we go into questions? Or are you happy for us to dive straight in?

[161] **Mr Muraszko:** Not particularly. We're happy to start and answer your questions.

[162] **Russell George:** Thank you very much; I appreciate it. I'll go to Jeremy Miles first.

[163] **Jeremy Miles:** You just mentioned the transfer of functions Order then. That was intended originally to happen in the last Parliament, and then that slipped to January of this year and it's now March. Do you accept that the delay around that is causing anxiety and uncertainty around the procurement process, and what would happen if the delay caused a significant problem in the procurement exercise?

[164] **Mr White:** I'll ask Eddie to touch on the procurement exercise in a second, but, in relation to the timing for the transfer of functions Order, the high-level commitment has always been to ensure that powers are transferred to Welsh Ministers in order to specify and procure the next Wales and borders franchise, and that is absolutely still the intention and we're still on track to do that, therefore not jeopardising their ability to specify and procure the next franchise.

[165] You're right, of course, that we had hoped to effect that transfer at an earlier point in time. In order to do so, we needed to reach agreement on a number of fairly complex policy issues between the two Governments, primarily related to the management of cross-border services, given the nature of Wales and borders routes and the service structure. We've very largely done that now and are on track in terms of parliamentary process for effecting the Order. In the interim period, to ensure that Welsh Ministers have the ability to proceed with the procurement, we've agreed an agency agreement, which has allowed them to start the process and shortlist bidders, as they have done, and we're in the process of agreeing a further agency agreement with them to allow them to proceed through that procurement.

[166] **Jeremy Miles:** And what's the date by which the transfer needs to have taken effect to avoid prejudicing the procurement process?

[167] **Mr White:** Our intention is absolutely that it has effect—. We anticipate it will have effect by the end of this year—before the end of this year—and our intention is to make sure that that has effect before the Welsh Government lets the contract, awards the contract, to the successful bidder, which we anticipate being very early in 2018.

[168] **Jeremy Miles:** Okay, so it will have taken effect by the end of this year.

[169] **Mr White:** That's certainly our intention, yes.

[170] **Jeremy Miles:** Okay, and if that isn't met and if it starts to eat into the procurement process, what's the plan at that point?

[171] **Mr White:** We believe that we can agree a further agency agreement between ourselves to allow the Welsh Ministers to let that contract, effectively under delegated powers from the Secretary of State for Transport. So, our expectation is that that wouldn't prejudice the conduct of the procurement, but, as I say, our intention is that formal powers are transferred before that point in time.

[172] **Jeremy Miles:** Okay. What's the obstacle, by the way? What's the cause for the delay at this point?

[173] **Mr White:** As I say, we've had a number of complex issues to address. There have been questions about how cross-border services are managed, the powers that are effectively transferred to Welsh Ministers from Westminster, dealing with issues of democratic accountability for those services and stations used by passengers on the English side of the border, and dealing with questions of whether there is any remapping of services or stations. Those are quite knotty problems to resolve, which have taken time, but we've been working very collaboratively with colleagues in Welsh Government and Transport for Wales to resolve those, and are now at a point where we're able to commence the parliamentary process of transfer.

[174] **Jeremy Miles:** Okay. Thank you. Given that the Secretary of State is still at the moment the franchising authority, what steps are you taking to ensure that the competitive dialogue process is effective?

[175] **Mr Muraszko:** I'll answer that. So, we've been working closely with colleagues from Transport for Wales since early 2016. We've offered support in a number of ways. We've shared our experience of DfT refranchising procurements. We've held a workshop for Transport for Wales officials on the latest developments in DfT, in both policy and rail procurement letters. We've shared our templated documentation, like the franchise agreement that we use on our franchises. We've established a joint steering group, on which Stuart and I sit. We meet fortnightly to progress issues. I have a seat on their project advisory group, and also, later today, I'll be attending the Transport

for Wales Welsh Government programme board for the slot where they talk about procurement. And we've been dialling into bidder dialogue sessions. But we are seeing this from the outside. It is someone else's procurement, so there is a limit to how we can assure it's effective.

[176] Just moving on to the competitive dialogue process, clearly, it is a novel process that hasn't been used for rail franchising in this country. So, we're looking to see how well that works at the end of this process. They're trying something new, so there's limits to how much our experience is relevant to—

[177] **Jeremy Miles:** I was going to ask you about that. Does the DfT have experience of competitive dialogue?

[178] **Mr Muraszko:** Not in rail franchising, no. We've never thought it's appropriate for rail franchising.

[179] **Jeremy Miles:** And do you think it's appropriate in this particular case?

[180] **Mr Muraszko:** My understanding of competitive dialogue is that the main reason to pursue that is when you are clear about what you want to achieve in broad, outcome terms, but you're unsure about the technical way in which it should be delivered. And I think, as regards the core Valleys lines, and the proposals for the Cardiff metro, that is the position that Welsh Government and Transport for Wales were in. So, I think, from that point of view, that element of it means that, yes, probably, competitive dialogue was an appropriate response.

[181] **Jeremy Miles:** Okay. And in terms of looking at the question of value for money through the procurement process generally, do you think it's possible to assess the value for money derived under the franchise model being pursued here against other franchises?

[182] **Mr Muraszko:** I was intrigued by that question. I think it would be really difficult to do so, because I think no two franchises are the same in terms of the background environments in which they are bid, in terms of the process that's used. So, just as a crude example, most of our franchises recently have been let bid on a pre-Brexit assumption, rather than a post-Brexit assumption and things like that. So, it will be very difficult to make a direct comparison, but I'd be interested in trying, and we really will be interested in seeing how this works out.

[183] **Jeremy Miles:** Okay. Just finally, in terms of the discussions between UK Government and Welsh Government, I asked Network Rail, who were in here before you—in 2014, there was an agreement between the two Governments in relation to investment in the south Wales rail infrastructure. Welsh Government is doing its piece on that. My understanding is that they're still waiting to hear from the UK Government whether it'll commit to electrifying the rail line to Swansea. I asked Network Rail what their understanding of the position was, and they said that, by the end of this year, it will be possible for the UK Government to commit to that within the next control period. What's your understanding of that process?

[184] **Mr White:** It's true to say that, under the Hendy review in 2015—Sir Peter Hendy, when he was brought in as chairman of Network Rail, revisited the entire investment portfolio for England and Wales, and, as part of that process, Cardiff to Swansea electrification was moved into the next railway funding period, control period 6, which starts in April 2019. So, it absolutely features as part of the Hendy plan. The Hendy plan, in its totality, has been accepted by the UK Government, but, as with all business cases and propositions, that's subject to continual examination and refinement. And Cardiff to Swansea electrification is part, obviously, of a broader programme of modernisation on the Great Western main line, under which electrification to Cardiff will be delivered in CP5. And, as I say, the assumption is that Cardiff to Swansea electrification will be delivered as part of the CP6 programme.

[185] **Jeremy Miles:** So, when would that assumption become a commitment?

[186] **Mr White:** The broader process that we're following for control period 6 is that, as a legislative requirement, the Secretary of State for Transport, is required to publish what's known as a high-level output specification and a statement of funds available. Those are, effectively, in very simplistic terms, what he wants in terms of outputs from the railway in the next funding period and the amount of money that he has available to secure those outputs.

[187] We are expecting to publish both those documents, linked documents, later this spring and that will set out our approach to CP6. What we don't expect it to do, however, is list individual schemes in the way that we did for control period 5. Because that was one of the causes of the difficulties that the railway got into in terms of the ability to fund any of those cost overruns

as they emerged. So, our process will be slightly different in CP6, but our expectation is that, following the HLOS, we will run a public consultation on the approach that we're planning on taking and publish a rail investment strategy towards the back end of this year.

[188] **Jeremy Miles:** Okay. So, will that rail investment strategy include a commitment to the electrification to Swansea, subject to the consultation?

[189] **Mr White:** It's too early to confirm that. We will look to publishing that strategy and then we will announce on a real-time basis, as decisions are made, when business cases are confirmed, and, if that is the position by the time the rail investment strategy is announced, then, yes, our intention would be that it would be published in there.

[190] **Jeremy Miles:** What's the last point at which a commitment could be made to guarantee delivery of electrification within the next control period?

[191] **Mr White:** That I don't know, I'm afraid. I'd have to take that question back.

[192] **Jeremy Miles:** If you could let us know, that would be—.

[193] **Russell George:** Can you also tell us where we're up to on the Valleys lines as well? What is the hold-up in that regard?

[194] **Mr White:** In terms of the electrification?

[195] **Russell George:** No, not the electrification. I'm talking about—. The Welsh Government's got its ambitions, and in terms of where you're up to in negotiations in that regard.

[196] **Mr White:** Oh, in terms of the creation of the south Wales metro incorporating the Valleys lines.

[197] **Russell George:** Yes.

[198] **Mr White:** That's a fundamental part, as Eddie's described, of the Welsh Government's procurement process. It's looking for an operator to operate the Valleys lines as an infrastructure manager as well as operate franchise services throughout Wales. We are fundamentally awaiting a formal detailed proposal from the Welsh Government on that. Primarily, they need to

agree any such proposal with Network Rail as the current asset owner of the Valleys lines infrastructure and then we would expect to see that proposal, hopefully supported by both parties, to confirm that the proposal is acceptable to UK Government.

[199] **Russell George:** Are there any sticking points in regard to the financial arrangements?

[200] **Mr White:** There are undoubtedly some quite large financial considerations to be worked through, but, as I say, we've not seen a formal detailed proposal from the Welsh Government yet.

[201] **Russell George:** Jeremy, have you finished your points?

[202] **Jeremy Miles:** Yes.

[203] **Russell George:** In that case, Vikki Howells—Hefin, sorry.

[204] **Hefin David:** Just a question on that: what if the Valleys lines are just a light rail proposal? Would you still commit to funding £125 million for that?

[205] **Mr White:** Again, my understanding is that, as part of the competitive dialogue process, bidders are considering what their approach might be to the delivery of services on the Cardiff–Valleys lines. The commitment to the £125 million towards electrification was indeed for that, for electrification, because that was the clear assumption of both the Welsh Government and the UK Government at the time. If there is a proposal to change that, we would need to see that proposal from Welsh Government, which we haven't seen yet.

[206] **Hefin David:** If it were changed to light rail.

[207] **Mr White:** Yes. So, we haven't had a formal proposal to do that yet, because it's forming part of the procurement.

[208] **Hefin David:** Can I quickly just—? The Cardiff capital region gave us evidence and they talked about the £4.7 billion that was invested in Crossrail in London. The £125 million doesn't really compare, does it?

10:45

[209] **Mr White:** Crossrail is a very different scheme, clearly. It was also a scheme that had multiple funding sources. As I say, we've not made a decision on whether the £125 million would still be available if the proposal is no longer to electrify the Cardiff Valleys lines, purely because we haven't had any such proposal. The only thing I would say is, obviously, the funding made available is not limited to £125 million. As part of the city deal for Cardiff, significant other sums have obviously been provided.

[210] **Hefin David:** I think the Cardiff city deal would be concerned if that was at risk. Okay. Thank you.

[211] **Russell George:** Adam Price.

[212] **Adam Price:** Just on the question of the levels of investment, we broached this subject in the earlier session with the representatives of Network Rail and were particularly looking at the level of rail enhancement investment in the Wales route area. It covers about 10 per cent of the population, the network, and it's about 1.5 per cent of the investment. They told me that that was a Department for Transport decision—are they correct in that? I mean, essentially, that discrepancy in terms of levels of investment versus levels of population, that's a ministerial decision.

[213] **Mr White:** At a broad level, yes, in the sense, as I was describing, of the publication of a higher output specification and the statement of funds available. I would point out that enhancement funding is actually the minority of funding made available to the railway in a railway control period—in a railway funding period—and that, actually, investment on what's known as operations, maintenance and renewal—so, rather simplistically, the day-to-day funding, if you like, of keeping the railway safe, operational, high performing—is the majority of the funding. That is spread according to the needs of the asset and the infrastructure. So, if you look at that in terms of investment, actually Wales has done very well in CP5 in terms of levels of investment per passenger head compared to, actually, even London and the south-east. So, there are many different ways in which to measure investment in a particular region or on a particular railway route. It's also the case, obviously, that there can be geographic remoteness between where investment is made and where benefits are secured. So, Cardiff and south Wales and Swansea will obviously benefit, as we've talked about, from modernisation of the Great Western main line, much of which investment is being made remote from Wales. Indeed, current proposals around western route access to Heathrow will be of significant benefit to Wales. We see that

replicated across the UK in terms of that geographic remoteness of benefits from investment. So, it is important to capture all of those inputs as well.

[214] **Adam Price:** I understand the point, but would you accept that, you know, getting to London on time or getting to Heathrow on time is desirable, but getting to work on time is essential.

[215] **Mr White:** Of course.

[216] **Adam Price:** And if you're not seeing the level of investment in the railway infrastructure actually within Wales and the Wales route area, then that's leading to the kind of problems that we deal with on a daily basis.

[217] **Mr White:** The process that we're developing for the next railway control period will absolutely take those considerations into account. So, the Secretary of State has recently received advice from the rail industry. In terms of your initial question—whilst, yes, it is, at the end of the day, his decision in terms of where funding is made, he doesn't make that decision on his own. We receive a lot of advice from key stakeholders and from the railway industry itself, from the rail regulator, the independent economic regulator. So, Network Rail and rail operators and stakeholders have contributed very significantly to the development of advice that the Secretary of State has received about where priorities are for investment in the next control period, and that absolutely will feature as part of the considerations for that funding period.

[218] **Adam Price:** Just finally, your earlier point about measuring the operations, maintenance and renewal investment—. So, presumably, from what you said, there we do get our 10 per cent share.

[219] **Mr White:** I wouldn't like to quote specific numbers, but as I say, my understanding is that on a route basis, or a Network Rail route basis—how it divides up the rail network, and there's a Network Rail route for Wales—that route, on a passenger head basis, has done very well in CP5 in terms of renewals investment.

[220] **Adam Price:** Right. There's a different between per passenger head and the amount of physical infrastructure, isn't there? And surely the extent of the physical infrastructure is quite important, and the maintenance and the level of utilisation in terms of the stock.

[221] **Mr White:** Yes, and indeed, those renewals programmes that are built up by Network Rail—that investment is committed on the needs of the assets and the infrastructure, so it's a very dispassionate programme in that sense.

[222] **Adam Price:** What you're saying is, based on passenger number, then we get the same amount, pretty much, as the UK, but not necessarily on the length of track.

[223] **Mr White:** I don't have that statistic.

[224] **Adam Price:** Perhaps you can send it to us.

[225] **Mr Muraszko:** That wouldn't be a surprise, because there are very long stretches of track in mid Wales, and so forth, where there aren't huge numbers of passengers, so that probably might account for such a discrepancy.

[226] **Adam Price:** Yes, but isn't that actually—? I mean, I'm afraid we can't do anything about that—our geography. But isn't that actually—? Rather than penalising Wales for the fact that it is a sparsely populated country with lots of mountains, shouldn't that be built into the funding formula?

[227] **Mr White:** I would say it's absolutely not a form of penalisation. It is about understanding what factors lead to the degradation and need to renew and replace railway infrastructure, and one of those factors is clearly usage and intensity of usage, so the more passengers, the more trains that use a section of track, the more frequently that section of track will need renewing, because it has degraded more quickly. So, there is clearly a correlation.

[228] **Mr Muraszko:** If I can just add, on a personal note: last week I was crossing Barmouth bridge and there were lots of Network Rail people in high-vis jackets doing whatever they need to do on that stretch of route. So, it's not being neglected in any way.

[229] **Adam Price:** Well, that wasn't—. The Cabinet Secretary here actually did say that it had been neglected in the crisis that we had in the autumn. Network Rail have actually admitted that, in their earlier comments, so at least in that particular case there was underinvestment, even on the maintenance side. I mean, would you accept that?

[230] **Mr White:** Those operational matters are very much matters for

Network Rail.

[231] **Russell George:** I've got Hannah and David before I come to Vikki. Hannah.

[232] **Hannah Blythyn:** Very briefly: in one of your responses, then, to my colleague Adam Price, you talked about Wales benefiting from the UK Government investment due to our geographical closeness and links. I just want to ask you, in that vein, would you be able to confirm if there would be benefits to Wales, and in particular north Wales, from the UK Government investment in HS2 and improvements to Crewe?

[233] **Mr White:** I'm not an expert on HS2, but my understanding is that the benefits from HS2 as a corridor are certainly dispersed quite widely. So, I would expect those benefits to extend into north Wales, but as I say, I'm not an expert on Crewe or HS2.

[234] **Hannah Blythyn:** Because my understanding is that there are two options in terms of the improvements to Crewe, and one is compatible with links to north Wales.

[235] **Mr Muraszko:** I'm afraid we didn't research the question of HS2. That wasn't one of the things we were asked about in advance. Sorry.

[236] **Russell George:** That's fine.

[237] **Mr Muraszko:** But we can come back to you.

[238] **Russell George:** David Rowlands.

[239] **David J. Rowlands:** You mentioned, when you said where the funding might go, that you involve yourself with stakeholders and interested parties, but there's always a lobbyist element to that, isn't there? And obviously probably much stronger lobbyist elements in the south-east of England, for instance, than there would be in Wales. Is that the way you're deciding where and when the investment actually takes place?

[240] **Mr White:** I would say absolutely not. I mean, people, quite rightly—and your colleague has made the point—expect to be able to get to work; you know, to be able to make leisure trips; to be able to make business trips; to be able to use the railway in the way that they want to do so. So, we

absolutely want to hear those voices and understand where the priority is greatest and the need is greatest in terms of making railway investment. The Secretary of State has been very clear during his time in the Department for Transport that the railway has to exist and has to get closer to its customers. But if it's not delivering benefits for passengers in particular, but also freight customers, then, frankly, and fundamentally, it's not doing its job. So, his focus is very much on the users of the railway and the communities that the railway serves rather than any kind of special pleading.

[241] **Russell George:** Vikki Howells.

[242] **Vikki Howells:** Thank you, Chair. I'd like to ask some questions around the plans to vertically integrate the metro infrastructure in south Wales. Firstly, does the DfT support the Welsh Government's proposals for vertical integration on the core Valleys lines where the infrastructure would be built and operated by the private sector?

[243] **Mr White:** Again, the Secretary of State for Transport made a speech in December last year when he set out his priorities for the rail network, what he saw as the future for the rail network, and the reforms that he believed needed to be made to the rail network. And in that speech he very much talked about the need for a greater alignment between track and train, again, for the benefit of passengers; to deliver better services to passengers. So, there are a number of ways in which that can be effected, some of which he talked about in that speech, and vertical integration is, clearly, one of those potential models for achieving that greater alignment. So, in terms of principle, that would absolutely sit with what the Secretary of State is thinking.

[244] **Vikki Howells:** And are there any risks that the DfT has identified in vertical integration; risks to the public, to the Welsh Government or to Network Rail?

[245] **Mr White:** To go back to an earlier comment I made, it's very much for the Welsh Government to make a formal proposal about the way in which the core Valleys lines would be transferred from Network Rail to itself. There are clearly risks attendant with that process; some financial, some operational. To your question of risks for passengers, which I think you mentioned, I would say that we're not in a place to assess them, but the Office of Rail and Road, as the independent safety regulator, would clearly want to assure itself that in effecting any asset transfer, and in terms of the future operation of

the Valleys lines, that there was no increased risk to passengers from that, and I wouldn't imagine that there would be so in terms of the approach that the Welsh Government is taking.

[246] **Vikki Howells:** Thank you. We recently took evidence from the Cardiff city region board, who said that for the significant increase in capacity that we need in order to deliver the south Wales metro, we really need to see significant improvements to Cardiff Central station. If rail infrastructure is not devolved, what are DfT's plans for modernising Cardiff Central station so that the metro can be effectively delivered?

[247] **Mr White:** Again, I would refer back to my comments about the development of high-level output specification. So, as part of the route study for Wales, Network Rail have led, and consulted widely upon—they have looked at Cardiff Central station's needs and that has featured in their thinking. I would say that they don't necessarily see it being a hugely urgent priority in time on a demand basis. There are points of pressure, clearly, around Cardiff Central station, particularly linked to passenger flows, and particularly linked to sporting events at the Millennium Stadium, but there are no—at the moment there are no fundamental deep-seated demand pressures at the station. Those, as passenger growth continues, will come over time and Network Rail has clearly identified that, but we will need to take into account what we think is an appropriate time, in consultation with others, for significant investment.

11:00

[248] **Vikki Howells:** Surely the planning for that needs to be proactive. We know that all the bidders for the metro are being asked to deliver a 'turn up and go' system. So, for example, you've got Valleys lines where there are only one or maybe two trains an hour and we'll be looking at trains running every 10 to 15 minutes. That's simply not deliverable unless there are significant improvements in Cardiff Central station. I would argue that that needs to be done firstly rather than lastly. The evidence we took from the Cardiff city region board—they expressed their concerns around this, and, I quote, they said that there's 'absolutely no commitment' from the DfT on delivery.

[249] **Mr White:** Not at this point in time. What I would say is that any consideration absolutely has to take into account train services. We don't want to invest in infrastructure for the sake of investing in infrastructure, and

neither do Network Rail. It has to be to meet the demand of passengers and to meet the needs of the train services that are using that infrastructure. So, if proposals coming out of the current procurement see a significant change in the usage of the station, then clearly that will need to be evaluated in terms of the priority of significant investment at the station. But we're genuinely not at a position of having that data yet.

[250] **Vikki Howells:** It sounds like a bit of a chicken-and-egg situation. I'm just worried that this could be a significant impasse.

[251] **Mr White:** As I say, we are very much aware of the work that's been done around demand at Cardiff Central station. It's not the view of Network Rail's route study that it is, at the moment, a pressing priority.

[252] **Vikki Howells:** Thank you.

[253] **Russell George:** There seem to be a lot of answers this morning that are suggesting that you need to see the Welsh Government's plans. So, is this all deliverable on time?

[254] **Mr Muraszko:** In terms of the procurement, the procurement process is running on—we see some of their documentation. I don't think that necessarily there's any risk around the delivery of that. In terms of the devolution settlement, we are in a position where we need to agree not just the terms of the agency agreement and then the final transfer of functions Order, but we do need to also agree a funding settlement, and we are still in the position of awaiting proposals from Welsh Government in writing.

[255] **Russell George:** So, is it all deliverable on time?

[256] **Mr Muraszko:** With a fair wind, yes. But it will need both sides to act promptly and with haste.

[257] **Russell George:** Okay. That's good. Hefin.

[258] **Hefin David:** It's a bit like a game of tennis, with everybody saying, 'It's Transport for Wales', 'It's Welsh Government', 'It's Network Rail', 'It's Department for Transport'. It's been very difficult to pin down these issues—but that's more of an editorial there, sorry. Coming back to the transfer of the infrastructure, I just would like to test your expertise on the evidence that was given by Network Rail. Did you see the evidence session, the

previous evidence session?

[259] **Mr White:** No.

[260] **Hefin David:** You didn't, okay. In the evidence that they gave in written form, Network Rail said that there will be, with regard to devolution of the core Valleys lines, a dual transfer: first of all, the transfer of the Valleys lines assets from ownership and control of Network Rail to Welsh Government, and then the relinquishing of Network Rail's infrastructure manager role over core Valleys lines routes to the operator and development partner. They also said that this might even be done on a line-by-line basis, if appropriate. It just seemed to me—and what I put to them was: it seems very laissez-faire and kind of ad hoc, this process, which doesn't have to happen all at once. Would you be satisfied—if it was your responsibility, would you be satisfied with that process?

[261] **Mr White:** At the risk of continuing the game of tennis, we are—and I'm genuinely not trying to avoid answering the question—

[262] **Hefin David:** Okay. It's your prerogative, if you want to.

[263] **Mr White:** We can design solutions, but we are not the promoter of this transfer. That is the Welsh Government. Until we see precisely the form they want to do that and how they want to achieve that, then both Network Rail and then ultimately the Secretary of State, as the shareholder of Network Rail, can't fully answer that question.

[264] **Hefin David:** Okay. So, I should put that question to the Cabinet Secretary, then, should I?

[265] **Mr White:** Our conversations with TfW have been that they can see a transfer over time of the asset working. Fundamentally, if they're happy with that situation and they're comfortable with that approach, then there is nothing to make us concerned about that.

[266] **Hefin David:** And so the Welsh Government, by corollary, should be, therefore, satisfied. Okay. Perhaps we'll ask the Cabinet Secretary then. We did briefly touch on light rail for the core Valleys lines. Is that a good idea?

[267] **Mr Muraszko:** When you say light rail, do you mean as in non-electrified light rail?

[268] **Hefin David:** Yes.

[269] **Mr Muraszko:** I think—

[270] **Hefin David:** The cheap, fast alternative.

[271] **Mr Muraszko:** Sorry, the—?

[272] **Hefin David:** A cheap, fast alternative on the Valleys lines.

[273] **Mr Muraszko:** I'm really not sure it's our place to comment on that.

[274] **Mr White:** It's not something that we've looked into. I can see—

[275] **Hefin David:** You haven't had those conversations with Welsh Government, with Transport for Wales?

[276] **Mr White:** No.

[277] **Hefin David:** Okay.

[278] **Mr Muraszko:** Presumably, it will be part of their dialogue with the bidders, as to whether they think that's an acceptable solution or not, if bidders are proposing it.

[279] **Russell George:** We're a bit short for time, we've got three areas we want to cover and less than 10 minutes, so we just have to be sharp on questions and answers. Did you want to come in, Adam, or are you—?

[280] **Adam Price:** No.

[281] **Russell George:** Mark.

[282] **Mark Isherwood:** You've indicated that investment is measured against passenger numbers but, equally clearly, passenger numbers are often driven by investment and enhancement, particularly on the north and south Wales west-east corridors. What, in your view, are the risks and benefits of the concession model for the franchise being proposed by the Welsh Government?

[283] **Mr Muraszko:** It depends what is meant by ‘concession model’. Do you just want to elaborate on that?

[284] **Mark Isherwood:** We understand there are two primary options: one would be a for-profit franchise, the other would be where the Welsh Government, effectively—or Transport for Wales—becomes the recipient of revenue and it then funds the franchisee on a capped-profit basis.

[285] **Mr Muraszko:** Clearly, that would be a decision for them. The department’s policy is that revenue risk and cost risk both best sit with the operator. We have varying models and ways of giving some form of protection to the operator in order that they can be protected against a down-turn in GDP, or whatever. On some franchises, such as the one I last worked on—Northern—full revenue risk was transferred. It’s the department’s view that that drives the operator to chase more money and grow the market in a way in which, perhaps, they wouldn’t if they were on a concession model.

[286] However, concession models have been shown to work well in London. But if you take on the revenue risk yourself—like Transport for London do—you then have to get into the whole bit about having your own marketing department—you know, it’s much more different that having a franchise where you kind of let the operator get on with it. So, I think our experience is that concession models can work in urban environments, where it’s very easy—you just specify, ‘There’s a train every 10 minutes on this route’; it’s very simple. But our view is, on wider franchises such as Wales and borders, giving bidders the flexibility to innovate, develop new services, develop new ticket products, being incentivised to do so by the profit motive, is preferable.

[287] **Mark Isherwood:** Merseytravel—obviously, they’re a different network, a very geographically limited electrified network, but they nonetheless suggested that it should be feasible within a concession to design incentives to innovate and grow passenger numbers. But you must do that rather than not. In that context, and I think you’ve answered that in the first part of your answer, how important will effective performance management be?

[288] **Mr Muraszko:** Very important. The lesson is that you can sign a contract at the start, but it’ll never be 100 per cent right, and you will need to be flexible when you perform your management of the franchisee, clearly staying within the terms of the contract and the procurement under which it

took place. Effective performance management—franchise management—will be very important, but it takes on a whole new level if you are also the recipient of the revenue.

[289] **Mark Isherwood:** Thank you. If Transport for Wales operate stations and commercial contracts on a not-for-profit basis, in your view and in your experience—obviously, none of us have crystal balls—will that generate surplus or is there a risk that that could end up requiring further public subsidy?

[290] **Mr Muraszko:** It's not a model that's been undertaken yet—for a transport authority to take direct operational control of stations. In another part of the area I'm responsible for, Greater Manchester put a proposal to us to take over the running of stations in their area directly, which we're considering. There are pros and cons, but normally this is done in order to enhance the facilities perhaps more than the train operator would do, and, therefore, you tend to think that that probably would mean more cost rather than less. That's just a hunch.

[291] **Mark Isherwood:** Okay. My final question in terms of the 15-year franchise: how should flexibility—or is that the right term, or are you unable to comment? Whichever length, how important is it that we build flexibility into that to adapt to changing circumstances?

[292] **Mr Muraszko:** Term is a very difficult question. We have, occasionally, let long franchises—obviously, Wales and borders was one of them, and I was involved in that—and there are pros and cons. Obviously, the advantages are that you have a continuity of operator, more of the investment they undertake costed in within the franchise term, so they're likelier to invest. The disadvantages are that it's very difficult, sitting here now, to predict what level of performance you need to be targeting in 10 or 15 years' time. You are, inevitably, going to have to bring in change to changing circumstances, because bidders can't predict costs and revenues and the world that far ahead. And, when you do that, you are in a position where you are negotiating with the incumbent operator and no-one else. So, you have to develop mechanisms for review and so forth that try to overcome those.

[293] So, the department's policy, since the collapse of the west coast franchise in 2012, has been to follow the recommendations of the Brown review that took place, and that seven to 10 years was a horizon that bidders were comfortable with bidding over, in terms of they can predict costs and

revenues relatively accurately over that time and are prepared to take the risk on it. We also find that the shorter the franchise, the less financial backing would be needed to underpin the financial stability of the franchise from the owning groups.

[294] **Russell George:** A quick question from Adam Price before I come to David Rowlands.

[295] **Adam Price:** Under section 30 of the Railways Act 1993, the operator of last resort responsibility or power lies currently with the Secretary of State. Will that transfer, under the new franchise, to Welsh Ministers?

[296] **Mr Muraszko:** That's the intention, yes.

[297] **Russell George:** David Rowlands.

[298] **David J. Rowlands:** Yes. I just want to turn, now, to discuss a little bit about rolling stock. The greater part of the stock now run by Arriva Trains is, if we put it politely, ageing. Most of it will not be able to be changed to be accessible compliant. So, we're now looking, obviously, at new stock possibilities. What do you think the procurement process should be with rolling-stock issues? I'm trying to take in the time factor, now. Do you have other franchises that are now due? What are your issues there and how are you dealing with those types of compliance issues?

[299] **Mr Muraszko:** With regard to proposals for new rolling stock and, indeed, complying with the accessibility regulations, the department's policy is that this is a matter for the bidders to manage. They have to propose something, as part of their submission, that they will comply with the regulations that will be in force from the beginning of 2020. I would suggest that if the feedback from the bidders is that that won't be possible without action taking place in the current franchise then that is something that Welsh Government would have to take up with the current operator. We have facilitated discussions where necessary between the parties concerned, and, indeed, there was a discussion with officials from Welsh Government on Tuesday, where we had a specific request where we could help them with this, which we are considering, and we should be able to do what we need to. But, ultimately, it's for Welsh Government to ensure that their bidders propose something that is required.

11:15

[300] **David J. Rowlands:** The regulations come in in 2020. Do you think the Welsh Government are late in what they're doing with regard to this?

[301] **Mr Muraszko:** It's getting quite tight, but they're aware of the task and the industry's aware of the task—you know, trains have to be compliant from that date.

[302] **David J. Rowlands:** And from your information, in the network as a whole, do you think rolling stock is available that we will be able to take over, or that any new franchisee would be able to access?

[303] **Mr Muraszko:** That's difficult to say. Rolling stock—some rolling stock is becoming free towards the end of this decade. Most of it is electrified, though. There isn't much diesel stock coming around. And in answer to your question about what we would do with other franchises in similar positions, we have got one or two that might be in that position, and at the moment we're keeping an eye on it, but we might need to take action in the franchise term as well.

[304] **David J. Rowlands:** Lastly, do you have any views with regard to the viability of alternative energy sources for traction? We were talking about something like hydrogen in the future.

[305] **Mr Muraszko:** It's not my area of expertise, but I understand such rolling stock is beginning to be introduced in Europe, and the Secretary of State is quite taken with the idea of us seeing if such rolling stock could be trialled in the UK.

[306] **David J. Rowlands:** Thank you.

[307] **Russell George:** Hannah Blythyn.

[308] **Hannah Blythyn:** Thanks, Chair. I think some of the things I was going to touch on under this area have already been covered by colleagues, but I just want to turn to ask a question about a number of key stations that, although they fall in England, are very important to the Wales and borders network and franchise. I understand that there's consideration for Hereford, Shrewsbury and Chester stations maybe being transferred to adjacent English franchises. I was wondering about the reason—if you were able to elaborate on the reasoning behind this, given the importance of said stations to the

Wales and borders franchise.

[309] **Mr Muraszko:** You're quite right, those stations are important to the Wales and borders franchise. We've made clear in the consultation document that the Wales and borders operator is the majority operator at those stations, and particularly Shrewsbury—it's actually the hub of their network. I think it's important to go on record that, over the last period, since the devolution in 2006, the Welsh Government and the train operator have invested in stations either side of the border to equal measure. There are absolutely no issues around that. But our Ministers were just aware that there could be concerns about a potential perception of democratic deficit. These are stations in large English towns. So, we've just put that out to consultation, making clear that, all things being equal, Wales and borders being the station facility owner makes entire sense, but we will wait and see what the consultation says and discuss accordingly. I should say that if such transfers were to take place and there were costs involved, then, obviously, the UK Government would be picking those up.

[310] **Hannah Blythyn:** Is it just about the democratic deficit? Because I know that one of the things that was brought up with us at a stakeholders meeting in Shrewsbury recently for the committee was how the—for want of a better word, the needs of those English areas and regions are inputted and have a way to be reflected within the infrastructure of the franchise within Wales. Do any of you have a view on that?

[311] **Mr Muraszko:** I believe there are some concerns amongst stakeholders in border counties with the step to further devolution. I think there are two approaches to that issue. One is to put in place, as we are in the agency agreement, just some sort of basic—'protections' is a bit of a pejorative word, but ways in which the Secretary of State will be able to give his consent to changes that happen on the English side of the border that might be proposed by the train operator or the Welsh Government.

[312] I think the second thing is that the team procuring and managing the franchise just need to go out and embrace the stakeholders in those areas a bit more, recognise their concerns, and actually just embrace the fact that they actually have expertise and knowledge to offer, and bring that into the process, and into the management of the franchise. So, as part of the agency agreement, we'll also be looking at what formal structures might be needed to give those stakeholders the assurance that they feel they might need.

[313] **Hannah Blythyn:** You refer to the consultation with regard to those stations—when do you anticipate that consultation to be finished and the response?

[314] **Mr Muraszko:** Well, I think the consultation document was issued in February, and I imagine it's running for 12 weeks, so it should be May, after which we will discuss the findings with Transport for Wales.

[315] **Russell George:** Are there any other questions from Members? Can I ask—? You said that the Welsh Government is solely responsible for ensuring rolling stock is accessible by 2020, but the Secretary of State remains the franchise authority under the Railways Act 1993, so I'm just trying to square that up.

[316] **Mr Muraszko:** Well, it's not the Welsh Government's responsibility, it is the responsibility of the railway industry, as in the rolling stock companies and the train operating companies, to ensure that they are compliant. The role of franchising authorities is to make sure that the process that they run, or the way in which they manage the franchises, is taking the operators in that direction.

[317] **Russell George:** Okay, thank you. Mark, did you have a quick question?

[318] **Mark Isherwood:** Hannah referred to the possibility of the proposal out of the consultation on some stations in England being transferred into a different franchise. Several concerns have been expressed to us in evidence that that had also been proposed in certain quarters relating to stretches of line in England, which are more profitable elements of the current franchise, and if that was to happen, it could impact in Wales, and require greater subsidy to compensate for the lost revenue. What is the situation with regard to line transfers, if any?

[319] **Mr Muraszko:** That matter was settled between the Governments last summer/autumn. There is no proposed remapping, as we call it, to take place. So, it is just the potential, and I stress 'potential', of those three stations.

[320] **Mark Isherwood:** Okay, thank you.

[321] **Russell George:** Can I thank witnesses from the Department for Transport for being with us today? We're grateful for your time. We will, in

the next few days, send you a copy of the transcript for you to review and make any note if there's any issue there. Can I thank you for your time this morning?

[322] **Mr White:** Thank you very much.

[323] **Mr Muraszko:** Thank you.

[324] **Russell George:** We'll just pause while we wait for our next witnesses. I'll just remind Members that we're still in public session.

11:24

**Panel Sector Peirianeg: Ymchwiliad i Ddarparu Masnachfaint y
Rheilffyrdd a'r Metro
Engineering Sector Panel: Inquiry into Rail Franchise and Metro
Delivery**

[325] **Russell George:** We move to item 4 with regard to our inquiry into the rail franchise and metro delivery. I'd like to welcome our next panel of witnesses. Thank you for being with us this morning. Can I ask you to introduce yourselves for the record?

[326] **Mr Sadler:** I'm Neil Sadler. I'm a bridge engineer by trade, by profession, and I'm currently the Association for Consultancy and Engineering chairman.

[327] **Mr Evans:** Bore da. Good morning. I'm Ed Evans and I'm the director of CECA Wales—that's the Civil Engineering Contractors Association.

[328] **Mr K. Jones:** Bore da. Good morning. I'm Keith Jones, and I'm director of the Institution of Civil Engineers Wales Cymru.

[329] **Russell George:** Thank you very much. If I can start with the first question: can I ask you what skills Transport for Wales will need to procure both the operator and development partner contract and the early involvement contract?

[330] **Mr Sadler:** I think they're going to have a wide range of skills both in procurement and engineering and knowledge of the railway industry and structure. Their core team, I think, needs to understand the depth of

knowledge that they're going to need because I don't suppose that any one individual, or small group of individuals, will have enough knowledge in that area to be able to do it all themselves. So, I think the key to this is understanding what's needed and I would hope, or imagine, that they would have sufficient knowledge of what they need to know as opposed to knowing it all themselves.

[331] **Mr Evans:** Competitive dialogue is obviously the big issue at the moment in terms of having people with the understanding of how that works. Although it's fairly well established—it's, to a certain extent, moved on from competitive negotiation, which is, sort of, more frowned upon now, so there's a structure to follow, but in terms of the expertise to do it, it's there. It's making sure that they have that expertise in place.

[332] **Mr K. Jones:** Can I just agree to say that, yes, it is important, and, clearly, there would not be these skills necessarily in place within Transport for Wales, but it's about making sure that they understand what skills they need to bring in. The skills are there. These are not all brand-new issues. It's something that they need to recognise that there is a need to make sure that they have those in place.

[333] **Mr Evans:** I think there is the issue of capacity as well. The competitive dialogue is quite heavy-front-ended, so you need the people with the skills, but you also need enough of them at the right times to do that, both to get the process moving, but also to be able to engage with the providers themselves and not leave too many things hanging. It is about dialogue, but it's something that does need to move to a pace.

[334] **Russell George:** So, what are the risks to the procurement process and the quality of the contracts afterwards if those skills and experience are not in place?

[335] **Mr K. Jones:** If you don't have the skills and capacity, then the whole thing can be very costly and not deliver the services that are clearly required by the Welsh Government and by the travelling public.

[336] **Mr Evans:** There's almost—I don't know if it's a belief, but there's a feeling, perhaps, from a client and a buyer's side, that this is, 'We run the show and you'll engage with us as we need it'. But there is a cost to that and that cost is that it's not going to be just borne by those people on the other side of the table—the suppliers. That will work its way through back to the

buyer in some shape or form. So, it is something that needs competent and skilled people, as I said, to move things at a pace and to press the right buttons, really. It is very much a two-way process and not just the suppliers getting up to the table.

[337] **Mr Sadler:** You directly asked: what are the risks? Well, the risks are fairly obvious—that you won't have the right contract in place at the end of the day. That's the risk. The key is to manage that risk and, I think, to follow a formalised process to recognise the risk, which is really the same as the first question of whether you have the people to know what the risks are—to manage the risks properly and be open about it—and understanding the risk should help to deliver the right result.

[338] **Russell George:** How do you manage the risk?

[339] **Mr Sadler:** By involving the right people who understand the risks.

[340] **Mr Evans:** I think we probably need to recognise, and I'm sure you all will, that there are a number of uncertainties still with this process, and I guess the competitive dialogue process is probably one of the best-suited to accommodate some of those uncertainties, but, nevertheless, you still need to address those uncertainties at some point before you get your preferred bidder, before you move on in the process. That's going to be very difficult, because they're not going to be within the gift of those individuals and the National Assembly for that matter.

11:30

[341] **Mr K. Jones:** I think the beauty of competitive dialogue is that you can engage with people at the right time. But you need to understand the questions that need to be asked, make sure you've got the skills and capacity on both sides, not just the people who are answering the questions—the companies that are answering questions—but the people who are asking the questions, and be able to take early interventions to make sure it does work.

[342] **Mr Sadler:** I think it's fair to say this is an ambitious procurement, but there are certain parts of the procurement—the franchise-letting process has quite a number of previous examples of things that have gone wrong as well as right. And so one would hope that the research was done on lessons learned—I'm sure that would have been the case—in addressing the risks that could happen going forward.

[343] **Mr Evans:** I think that, you know, some of the unknowns, shall we say, or uncertainties at the moment, which do need to be bottomed out—you've got the whole issue around devolution of rail, which, okay, we've moved to a point, anyway. You've also got issues ongoing with the electrification of the main line to Swansea and you've got the availability of rolling stock, which no doubt you've all discussed. But those are all issues that, at some point, you need to have something to go back to the people you're having dialogue with to say, 'These are the rules. This is how we set it from now on'. And the longer that goes on, the costlier that process becomes, and, ultimately, that will come back to the buyer and Transport for Wales, I guess.

[344] **Russell George:** David Rowlands.

[345] **David J. Rowlands:** The Welsh Government has chosen to use the competitive dialogue process for procurement, both with the operator and the developer. Now, this is fairly unique within the rail industry, but do any of you have any direct experience of the use of competitive dialogue in your industry?

[346] **Mr Sadler:** I was involved in one project, in an early contractor involvement or a design, build, finance and operate contract in England, about 10 years ago now, which wouldn't exactly be a full-scale competitive dialogue, but it did go through a similar process, because the banks were involved because it was privately financed, and it went through a process of award—through a series of similar sort of arrangements. I think the more complicated a project is and the more ambitious it is, the more appropriate this method is. I don't really see, if it's very complex, how you can do it any other way. It's very difficult to come up with a fixed design and just get a price for it and that's the end of the day—. I think the aspirations, in this instance, are so broad that you don't have any other choice other than to do it that way.

[347] **Mr K. Jones:** I don't have that expertise myself, but I represent 3,600—and-whatever members and they have done this because companies in Wales—contractors, consultants—now, the reality is the work is not just available in Wales, it's available wider and beyond. These kinds of contracts are being used elsewhere and they do work.

[348] **Mr Sadler:** You could turn this on its head to say, if you didn't have dialogue with your prospective supplier, then, you know, that's a huge risk.

[349] **David J. Rowlands:** Thank you. Neil, and CECA, actually, have said that there has to be an effective scrutiny process for bids. What should this involve and do witnesses have any specific grounds for concern on that?

[350] **Mr Sadler:** For—

[351] **David J. Rowlands:** Effective scrutiny process for the bids.

[352] **Mr Sadler:** I think my reference was to—you have an open dialogue and the dialogue may be different between different bidders. And so, I suppose one of the downsides, or one of the risks, of having this competitive dialogue is that you don't really know what's being said to the other party, but I do think anybody who embarks on a competitive dialogue process will understand that and will set out to be as absolutely clear and transparent as you are able to be within the process that you're setting about. You can be as clear and open and as fair as possible, but, at the end of the day, the process demands you to have private discussions with certain parties.

[353] **Mr Evans:** I think there are difficulties for the public sector in particular when they get into dialogue negotiation. Having transactional tender processes, which the public sector are very familiar with, are exactly that. They're very clear, they're open to scrutiny, and you can be held accountable quite easily for those decisions. Once you start getting into the discussions and negotiations—the dialogue—there is always a perception, I think, of 'What's happening?', 'What's happening being closed doors?' but the procedure here is very well set out already. So, I think, by following that, the issue comes back to the competency and the capacity, again, of being able to target key areas in the process at the right times.

[354] **David J. Rowlands:** That's right, and then, of course, the Welsh Government will—. Oh, I'm sorry, Keith.

[355] **Mr K. Jones:** Just to say, the risks there are a challenge after the order [correction: invite] to tender, where there's a possibility that it's not transparent, and then the discussions that have taken place are not then available to all. Sorry.

[356] **David J. Rowlands:** The Welsh Government, obviously, will have an overview of all the four people who are bidding for this, so they'll be in a pretty unique situation to be able to assess and to scrutinise, obviously, from

this process, surely.

[357] **Mr Sadler:** Yes. My observation was about the scrutiny of the other bidders on what was going on with their opponents, and it strikes me that what is being offered by the four bidders could—. Each one could have a completely different offering. So, in a way, that risk is lower because they were offering something completely different, but, if they all offer the same thing, and it's very—. The closer you are to a tight decision, the more scrutiny you might be prepared to entertain.

[358] **David J. Rowlands:** Yes, fine—thank you.

[359] **Russell George:** Jeremy, did you want to come in?

[360] **Jeremy Miles:** Yes, thanks. Can I come back to the point you made about the costs going around the system, if you like, and not being lost, if I can put it like that, not disappearing? There are two stages to this, aren't there? There's the process itself—the competitive dialogue process—where four companies are spending money responding to engagement. That will have a value, clearly, and presumably—you probably would accept this, I think—that sum of money will, in some way, be baked into their bid, and they will take a view as to how much that they're going to take on the chin and how much they're going to recover, basically. And they're going to think they're in competition, so they're going to be influenced by that factor as well. But there's a second stage, isn't there? And the auditor general, when he came to visit us and speak to us, talked about a risk premium being baked into the offers. If the specification was uncertain, that's a slightly separate question, though, isn't it? Because it's possible—perhaps you can comment on this—to have a process that is iterative and the dialogue process, but then to get to a specification that is clear, and therefore there wouldn't necessarily be the same risk premium attached to that. Is that a fair analysis?

[361] **Mr Evans:** It is. Split the two—you have the bidding costs, shall we say. And it's in everybody's interests, not just the supply side, but the buyer side as well, to minimise those bidding costs, but accept that this is a complex process—competitive dialogue does cost. And that acceptance is there; it's just working through it as quickly and as efficiently as possible. There's then the actual, I guess, risk element, as you move to the proper bid, and you can manage that in a number of different ways. You can just say, 'Supply side—take it all.' You'll pay for that, and there are probably many risks that, if you

go and work through them together, through the dialogue process, you'll mitigate that, you'll reduce it. But I think I mentioned some of the uncertainties that still remain. Those are probably the known unknowns, or whatever you want to refer to them as. They're the ones that you really need to squeeze out of the system, or accept that we may have to share these risks, and there will be a cost attached to that. But the dialogue will help that.

[362] **Jeremy Miles:** So, subject to those points, and some of the ones you mentioned were, as it were—and you acknowledge this—sort of third-party issues, in a sense, although we had some reasonably unwelcome clarification this morning about the extent to which the UK Government's committed to the electrification, by the way, on that point—or not committed, in fact. Do you think, at this point in time, subject to those third-party factors—is there anything at this point in time that suggests to you that the specification is necessarily going to be uncertain at the point where the contract is let?

[363] **Mr Sadler:** We don't have any knowledge of that, because it's such a broad—. It's starting from a very broad specification, right now, as I understand it, and, through the dialogue, the specifications will be narrowed down—possibly four different ones—and in common good practice, each one of those specifications will have a risk log with it, and the purpose of the dialogue is to understand who covers that risk: how much of it's covered by the client, and how much is covered by the provider. And a successful completion of the dialogue will define that as closely as possible.

[364] **Mr Evans:** I think some of those uncertainties, though, may well impact on that final choice of specification, which will inhibit your ability to narrow the gap, really. So, it is imperative that those are dealt with.

[365] **Jeremy Miles:** Okay, right. Thank you for that. And, Mr Sadler, you said in your evidence, your written evidence, that

[366] 'three of the four tendering teams have a high level of representation of companies from mainland Europe.'

[367] How does that sit against the process of Brexit and the consequences of that? What are your thoughts?

[368] **Mr Sadler:** That is a concern of mine, that—. And, again, the breadth of the specification doesn't help in this, but, for instance, supply of new trains could be part of this contract as awarded, and some of those trains

could be built in mainland Europe. Now, my concern comes from reading the press and watching the television about companies in Wales that have a lot of cross-border interest, particularly in aerospace. So, the wings in Broughton are made in Broughton and they're taken to Toulouse, I think, or somewhere and put together. And how Brexit will deal with those trading conditions is uncertain; that's just an example. My hope is that, when this contract is set up, just as we talked about that list of risks, the list of trading conditions changing under Brexit, someone has to own that risk at the end of the day. So, if I want to buy railway wheels from, I don't know, Germany, to go on trains that will be made in Britain and I'm pricing for that now—I'm one of the bidders—if I then end up with a 15 per cent tariff on that, am I supposed to allow for that, for something I don't know now? I can't. So, all I would hope is that the process of award makes it clear who carries that risk, or whether it's a shared risk. It could be a shared risk, but it just needs to be addressed.

[369] **Mr K. Jones:** As an opposite view, Brexit could very well lead to more opportunities. We can go to Japan to get that wheel rather than just go to Germany. So, there are both sides of the argument. We all have views on what's happening. Brexit is with us; we've got to work through it.

[370] **Mr Evans:** I suppose the principle is that you manage the risks transparently so you don't pay somebody for a risk that isn't going to happen—maybe you share that.

[371] **Mr Sadler:** Taking Keith's point, one way of eliminating that risk is to buy everything either in Britain or outside of Europe.

[372] **Jeremy Miles:** Which is possible under either scenario.

[373] **Mr Sadler:** Yes.

[374] **Jeremy Miles:** Okay, thank you.

[375] **Russell George:** Adam Price.

[376] **Adam Price:** While there are undoubted merits, as has been discussed, to the competitive dialogue process, is one of the downsides that the wider dialogue, if you like, the policy dialogue or the public dialogue, about the balance of priorities within the eventual specification is a little bit on hold because we don't quite know what the content of those discussions are? Neil Sadler, in your evidence you raised some of the very interesting policy

choices, the trade-offs, if you like, in terms of the metro: commuting into Cardiff versus actually trying to move population and employment into the Valleys. Then there's the question of east-west radial interconnection, and then the whole of Wales, the relative emphasis on areas outside the core—the Heart of Wales line, very close to my heart, and, indeed, the Cambrian line. So, at the moment, those very, very essential key issues of debate are kind of put in aspic a little bit while this process is continuing. Do you have any views on that?

[377] **Mr Sadler:** I would hope that it's not been put in aspic and I think, having been part of bidding teams for a long part of my career, I think they'll—each of these bidding teams will have a win strategy. You know, they will have, 'How are we going to win this job?' And I would have thought, if I was part of them—and one of one of the reasons I'm here is because I'm not one of those bidding teams—that, if I come up with a story or a proposal or an objective we need to solve to deliver what I think the Welsh Government wants out of this, that's a key driver to the framing of my bid. So, I would hope—. If they're leaving those to one side and not focusing on that, I would hope that the procurement team will spot that straightaway—you know, you don't just win things on money.

[378] **Mr K. Jones:** Part of the client role is to ensure that whatever is embedded and needed to be embedded is included as part of all of the competitive bidding processes.

11:45

[379] **Adam Price:** Is the issue, though—you seem to be suggesting that there are hints about where the Welsh Government's priorities lie in relation to those questions. So, at the moment, there's a lot of emphasis, for example, on Cardiff within the metro, and then the Valleys to Cardiff, rather than a different conception of how the metro could work. There are hints, maybe, about the direction of travel—which I'm sure you're right, the bidders would be stupid not to pick up on those hints—but where do the rest of us actually have an influence to question than rationale if, at the moment, because we're not as the specification point, we only have clues as to the Welsh Government's vision and not anything more explicit than that?

[380] **Mr Sadler:** What you're suggesting is there won't be time to make sure this first with what we really want by the time the franchise has to be awarded.

[381] **Adam Price:** Yes.

[382] **Mr Sadler:** Well, I think that's a risk. But if we don't know what we want, how can we ask someone else to provide it for us?

[383] **Mr K. Jones:** Could I make a comment? That's part of the bigger picture, what will happen with Brexit. We know that a number of millions that have been spent in Welsh Valleys perhaps haven't generated the jobs that they were intended to do, so should the overall policies change? Rather than taking people into Cardiff to work, they could do something about generating the work there, or the other way around, or you accept you can have commuted areas, and you should be having rapid transport back and forth. This is part of the wider picture, and should come out of the overall client's role—Welsh Government's role—in knowing what they want and having the capacity to do that.

[384] **Mr Evans:** I know I'm probably jumping the gun here a little bit, but these are the kinds of questions you'd expect to come through a national infrastructure commission. [*Laughter.*] I had to get that little plug in there. But I think those are the broader issues—things that we don't have at the moment.

[385] **Russell George:** Mark Isherwood.

[386] **Mark Isherwood:** Thank you. What is your understanding of the early contractor involvement work's contract in the context of the 15-year franchise, and what key issues do you believe that the Welsh Government and Transport for Wales should give consideration to in procuring that contract to ensure value for money?

[387] **Mr Evans:** As you can imagine, we have lots of debates around early contractor involvement and various other things. I think this is still part of the competitive dialogue process as to how some of those things will be procured, whether they get procured as part of the partnership that the ODP will have, or whether it's a separate arrangement around frameworks with smaller providers that can deliver that—I call it a 'support service', in terms of the infrastructure improvements and the development. It's a 15-year period; from a Welsh contractor point of view, it gives the opportunity for some of the smaller players, I guess, to have a piece of the action, to be part of that overall development. I guess there is an opportunity for one

infrastructure developer to be involved for 15 years, that is, I'm sure, part of the discussions through the dialogue. There's the other option of maybe having, say, three generations of frameworks—call-off contracts with smaller suppliers is an option. I'd expect that to come through that competitive dialogue process, but I would certainly feel that Welsh Government's procurement policy statement should be an integral part of those discussions, and I would hope to see that come through, effectively, the client's objectives—what we want to achieve from this—because it does offer some huge opportunities if it's structured in the right way.

[388] **Mr K. Jones:** We have a history of successful early contractor involvement with a number of schemes. They have been shown to work, they work well, and this is just part of the process. Getting the contractor involved with the design—it's not rocket science, but it's relatively new to the way it's done. The traditional way of a design, and then get somebody to price it—it's going to be a huge timescale with complex issues, so you've really got to get everybody around a table working together, and get that team building and get it working.

[389] **Mr Evans:** Can I just—? I'm going to go back to the skills, the competencies and capabilities, and I think there's potentially a need for some contracting commercial experience within that Transport for Wales team. It may be there, but I think that is an important part of this assessment process, because we're not just talking about the cost of things, we're talking about the commercial risks associated with things. So, I'm sorry, I've gone off kilter a little bit there, but I think it is worth considering.

[390] **Mr Sadler:** Could I just to come back to your point? Right now, we don't know what the four bidders are going to offer, do we? So, there will be an operator and development partner, and the extent to which he gets involved in the development of the metro will be controlled by what he offers to do as part of his bid. If the scenario that we're all looking at is that he takes on the whole thing—running the metro and proposing what we've all been talking about for many years about an integrated transport system—then this is a massive project. That company that runs that, that core team, is key to the delivery of everything, and I think that it's important that they have a controlling influence on whatever cascades down in terms of these early contractor involvement projects below.

[391] I think ECI is the right way to do it—I think that's been proven—but I think we must have this core management structure that that is part of and is

not disparate in any way. I think it's important that the overall objective is set at the start, and the whole team is focused on delivering that objective, rather than saying—. But, of course, if the ODP is awarded on the basis of something less than that, then you end up needing two strands. How do we develop the infrastructure in another way if the ODP isn't going to do that? They may not offer to do it.

[392] **Mark Isherwood:** The second part of my question was: what are the key issues that the Welsh Government, Transport for Wales, should consider to ensure value for money, and not just about money but value, so, for example, the skills agenda, engagement with further education, engagement with the work-based trainers, the opportunity to capitalise on wider multiplier benefits, perhaps, and supporting consortia bids for maintenance, or what have you?

[393] **Mr Evans:** Call it the community benefits agenda, if you like. We've all been involved in it in different guises. I think the opportunity that really comes from this is the scale and the longevity of it, which, rather than dealing with skills and employment on individual projects, this gives you a 15-year period, a huge amount of work, to really drive a more strategic agenda around skills, for instance. And I would say: don't leave it to just the supply chain—this is something that should be co-ordinated, whether through Government, city regions or whatever, so that you do have this support structure, really, put in place for those contractors who are going to be delivering this work, so that they can tap into those support structures, put people in there to pick up those skills and take people on board for employment purposes. But if it's left to just the supply side to do it, it tends to be a little bit fragmented. So, 15 years is a long time. We could do something quite special on this.

[394] **Mr K. Jones:** It's important to make sure that the Valleys of Wales are included in all of the competitive tender bids to make sure that all the core Valleys of Wales are included. Just leave it to the bidders, but the transport team that is pulling all this together should be able to do that, provided they've got the necessary skills and overview.

[395] **Russell George:** Do you have any further questions, Mark?

[396] **Mark Isherwood:** No, that's fine.

[397] **Russell George:** Hannah Blythyn.

[398] **Hannah Blythyn:** Thanks, Chair. I just want to turn, first of all, to your written evidence on ensuring that the investment in our infrastructure and the rail franchise creates economic benefits across Wales, particularly for small and medium-sized enterprises and our communities. I think you referred to making sure that the Welsh supply chain benefits, both in terms of securing contracts and skills development. I was just wondering if you could, perhaps, give us any more specifics on how you think that could be achieved.

[399] **Mr Sadler:** That's probably come from some of my evidence. A very hot topic amongst our community at the moment is a fact that SMEs in the construction industry in Wales don't always find it very easy to trade in Wales, and actually some do more trade in England. This is largely to do with the way that—there are lots of reasons, but it's partly to do with the way that the projects are procured and the way tendering lists are created by the questions that are asked. I'm sorry if I sound a bit petty, but one example that was given recently was for a particular specialist type of project. To be able to get on a tender list, you had to cite five similar examples of the same type of contract of that volume that you'd done in the last three years. Well, large companies that are operating all around the UK and internationally never have a problem searching out those projects, but ask a £20 million a year turnover company from Swansea to do that and they're just not going to be able to answer the question. So, approaching procurement in a more realistic way on the selection of contractors—and designers for that matter—would help in that regard.

[400] There's been a suggestion—we were discussing this this morning—that client bodies feel more comfortable awarding contracts to companies with a larger base of assets. I don't know quite how you address that, but that might be a reason why it doesn't happen.

[401] **Mr Evans:** I think we have a disengagement here between policies, particularly the Welsh Government's procurement policies, and implementation on the ground. That could be implementation through the health boards, through local authorities, through Network Rail, or whatever. We've got this desire to attract more into the industry, with opportunities for SMEs, but then we have, once the rules are applied—asset test ratios is a classic one, where you ask for such huge levels of backing, shall we say, that the small companies have got no chance of going for it, and yet in the same document we're asking how many SMEs are going to benefit from this, and

how many people we are going to employ locally. It's a complete mismatch. That needs tackling, and it would need tackling for this, in whichever shape or form the other procurement—the non-competitive dialogue processes—take place.

[402] **Mr K. Jones:** Without naming names of contractors at all, this is already taking place. Transport schemes across Wales are awarded to very large contractors. The reality is that local contractors do the work with a 10 per cent add on. Now, this means that the client, the public, are paying 10 per cent more for the privilege of—. Yes, you get the comfort, as a client, of knowing that you've got a large contractor, but nowadays the large contractors can equally disappear. They're not there forever, as they perhaps used to be years ago.

[403] **Adam Price:** Just on that—so, essentially, that 10 per cent margin is the Welsh Government getting a form of insurance—

[404] **Mr K. Jones:** If you like, yes.

[405] **Adam Price:** —and there would be cheaper ways of them actually getting insurance than that.

[406] **Mr K. Jones:** There are lots of other ways—[*Inaudible.*]

[407] **Mr Evans:** I think there are ways and means. I think there's a need—I'm not saying that everything can be delivered by smaller contractors. That clearly isn't the case. But there needs to be a sensitive application of some of these rules so that we use them when we really, really need them rather than just across the board and losing all the opportunities for smaller contractors to grow. That is a continual issue for smaller contractors.

[408] **Mr Sadler:** I spend a lot of my time bidding into Welsh and national contracts, and without wishing to be too derogatory, the procurement profession doesn't really, in general, understand the construction industry terribly well. We're regularly faced with procurement specialists—and I know these guys are needed—who don't—. And this sounds like a common moan, but they expect to buy engineering in the same way as they buy something in any other way. Sometimes, when you need to buy expertise and experience and projects like this, you need to have a more knowledgeable approach, I think.

[409] **Russell George:** Vikki Howells.

[410] **Vikki Howells:** Thanks, Chair. I'd like to ask some questions about the vertical integration on the core Valleys lines. Do you foresee any risks involved in transferring the ownership and management of the core Valleys lines from Network Rail to the Welsh Government, and if so, how do you think these should be mitigated?

[411] **Mr Evans:** We could probably all kick off on this one.

[412] **Mr Sadler:** So, by vertical integration, you're suggesting that the lines that go—the Taff lines and the Rhondda and the one further east, the Rhymney, all come under the ownership of Welsh Government, effectively, or the operation of Welsh Government, so the tracks and—

[413] **Vikki Howells:** Yes, the operator would run the—

[414] **Mr Sadler:** So, risks—information is a big risk. The asset information in the railway network in the UK is continually improving and will need to continually improve forever, I think. The risk there is that if you, say, on one day, ask Network Rail to pass all their asset information over to the new operator—in my experience, I think that's impossible. I think it would take quite a considerable period of time to do that. So, how do you operate an asset when you don't know what it is? And a railway asset is quite a complicated thing.

12:00

[415] **Mr K. Jones:** One of the advantages is that you've got control with the client so that the client gets what they want. But the main challenge is, then, you will pay for that.

[416] **Mr Evans:** I think the obvious opportunity is better co-ordination between the operator and the maintainer, and we've seen lots of examples where that has—. Funnily enough, we were just chatting on the way over about where this integration used to happen, didn't it, a long time ago, between air and rail and buses. But, for various reasons obviously, it's become fragmented. There is a threat though, and I think there is an issue around liabilities and the inherited liabilities. I think it's well documented that Network Rail probably haven't spent as much as they should have in Wales. That will have led to a deterioration in the assets. Trying to find out

what that deterioration is would be very, very difficult, because as Neil said, records would be difficult to get hold of. But I think we can all get a feeling that there would be an issue there. So, you'd want, if there was any transfer, some cash, some commuted sums, or whatever you would call them, to cover that. But I think the opportunity is great in terms of that co-ordination. As long as you get one right, then the benefits would be there, I think.

[417] **Mr Sadler:** To be fair to Network Rail, this is a 150-year old infrastructure that's been underfunded—for ever, really.

[418] **Mr K. Jones:** One of the challenges of the cost of electrification of the London to Cardiff to Swansea line is knowing what's there—the asset. It's said that the last surveyor out on the line was a guy called Brunel. And, really, they were struggling to find what was there before they could assess what is needed to be put right. And I would suggest if they don't know the assets on the London to Cardiff to Swansea line, then there will be a lot of missing information within the Valleys.

[419] **Mr Evans:** Just coming back to the competitive dialogue process and the operator and development partner, and this being part of the mix, clearly it's really difficult for any operator to price that in, and to gauge for that. So, again, that's one of those unknowns.

[420] **Vikki Howells:** Absolutely. And that leads me to my second question, really, which is looking at the fact that issues with the track could be one of the reasons that could lead to cost overrun in the construction of electrified core Valleys lines. Would you agree that that could be the case, and are there any other factors that you think could lead to cost overrun? And how would you foresee that that could be mitigated?

[421] **Mr K. Jones:** The main one is knowing what's there and to get your design right, which is, as I mentioned, one of the main challenges of what we've seen—[*Inaudible.*—]—on the existing programme.

[422] **Mr Evans:** We did speak about the tunnel between Cardiff and Caerphilly. There's huge unknowns with that. You multiply that across the whole network, then there's potentially some significant liabilities. You'd need to understand those before you took any action and took things forward.

[423] **Mr Sadler:** I think there should be some lessons learned from the

current electrification project, which could be reflected into that part of the project. The stakeholder interfaces are incredibly complex—landowners; I could tell you lots of stories about things like that. Not everybody has an interest if the railway goes through their land or over their back garden—don't know quite what's there, don't know what's under the ground. All of those other things that the existing electrification project has encountered to a greater or lesser extent in different parts of the route—I think there should be an open dialogue to make sure that that's learned, and the lessons of that are learned, because they'll be the same lessons. A lot of them will be the same lessons in the Valleys.

[424] **Mr Evans:** But I think timescales here are challenging, extremely challenging, and maybe there's an opportunity for dialogue here to continue in parallel to the franchise, so that this still remains part of the discussion, even if it's a little bit too challenging to do it in shorter timescales.

[425] **Mr Sadler:** I think it will be interesting to see what the bidders come up with, because it's not hidden, the problems with the electrification down in Cardiff. It's not hidden, so they'll all be aware of it. So, it will be interesting to see where they put those risks in their risk schedule.

[426] **Vikki Howells:** Thank you.

[427] **Russell George:** Vikki, do you have any further questions?

[428] **Vikki Howells:** No, that's fine.

[429] **Russell George:** Hefin David.

[430] **Hefin David:** We had a really interesting response when I asked the question of the Department for Transport, 'What about light rail on the Valleys lines?' They said, 'What do you mean by light rail?' What do we mean by 'light rail'?

[431] **Mr Sadler:** Light rail is anything that's not heavy rail. [*Laughter.*] Do you want—

[432] **Hefin David:** I looked at the St Louis, Missouri metro and the Edmonton metro. Is that the kind of thing we're talking about?

[433] **Mr Sadler:** The Docklands Light Railway is a light railway, to put it in a

British context. Trams are light rail. Heavy rail is—

[434] **Hefin David:** Is it realistic to expect that as a possibility: fast, cheap, light rail on the Valleys line, from an engineering point of view?

[435] **Mr Sadler:** It's realistic, but whether it's sensible is another matter.

[436] **Hefin David:** Why is it not sensible?

[437] **Mr Sadler:** I spend all my life designing bridges up in the Valleys that have to carry heavy rail to carry freight. If you put light rail up there, you won't be able to carry freight. So, this was my question that you raised, Adam, about: do we want the Valleys lines to transport people to work into Cardiff or do we want to re-industrialise the Valleys so that we have to carry freight from the main lines up into the Valleys?

[438] **Mr K. Jones:** This goes back to getting the brief right at the very start, because it has such a major influence on what you get.

[439] **Mr Sadler:** Light rail is for carrying passengers. Heavy rail will carry anything.

[440] **Hefin David:** Okay. So, what are the benefits, then, of the light rail approach? They're limited, is what you're saying.

[441] **Mr Sadler:** I guess it's cheaper.

[442] **Hefin David:** It's the cost.

[443] **Mr Sadler:** It's cheaper to put in a system of Sprinters than it is—

[444] **Hefin David:** Easier to procure rolling stock.

[445] **Mr Sadler:** [*Inaudible.*]—to carry 100-tonne wagons.

[446] **Mr Evans:** And frequencies.

[447] **Mr Sadler:** Well, frequencies is an engineering challenge. For bridge engineers, it's about fatigue, and for other people, it's about different things. But, frequencies is important, and then it's about number of carriages, number of people and the length of platforms—all that sort of stuff.

[448] **Mr K. Jones:** But then you don't have to put facilities on those vehicles such as toilets, which are established on the heavy rail. But if you start to introduce trams that need toilets—you may well say that, if you're travelling long distances from the Valleys into Cardiff, you would want them. You couldn't go without having toilets on there. Systems need to take account of the overall facilities that you want.

[449] **Russell George:** Can I thank our witnesses for your evidence this morning? It's been a very useful session this morning, thank you. A transcript of the proceedings will be sent to you within the next few days for you to review, so thank you. Diolch yn fawr.

12:07

Papurau i'w Nodi Papers to Note

[450] **Russell George:** We move to item 5 and I ask Members if they're happy to note the series of papers. Yes.

Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r Cyfarfod ar gyfer Eitemau 7 ac 8 Motion under Standing Order 17.42 to Resolve to Exclude the Public from Items 7 and 8

Cynnig:

Motion:

bod y pwyllgor yn penderfynu that the committee resolves to gwahardd y cyhoedd ar gyfer eitemau exclude the public from items 7 and 7 ac 8 yn unol â Rheol Sefydlog 8 in accordance with Standing Order 17.42(vi).

17.42(vi).

Cynigiwyd y cynnig.

Motion moved.

[451] **Russell George:** In that case, we move to item 6 and, under Standing Order 17.42, I resolve to exclude the public from the next items 7 and 8. Are Members content with that? Right, in that case, we will be back in public session at 14:00.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 12:08.
The public part of the meeting ended at 12:08.*

*Ailymgynullodd y pwyllgor yn gyhoeddus am 14:02.
The committee reconvened in public at 14:02.*

**Ysgrifennydd y Cabinet dros yr Economi a'r Seilwaith—Ymchwiliad i
Ddarparu Masnachfrait y Rheilffyrdd a'r Metro
Cabinet Secretary for Economy and Infrastructure—Inquiry into Rail
Franchise and Metro Delivery**

[452] **Russell George:** Welcome back to the Economy, Infrastructure and Skills Committee. I move to item 9, in regard to our inquiry on rail franchise and the metro delivery. Can I welcome the Cabinet Secretary, Ken Skates, to our meeting this afternoon? I wonder if I could ask you to introduce your colleague.

[453] **The Cabinet Secretary for Economy and Infrastructure (Ken Skates):** Thank you. I'm joined by Simon Jones.

[454] **Russell George:** Thank you. Cabinet Secretary, the Department for Transport has said that its commitment to contribute £125 million to metro infrastructure depends on your proposed approach. Network Rail has said that the approach to transfer the ownership also depends on your proposal. So, how can this be resolved without significant risk to the process?

[455] **Ken Skates:** So far, we've made good progress but, we do need to address two key risks and you've identified both. One concerns the transfer of assets, the other concerns the transfer of functions. We would have wished to have had the functions Order already in place by now. However, we do expect that process to be concluded by the end of this year. In terms of our approach to the actual asset of the infrastructure on the core Valleys lines, we've been very clear that we need to have the asset under our ownership, not least given that we wish to ensure that our investment in the metro is carried out in an affordable and timely manner.

[456] **Russell George:** It does seem that it's a bit of a chicken-and-egg situation. Would you agree with that assessment?

[457] **Ken Skates:** I'm not sure it's a chicken-and-egg situation, because that might imply that it'll never be resolved, and it will be. It will be resolved. As I say, talks are ongoing. We are at a position where the transfer of functions Order is being prepared and we are also in advanced discussions with Network Rail over the asset itself. But, again, I go back to the point that we need to make sure the 2014 agreement is honoured, and that it is honoured in full. I'm not sure whether Members have yet seen what the 2014 agreement is and what it comprises of, but it's essential that the DfT honour that agreement, and with it the £125 million that you've already outlined, which will be used towards the capital cost of the Valleys lines scheme.

[458] **Russell George:** Okay. Jeremy Miles.

[459] **Jeremy Miles:** You mentioned the 2014 agreement. Is that in the public domain?

[460] **Ken Skates:** It's not, at the moment, I don't think. I'm happy to run through what the details are, if Members wish. It's actually contained within a letter, though, from DfT to Welsh Ministers. So, it would be for DfT to approve publication. But I am happy to run through the details if Members wish.

[461] **Russell George:** I'm told that it is in the public domain. The advice I've had from Andrew says, 'I think it is.' Do you have further questions, Jeremy?

[462] **Jeremy Miles:** Yes, I do, actually, Chair. You mentioned the transfer of functions Order. We raised that with the Department for Transport this morning and they indicated, as you have now, that they expected that would take effect by the end of this year. I raised with them the fact that there had been significant delays, to date, and what confidence could there be in that new timeline. They seemed to suggest that if it were not possible to do that by the time the procurement exercise needs to be concluded, there would be a mechanism through an agency agreement.

[463] **Ken Skates:** Yes.

[464] **Jeremy Miles:** Is that something that the Welsh Government would be comfortable with?

[465] **Ken Skates:** Well, that's not sustainable in the long term. That's the fallback position, as I imagine DfT have outlined. But I would hope that, for DfT, it's not a preferable option. We wish to see—and we expect to see—based on the 2014 agreement, the transfer of functions Order to be completed as soon as possible, and certainly by the end of this year.

[466] **Jeremy Miles:** The other issue, which arose in the context of the 2014 agreement, was the extent of the UK Government's commitment to electrify the rail line beyond Cardiff to Swansea. What we heard this morning was that there is, as yet, no formal commitment to that, and no earmarked funding for that, and that it would be—I'm using my own words here—but a menu of options, effectively, on which there would be consultation. Were you surprised to hear that?

[467] **Ken Skates:** Was that the DfT that said that?

[468] **Jeremy Miles:** Yes.

[469] **Ken Skates:** Well, we've been consistent and clear in our call for electrification right across to Swansea to take place in a timely fashion, and certainly at the commencement of CP6. I'd be interested to know exactly what it was that DfT were saying. It's possibly going to be presented as a menu of options because electrification of the main line is vital for the electrification of the Valleys lines. So, I'd very much like to know, if there is a menu of options, what they are. But we're going to maintain our call for electrification through to Swansea at the earliest opportunity.

[470] Just going back to the transfer of functions Order, there have been delays, and those delays have been related in no small part to questions about re-mapping and accountability and governance, but I believe that these have all been addressed now satisfactorily and we've been able to put at ease DfT. As a consequence, I do still expect the transfer of functions Order to be completed by the end of this year.

[471] **Jeremy Miles:** Okay. Thank you.

[472] **Mr S. Jones:** Sorry, it might be just worth—. The Cabinet Secretary referred to the 2014 agreement. Within that note, it says that the DfT will sponsor the full costs of the capital investment in electrification of the Cardiff to Swansea line.

[473] **Ken Skates:** Would it be helpful if I just ran through elements of the agreement, so that there's no doubt about what the agreement contains?

[474] **Russell George:** Yes, please.

[475] **Ken Skates:** Okay. These are the main points. The UK Government will transfer franchising powers to the Welsh Ministers. The block grant will be unaffected and reasonably protected from the impact of track access charges. DfT will sponsor and fund the full cost—as Simon said—of the capital investment in our electrification through to Swansea. DfT will contribute £125 million, as I've outlined, at 2014 prices, to be used towards the capital costs of the Valleys lines scheme. The Welsh Government will take over sponsorship of the Valleys lines scheme and that's on a cost-risk basis for all elements, except for the Cardiff to Bridgend element of the main line. The Welsh Government will have full freedom to optimise the final scope of the scheme to achieve best value for money, and the Welsh Government agrees that this is a final settlement between the two Governments in relation to the costs of the Valleys lines scheme. So, that's the basis of the 2014 agreement, which we wish to see honoured.

[476] **Russell George:** I'm very grateful. Hefin, did you have a question?

[477] **Hefin David:** That £125 million is for electrification only, so that's the only way that money's coming, is that—?

[478] **Ken Skates:** The £125 million is towards the capital costs of the whole Valleys scheme. I'm not sure it relates wholly and specifically to electrification rather than the overall cost of the programme to modernise the Valleys lines to become part of a fully integrated metro.

[479] **Hefin David:** Okay. Because when we spoke to the Department for Transport, I thought they were a bit cagey on whether it was about electrification or, if there was no electrification, then the £125 million wouldn't be there. They were cagey about it.

[480] **Ken Skates:** Okay. Well, again, I'll be interested to learn exactly what they said, because I don't think the £125 million can be wiped out if there's no electrification; that would not be acceptable.

[481] **Hefin David:** I think we'd need clarification as a committee on that.

[482] **Mr S. Jones:** I think it's also worth getting into what we might end up doing with the Valleys lines. So, we might end up with some kind of hybrid solution that involves battery trains, for example, where, when this letter was written in 2014, I guess it was envisaged that we would be putting pylons for the entire length of the Valleys lines. Well, we may not need to do that because of the way that technology has moved on, but we shouldn't be penalised for finding a different technological approach to deliver the same outcome.

[483] **Ken Skates:** Absolutely.

[484] **Hefin David:** There was a little bit of sucking of teeth, and they said, 'Well, we'll have to see what alternatives the Welsh Government would come up with.' So, I suspect that an urgent conversation needs to be had.

[485] **Russell George:** Hannah Blythyn.

[486] **Hannah Blythyn:** Thank you, Chair. Just in relation to the DfT, you've touched on the importance of inter-governmental working and, actually, the related cross-border issues, which are Wales and borders franchise. One of the things we raised with the Department for Transport earlier was the future status of stations such as Shrewsbury, Chester and Hereford, and I'm aware that there's a DfT consultation at the moment about whether that should be part of the Wales and borders franchise or not. I think they—I'd have to check it in the transcript—alluded to concerns about a democratic deficit. I was just wondering what the Welsh Government's position was in terms of how those stations should be part of the next franchise.

[487] **Ken Skates:** In terms of the stations on the English side, so, often it's Shrewsbury and Chester that are quoted, and Hereford, but there are many others. I remain neutral on the management of those, however, what I would say is that it should be all or none. I wouldn't wish DfT to retain management for another franchise of, say, Chester or Hereford, which are costing at the moment less than some of the other smaller stations, and so if management were to take place on the basis of the Wales and borders franchise, then I'd expect all of those stations to be included within any agreement. In terms of cross-border services, we've reached agreement with the Secretary of State over accountability and governance matters. We will retain management responsibility for services within the franchise, but for those elements of the network that are in England, the Secretary of State will have a role in terms of

being accountable for passenger experiences, but we're happy as well to receive concerns and complaints.

[488] **Hannah Blythyn:** That was interesting, because in the stakeholder session we had in Shrewsbury, one of the concerns that was raised was about how passengers coming from those English aspects of the franchise would have their voice heard, so—.

[489] **Ken Skates:** Yes. This was raised on numerous occasions during discussions with DfT, both at an official level and at ministerial level, but the agreement we've now reached with the Secretary of State, I think, adequately addresses those concerns. It's worth saying, as well, in terms of passengers and users, their views on stations is broadly that they'd prefer them to be with the franchise that we're going to be managing. But that does present some difficulties at some stations where, actually, the majority of services may not be our franchise's services, but others—for example, Chester, where a huge proportion of services relate to Merseytravel operations and Virgin rail. So, there would be some questions that would have to be answered, and some difficulties resolved in terms of the management of those stations. But, I go back to the point that I made, that we wouldn't wish to see them cherry-picked and then us left with those that are, if you like, losing the most.

14:15

[490] **Hannah Blythyn:** Just one final point on that, Chair. You referred to Chester and those key stations, and Merseyrail and those connections that are actually needed to bring benefits to Wales, and particularly north Wales. When the DfT were here earlier, they spoke about the potential benefits to Wales from UK Government investment in infrastructure because of our geographical proximity, so we did put to them about ensuring that there were benefits coming to Wales from HS2, in terms of the option to go for from Crewe. We didn't really get an answer on that. I don't think the officials were that familiar with the HS2 plans on that.

[491] **Ken Skates:** As far as HS2 is concerned, my view is that they must choose option 20 plus, otherwise there won't just be a neutral impact on Wales, there will be an adverse impact on Wales. For us to be reaping the benefits of HS2, that option must be delivered. I've been working with colleagues in the north of Wales, partners across local government and also in the north-west, and, indeed, in and around Crewe. I think the danger is that HS2 becomes a mechanism for bypassing a large part of the west

midlands and a large part of Wales, and we cannot accept that. So, my call on DfT is to ensure that option 20 plus is the preferred option.

[492] **Mark Isherwood:** If that's the option I think it is, you have my support fully on that. I presume it is.

[493] **Ken Skates:** Yes.

[494] **Mark Isherwood:** I haven't checked the number in the way you obviously have. In terms of—

[495] **Ken Skates:** We can send details if that helps.

[496] **Mark Isherwood:** Thank you. I will be writing to the UK accordingly, as well. But in terms of other cross-border services requiring investment from this side of the border, for example, the Halton curve, where it's a partnership between Liverpool city region and so on, have decisions already been taken in Welsh Government, or are those being deferred until the operator and development partner has been selected?

[497] **Ken Skates:** We're already investing in feasibility work on the Halton curve and investigative work, so that's taking place at the moment. But in terms of the investment that's taking place that we are providing, that continues. For example, between Wrexham and Chester, the investment continues. What we've said with regard to the franchise is that there must be, on a cross-border basis, as a very minimum, the current levels of service must be maintained—as an absolute minimum. But, through competitive dialogue, I'm not able to divulge any detail in order to protect the integrity of the process, but in terms of the services overall, we expect to be able to see an integrated transport network that is almost unrecognisable compared to today in terms of the quality, reliability and frequency of journeys. It's our hope that investment provided by both Welsh Government—and we're not responsible for the rail network at the moment—but also by Network Rail itself will lead to enhancements not just in Wales, but also on the English side of the border, that provide more opportunities for Welsh passengers to get from home to places of business and vice versa in the north-west and in the midlands.

[498] **Mark Isherwood:** We heard, when we took evidence in Shrewsbury, for example, that Liverpool city region made the decision last February to commit, in principle and funding, to take forward the Halton curve to the

border. That decision has already been taken. Again, the Welsh Government, you say you're moving forward on feasibility studies, but when can we be expecting a decision? Will that be delayed until the ODP's in place, or will you be in a position before then to announce whether the Welsh Government is going to be matching the Liverpool city region investment?

[499] **Ken Skates:** Well, it largely depends on the content of the respective growth deal bids, as well. We've been working closely, as I know you're aware, both with the North Wales Economic Ambition Board and the Cheshire and Warrington Local Enterprise Partnership in terms of the contents of their growth deals. But it's my expectation that work on rail infrastructure should commence as soon as is possible, where that investment in infrastructure can lead to improvements in journey times, reliability and the frequency of trains that are operating on them. So, I do not see the awarding of the franchise or the process of awarding the franchise delaying any consideration of what improvements need to be made to the actual infrastructure on either side.

[500] **Russell George:** Cabinet Secretary, how have you assured yourself that Transport for Wales has the right skills and resources to be able to procure the franchise?

[501] **Ken Skates:** It's worth saying at the moment, at the outset, that DfT are co-sponsoring this, and they've not raised any concerns. So, I think, on both our side and the DfT side, there is satisfaction that Transport for Wales currently contains the right and sufficient level of skills that are required to provide the advice that is being given at the moment, and that's where we're at right now. But Transport for Wales has been established in such a way that enables us to flex the operations internally to provide not just advice in the commencement of the new franchise, but also, as we move towards delivery, to improve the skills that are there for actually managing the franchise when it's actioned and when it's alive. So, as part of that work, I think we're about to go out to advert on the recruitment of an executive director for Transport for Wales, and I think that will bring with it additional, new skills. So, actually, the process is not fixed right now; the team is not fixed. We are recruiting, as and when, on the basis of the skills that we see will be needed. But, at the moment, I'm satisfied that we have the people within Transport for Wales who are able to offer the advice.

[502] **Mr S. Jones:** Perhaps I could just add to that, if that's all right, Chair. So, in terms of the team itself, it's essentially an extension of the civil service

in terms of the way that it's governed and managed. Therefore, it's been subject to a kind of internal scrutiny from governance arrangements that we have inside the civil service. We've also, as the Cabinet Secretary says, taken advice from the Department for Transport and from Scottish Government on this. We have an external strategic advisory board comprising senior figures from the rail industry who are overseeing what we're doing and we're taking advice from them, as well. So, I think we are confident that we have the right mix of skills within the team and the right level of advice and governance structure to be able to do what we need to do.

[503] **Ken Skates:** But it's also fair to say that the skills that will be required will depend, in part, on what emerges through the competitive dialogue process. So, for example, through services such as ticketing, car parks, commercial contracts—the skills that we need to recruit within Transport for Wales will largely depend on what emerges through the process of the dialogue that's taking place over the coming months.

[504] **Russell George:** Would you be surprised—because a lot of our stakeholders and other witnesses have expressed concern about the skill and capacity within Transport for Wales, and I have to say that, when we asked the Department for Transport as well, they said, 'Yes, it seems okay,' but they're not actually on the inside, so they don't know. But are you surprised that there is this level of concern?

[505] **Ken Skates:** Well, I think views may be shaped not by what Transport for Wales is evolving into, in terms of the expansion of the skills base there, but what it is right now. I go back to the point that I've made, that we established Transport for Wales to be agile, to be flexible, to be able to flex in terms of the skills that are required, and I think it's better to take a pragmatic approach and to ensure that the skills that are recruited into Transport for Wales actually reflect the outcome of the competitive dialogue process, rather than to make assumptions at this stage about what we are going to be delivering and achieving and then match up or potentially mismatch the skills that actually are required for delivery of the franchise in the years to come. So, I do think taking a pragmatic approach is more sensible and more responsible, but I do acknowledge that you've had witnesses who have expressed concern over whether the current stock of skills within Transport for Wales could actually deliver effectively and efficiently on the franchise. But, as I say, the whole point of Transport for Wales's design is that it can be flexible and it can offer increased capacity as and when it's needed.

[506] **Russell George:** So, to be clear, you think that Transport for Wales does, at the present time, currently have the right skills and resource—

[507] **Ken Skates:** At present.

[508] **Russell George:** At present. And do you think that it will have, going forward as well, at each stage?

[509] **Ken Skates:** Yes. I'm absolutely clear. It currently has the right skills, but it will need to change as we move from needing advice from Transport for Wales to a position where Transport for Wales is actually managing the franchise. So, additional skills may well be required, but we'll make sure that those skills are matched and aligned to the actual outcomes of the competitive dialogue process.

[510] **Russell George:** And I assume at some point early on in the process you identified what skills you needed and mapped those out.

[511] **Ken Skates:** Yes, and then we're building on them as well, so, for example, the skillset for the individual that we'll be seeking as an independent non-executive director on the board of TfW is based on what has emerged as the skills that are most required over the past few months. So, again, we're matching up the skills required within Transport for Wales with the actual delivery of the franchise and the advice that's required as we move towards delivery processes.

[512] **Mr S. Jones:** Can I just make an additional point, if you like? So, in terms of the skills that we have there at the moment, they're about helping us run this procurement as effectively as we can. So, we have a number of people that have worked on UK Government rail franchises in the past, so we've got a wealth of experience there. We've got some of our own staff that have managed the franchise and have managed contracts for Welsh Government in the past. But we've also brought in some external skills that are not usually aligned with the rail industry, because we wanted to shake things up a little bit. So, we've brought in the team that helped us run the procurements for the public sector broadband project and for Superfast Cymru, because both of those were delivered through competitive dialogue, and we felt that we needed to have a competitive dialogue approach for this contract because of the complexity of it, because we knew the outcomes we want to achieve, but not necessarily the detailed outputs and inputs that we

wanted in the specification.

[513] So, we've used the best of what has been available to us, both from within the rail industry and outside the rail industry, and therefore I think we've got a strong team to do the job that we've asked them to do.

[514] **Ken Skates:** I think it's also worth saying that we test this with the transport strategic advisory board to make sure there is contentment that we do have the right skills and capacity available to us, and that we monitor on a constant basis through our internal audit and risk assessment committee. If there is not contentment from both of those, then, of course, it's raised as a concern for me. But, as we sit here today, I am content with the skills that are currently within Transport for Wales.

[515] **Mr S. Jones:** Sorry, can I just make one final point, if you'll indulge me, Chair? The other metric, I suppose, that you can look at here is that we've got four bidders who are all spending considerable amounts of money on this process—in the tens of millions of pounds. All four of those bidders have stayed within the process. If they didn't have confidence in the ability of the team that they were working with, they wouldn't continue to make the investment that they're making in the process.

[516] **Russell George:** And the four bidders—had you envisaged that there would be four bidders through the process, up until this stage?

[517] **Mr S. Jones:** Had we envisaged that there would be four?

[518] **Russell George:** Put it this way: it could have been that, earlier in the process, some of the bidders could have fallen out, and you could have been left with two bidders or three bidders. The fact that you've got four bidders right the way through to this point: is that actually a resource issue for you as well?

[519] **Mr S. Jones:** It is a resource issue, because there are four sets of mouths to feed, four sets of organisations to work with, but we are managing to work with them. We've skilled up the team to be able to work with four bidders. So that isn't causing us a problem.

[520] **Russell George:** Okay. Jeremy Miles.

[521] **Jeremy Miles:** Thank you, Chair. I've got some questions on value for

money, but, before we do that, between the advice stage and the management stage there's a huge piece of commercial negotiation, isn't there? Where are those skills in the mix that you have either now or that you plan on having in place?

[522] **Mr S. Jones:** Again, that goes back to the point that I was just making, really—that we've brought in people from within Welsh Government and from our wider supply chain that we've used on other commercial projects before. The Transport for Wales board itself comprises civil servants from across the Welsh Government who've got commercial background skills.

14:30

[523] **Jeremy Miles:** So, they're doing an actual negotiation in real time—

[524] **Mr S. Jones:** So, the process of competitive dialogue is essentially negotiating between ourselves, or between Transport for Wales and the four bidders, a specification that all four bidders are content that they can put a bid against—that they can put their own solution against—that will deliver us our outcomes, and allow them to be able to get their preferred solution in place.

[525] **Jeremy Miles:** Okay. So, on that specification, we discussed this morning with the engineering sector that competitive dialogue necessarily involves, obviously, as you've indicated already, four bidders incurring costs to engage. And there will be, as you would expect, a process, when the final bidder is selected, that they will bake some of those costs into their bid costs, one would assume, to a greater or lesser extent. But there's also the issue of the specification itself and any potential uncertainties within the specification, which may be a factor of the discussions to date. It may be a factor of issues that are, to some extent, outside your control—electrification being one example that you've given today. What consideration have you given to that?

[526] **Ken Skates:** That's the beauty of having the competitive discussions taking place on a rolling basis, so that we can actually move nimbly if there are concerns that are raised over any slight or, indeed, major changes. So, for example, Simon speaks with the bidders on a weekly basis, and this is, I think, a key advantage of the competitive dialogue process. So, it's dealt with through the process of actually having that ongoing discussion.

[527] **Jeremy Miles:** So, you're not envisaging, by the sounds of it, that there may be a situation in which the specification contains uncertainties that would require a bidder to want to bake in a risk premium to their proposal.

[528] **Mr S. Jones:** No, we're not. As the Cabinet Secretary says, we're writing the specification with the bidders to be able to allow us to be able to flush these issues out and, actually, we're going one step further than that, because, prior to us issuing the final tender documents when a conventional process starts—that will be sometime in July, so, we'll say, 'Here's the specification, that's it, we're not talking to you anymore; you go and produce your price and then we will handle it in the same way as we would handle a normal process.' Prior to that, we'll be issuing them with the draft specification to give all of the bidders a dry run at putting a bid in against that specification. So, that process of them responding to the draft specification and the draft contract will allow us to flush out if there are areas where we see risks. So, we might see the four bidders approach the specification in completely different ways, and the outline pricing approach that the four of them put forward has wild variations in prices. We will be able, as part of the competitive dialogue process, to drill into what the reason is for those wild variations, and, if we need to change the specification because there's some area where there's a big risk that the bidders have put in there, we can sort that out that and we can decide do we want the bidders to take that risk, because that risk is best managed by the bidders, or are they pricing in a risk that, actually, would be better managed by us.

[529] **Jeremy Miles:** Okay. And on that broader question of value for money, what is your expectation in terms of comparisons with other franchises or other processes that you will use to demonstrate that?

[530] **Ken Skates:** Again, through our competitive dialogue we're able to drive maximum value for money, and we've set as our policy priorities the maximising of value for money for the taxpayer and that Transport for Wales should appropriately incentivise an operator to deliver value-for-money contracts—so, through the process. I do recognise that this is a novel way of securing a new franchisee, but it is one that is tried and tested in other areas. For example, in terms of broadband, we operated the same competitive dialogue process. And, through those tried and tested examples, we are confident that we will gain maximum value for money.

[531] **Jeremy Miles:** And you would expect, would you, that, when the

franchise is let and it's up and running, a third party looking to evaluate value for money could compare that model with any other franchise of a similar nature.

[532] **Mr S. Jones:** So, I suppose the comment I would make is that the fact that there are four bidders gives us some confidence that we're going to be able to drive that forwards.

[533] **Jeremy Miles:** Absolutely—I'm looking forward to beyond the franchise.

[534] **Mr S. Jones:** But I think if your question is about benchmarking this franchise against other franchises, well, it's not straightforward. So, if you look at the range of franchises that are let in England, there are two or three different types. So, there are the intercity-type franchises, which generate money for the Treasury; there are, particularly, the London suburban franchises, which are also generally positive; and then there's a whole load of regional franchises, like Northern and East Anglia. But Northern and East Anglia aren't trying to build a metro in south Wales in the first few years, and then a north Wales metro in the longer term. So, it's going to be quite difficult to just say, 'Yes, we've got a rate card here, which we can just take from Northern and we can apply to Wales and borders', and say, 'Yes, or no, there's a direct comparison', because I think that would be a slightly false comparison.

[535] **Jeremy Miles:** Okay. Thank you.

[536] **Russell George:** We're really pushed for time. Would you mind, if Members don't think they're quite hitting what they want, if they were interrupt you to get to the point?

[537] **Ken Skates:** By all means.

[538] **Russell George:** Thank you. I'm grateful for that. Adam Price.

[539] **Adam Price:** I just wanted to ask: will that draft specification be made public?

[540] **Mr S. Jones:** No, because it's draft, and it's part of the process. I think once the final specification is dealt with, and we've been able to award a contract, then that finalised specification is something that Ministers could

consider making public.

[541] **Adam Price:** What opportunity do we—having been part of the competitive dialogue process—the public, and indeed elected Members, have to influence the final specification? If you published the draft, and it dealt with issues of prioritisation—. Clearly, there are going to be trade-offs in any specification, but surely publishing the draft is a perfect opportunity. There are no issues of commercial confidentiality, because they're all provided with the same draft. Why can't we see it?

[542] **Mr S. Jones:** Well, I guess the opportunity for the outside world to input to the process is through the consultation that is ongoing at the moment. And the consultation is focusing on the outcomes that we're trying to achieve. The specification is a means to an end, if you like, on what those outcomes should be.

[543] **Adam Price:** But how do we know what conclusion the Welsh Government is going to come to? So, it's great to have a consultation process, but we need to have, really, a statement of policy from the Welsh Government, in detail, that can be interrogated further. Surely, the draft specification would give us an opportunity to do that.

[544] **Ken Skates:** Well, with procurement specification, in the high-level specification, which I think Members are aware of, there's the detail of what we expect from all of the bidders. There's a consultation that's taking place at the moment that should further inform Transport for Wales as to what it is that passengers and users wish to see delivered as part of the franchise. It's then for Transport for Wales to assess how the bidders have responded to that consultation—the first consultation. And then, through the process of competitive dialogue, or the next phase of it, we'll be able to judge what best aligns with citizens' expectations, based on those consultations.

[545] Insofar as publication of the draft specification responses is concerned, I'm not sure whether that would be in the competitive—. I'm not sure whether it would be permissible under the current franchise arrangements. Would it be possible to do that without compromising the integrity of the process?

[546] **Mr S. Jones:** I think the issue for us would probably be one of that these things are written in pretty arcane, contractual language, and they're not designed for public consumption. It sounds a terribly patronising thing

to say, but they are contract documents. And I suppose we could spend an awful lot of time dealing with misconceptions that come out of what's in the draft specification, rather than focusing on trying to flush the process through, in order for us to be able to get the right award at the end of this.

[547] **Adam Price:** Could you do a summary document that actually pulled out from the draft specification the kind of strategic choices that you've made that underpin the draft specification that you have formulated?

[548] **Ken Skates:** I think that has, in part, happened, or that's been rolled out into the second consultation, from what I understand—that we've been able to take the dialogue to such an extent that Transport for Wales are then able to consult on what has been discussed thus far. I think it might be worth us providing a further note on the merits and the risks associated with publishing either the full draft specification or an executive summary of those. I'm more than happy to do that, Chair.

[549] **Russell George:** Thank you. On the point of uncertainty and value for money, will the bidders know with certainty, at the point the specification is published, the ownership arrangements for the Valleys network and the funding available?

[550] **Mr S. Jones:** I was in London earlier this week, trying to get to the bottom of that. We have set a target of resolving that within the next few weeks with both Network Rail and with UK Government. I think we are relatively confident that we're going to get to that position. In order to be able to give the bidders clarity, we have to sort that issue out, whether or not the asset is going to be transferred, and we need to do that rapidly. The ball is in Network Rail's and DfT's court. We are sitting down with them next week to lock ourselves in a room to try and thrash out the answers to the various questions.

[551] I think it's true to say that there are two sets of issues here to deal with: a broad issue about how we deal with the financial arrangements for the transfer of the assets. So, Network Rail, as you know, has considerable debts. So, there is a question of how the debt that comes with that asset is apportioned and how that's managed in future on the one hand. Then there are a whole load of other practical issues, which Network Rail are quite rightly concerned about, about protecting staff, long-term liabilities for the asset and a whole load of other practical considerations. I think our focus will be to deal with those two as two separate issues. Dealing with the finance is

not an issue for Network Rail; it's an issue for the Department for Transport to work out with us and the UK Government as a whole. Dealing with the practical issues is something that we're working with Network Rail on next week to flush those issues out.

[552] **Russell George:** Thank you for that full answer. Mark, did you have a question at this point?

[553] **Mark Isherwood:** Not at this point.

[554] **Russell George:** No. David Rowlands.

[555] **David J. Rowlands:** Can I turn to the issue of rolling stock and, in particular, whether the Welsh Government is able to ensure that Wales has sufficient high-quality rolling stock in place, given the fact that way back in December 2013 the Enterprise and Business Committee recommended that it—the Welsh Government—develop and publish a rolling stock strategy as a matter of urgency? Do you think you may be a little behind time now?

[556] **Ken Skates:** Had we done so—and I know it may be only four years ago, but it was a very different situation that we were in back then, in terms of the advice that we were being given by the Department for Transport, the situation regarding electrification and how it was intended to be rolled out, and the schedule for rolling out electrification. Had we published a strategy, then it would have been based on, I think, information and assumptions that have been proven wrong, and also based on a time frame for electrification that is not being met. So, that strategy would, I'm afraid, by now, already be out of date, and worryingly so.

[557] So, we've taken a pragmatic approach instead to the question of how we deliver improved quality of services for passengers, and that includes the provision of better and newer rolling stock. Through the competitive dialogue process, by making quality of rolling stock a top priority, we expect the industry itself to come to Welsh Government with the best solutions. We expect industry—those bidders—to know how best to meet the demands of passenger expectations that we outline as a top priority because a strategy, I think, for Welsh Government, whilst we don't hold the franchise, would have been very difficult to implement, not least given the lack of timely delivery of electrification.

[558] **David J. Rowlands:** We know that Arriva Trains are running—shall we

put it politely—older stock at this moment in time, and most of that stock will not be able to be converted for the disability regulations that are coming in in just 15 months now. Can the ODP meet those specifications? Do you believe that they can?

14:45

[559] **Ken Skates:** Well, they must. To a great extent, our hands are tied at the moment because we don't have the franchise; it's with DfT. But we've said, as part of the new franchise, the ODP must meet the PRM regulations by the deadline, which is January 2020. As part of the bidding process, we expect to see solutions to be offered to Transport for Wales for evaluation, but we've been very clear that all rolling stock must comply with the regulations that are going to be introduced in 2020 as part of the procurement process, and we cannot compromise on that.

[560] **David J. Rowlands:** We know that certain parts of that rolling stock may be procured on a short-term basis—some of it will be—so, is it important that the Welsh Government takes both a longer term view on the stock requirements and perhaps looks at innovative technology? We know that's coming along, such as hydrogen traction, et cetera. Are you building into your projections that sort of—?

[561] **Ken Skates:** Yes, we are. I published a statement on rolling stock earlier this year that contained detail of how we expect, in the next franchise, the ODP to be able to take advantage of new and emerging technologies that improve not just the quality of the passenger experience, but also the speed at which passengers get from one destination to another. That could include the development of hydrogen engines, hybrid engines and other forms of propulsion that would meet the needs and expectations of passengers.

[562] **David J. Rowlands:** Fine. And lastly, we heard some concerns from the trade unions with regard to the introduction of driver-controlled systems or driver-only operations. Do you have any views on that at this point?

[563] **Ken Skates:** We remain agnostic on that, but discussions are progressing and progressing well with trade unions, and trade unions also have access directly to all of the bidders to discuss the concerns that they may have.

[564] **Russell George:** If I'm right, I think you told David Rowlands that it's

up to the bidders to ensure that they've got the correct rolling stock. Now, when Porterbrook were here the other week, they told us that it would be too late if it was left to the successful bidder.

[565] **Mr S. Jones:** Can I just—? So, one of the challenges that we face is that, as the Cabinet Secretary said, as we sit here at the moment, this is a DfT franchise that we manage on their behalf. And because they haven't transferred the powers to operate a franchise to us, our hands are slightly tied. One of the things that we could do, perhaps, if we had the powers, would be to enter into an arrangement with some of the rolling stock companies ourselves now to, say, modify some of the fleet in order to be able to overcome some of these PRM issues or begin to acquire rolling stock ourselves. Those powers have not been transferred by UK Government, and that's why this transfer of functions Order is so important to us. The 2014 letter talked about that being transferred at the beginning of this year, and because it hasn't been, it's very difficult for us. Having said that, we have been speaking with DfT about perhaps an early release of the ability for us to be able to go and make those arrangements with rolling stock companies, in order to deal specifically with that point.

[566] **Russell George:** So, Transport for Wales told us that you've got a back-up plan.

[567] **Ken Skates:** That is the back-up plan.

[568] **Russell George:** That is the back-up plan.

[569] **Ken Skates:** It still requires those permissions to be transferred to us.

[570] **Russell George:** Okay. Mark Isherwood.

[571] **Mark Isherwood:** Merseytravel told us that they decided to operate as a rolling stock operating company directly themselves. They were purchasing new stock accordingly. We were also told that the Welsh Government had initially felt that the franchisee here should not become a rolling stock company because of the possibility of it moving to electrification, but that events may have overtaken that now, at least in the interim period. So, I wonder if you can confirm your position on the franchisee being a ROSCO in the future. And, particularly in the context of reference made to us about a company using former London Underground stock, I actually hosted a transport event here last night, and met Vivarail, who have written to me

today saying that, in principle, they have a sufficient stock to produce just over 70 three-car trains for Wales, and they also, in addition to diesel, have also now produced a battery train version.

[572] **Ken Skates:** Yes, and that's a solution that, actually, is not as undesirable as some have presented in the past, I think. When they are modernised, they look and feel like brand new carriages.

[573] **Ms S. Jones:** So, it's something that has been looked at. As for the franchisee owning rolling stock, well, it very much depends on the type of solution. So, if we consider the Valleys lines by way of an example: if we end up with a light rail solution on the core Valleys lines, it's probable that that rolling stock will be owned by the franchise operator or by Welsh Government, because that rolling stock wouldn't be interchangeable with the rest of the UK rail network. As for the rest of the rolling stock, I think the Minister and the Government would probably be agnostic about that, depending on what the benefits would be of owning the rolling stock. If there were a deal to be done that meant that that would be of lower cost in the long term, then that would be something that would be in the 'positive' column for it. It would depend on whether that was new rolling stock or old. I think it would depend on the ability of the rolling stock to be able to deal with different power solutions. So, going and buying a brand-new diesel train now, and owning a diesel train with a 30-year life, when actually the Government might have ambition to move to other forms of energy—that might not be something that the Government would want to commit itself to now. It might be better to leave that risk with a rolling stock company. So, there are a range of issues that would need to be considered before we got to the point whereby we said, 'Yes, that's what we would want to do.' And of course, it would depend on the availability of capital to be able to go and buy the trains in the first place.

[574] **Russell George:** Right. I've got three more questions from Vikki, Hefin and Adam, and 10 minutes, so we'll have to just be sharp. Vikki.

[575] **Vikki Howells:** Thank you, Chair. I've got some questions around the vertically integrated core Valleys lines network, and the wider metro project. First of all, Cabinet Secretary, have you made an assessment of the benefits and risks involved in transferring ownership and management of the core Valleys lines to the Welsh Government?

[576] **Ken Skates:** Yes, we have. In terms of the benefits and the risks, I've

been pretty public in my concerns over the delivery record of Network Rail. It has been problematic. I also recognise that they're taking steps to address this. But the problem seems to be that Network Rail is very much centralised and there needs to be a cultural shift. We are seeing that with the Wales route. It's making a difference. But if we look at some past experience—for example, electrification of the Great Western line—there is sufficient concern there over the risk of using the best part of £1 billion of our money to carry out work on the metro area of the core Valleys lines, given that electrification costs increased to £5.6 billion from £2.7 billion. And so, on that basis, the track record is not as good as it perhaps should be, and that causes us concern. That's the big risk in terms of the benefit. We have greater assurance if we are in charge of the decisions and the delivery of the infrastructure investment that we are paying for. So, in terms of the risks and benefits, I think it's quite clear that we would rather ensure that we are in control of what we're spending the money on.

[577] **Mr S. Jones:** Can I just add to that? So, the core of the problem that the Cabinet Secretary has just outlined is that we are not in a position to go into contract with Network Rail for them to be able to deliver a fixed-cost solution for us. So, we've got £750 million to invest in the modernisation of the Valleys lines. As the Cabinet Secretary said, Network Rail's delivery record on the Great Western and other services—

[578] **Ken Skates:** And north-south.

[579] **Mr S. Jones:** —and north-south—is that the costs have overrun; the programme's overrun. We simply do not have the financial resources to be able to go back to the centre and say, 'We need another £750 million because our supplier has overrun.' So, that is the core risk of doing the job in the conventional way through Network Rail, and that's why we've taken the opportunity to try and transfer the asset to us, so we can manage it ourselves.

[580] **Ken Skates:** Equally, there's, I think, a general point of principle: where we are responsible for spending money, we should also be accountable for it. And that, in its own right, I think, is sufficient reason for us to be in charge of the delivery of the investment.

[581] **Russell George:** Do you have further questions, Vikki? No. Hefin David.

[582] **Hefin David:** We had an interesting discussion with DfT and with the

civil engineers about light rail. Two strands of the question: what was your view of the role of light rail within the metro and the franchise? And do you believe that light rail can actually be introduced effectively? To start with; that's the first part.

[583] **Mr S. Jones:** Shall I answer that one?

[584] **Ken Skates:** Yes.

[585] **Mr S. Jones:** We've gone into this process neutral about the mode. So, we haven't said to any of the bidders, 'This has got to be light rail; this has got to be heavy rail; this has got to be tram trains; this has got to be flying carpets'—whatever it is. We've described the outcomes that we want to achieve and we're asking the industry to tell us what the best possible solution is. And I think our position is if the technology that's offered, the mode that's offered, delivers the maximum number of outcomes that we want to achieve—so, four trains per hour to the heads of the Valleys; reduced journey times; improved capacity; improved customer experience—

[586] **Ken Skates:** And reliability. Then, yes. So, the answer is, 'yes, it could be'.

[587] **Hefin David:** Okay. I asked that question and DfT, first of all, said, 'Well, what do you mean by light rail?' What do we mean by 'light rail'?

[588] **Mr S. Jones:** It's a very good question, because there's a spectrum that goes from the traditional things that we see rolling around on the Network Rail network through to trams and all sorts of other things. I don't think there is a black and white—heavy rail, light rail.

[589] **Hefin David:** I was looking at the St Louis, Missouri metro system. Is that the kind of thing that you might be envisaging, or something a bit heavier than that?

[590] **Mr S. Jones:** I'm not familiar with that, I'm afraid. But I think there are a range of different tram-type solutions that are available on the market, which can deliver all sorts of different solutions.

[591] **Hefin David:** Okay. I think, you know, that clarity there would be very useful, certainly from a constituency perspective, if nothing else. The use of light rail was asked to the civil engineers and they said, 'Well, yes you could

do light rail, but why would you? Because then you can't carry heavy freight on the line. No heavy freight on the line to the Valleys.' So, would that be a significant drawback? You said, actually, Cabinet Secretary, 'Yes, we would use light rail.' Are you then ruling out freight?

[592] **Ken Skates:** No. We could use light rail, but it's for the bidders themselves to bring forward the options based on what they believe will best meet the criteria that we've set. Freight has been a key consideration and that's something that has been picked up within the high-level specification for the bidders as well. But in terms of clarity on what light rail is, it's a menu of options rather than one type of carriage.

[593] **Hefin David:** The civil engineers said, 'Light rail: forget it. If you want to do freight, you can't have light rail.'

[594] **Mr S. Jones:** Well, that's not what our understanding of it is—

[595] **Ken Skates:** No.

[596] **Mr S. Jones:** —and that's not what our discussions with the Office of Rail and Road have led us to conclude either.

[597] **Hefin David:** Okay. I think that's for the committee to pick through the evidence then, and decide which is right. But let's turn it on its head, then, and say: Cabinet Secretary, you're coming up with your economic strategy, which we're very much looking forward to. It has been very promising in the pipeline so far. To what extent would your economic strategy drive the kind of metro you want to see and the kind of mix that you would have?

[598] **Ken Skates:** Well, it won't just be one strategy that drives it; all four are cross-cutting. And so, for example, the 'healthy and active' strategy is designed to inform the development of the metro insofar as how services are rolled out, developed and constructed. The 'united and connected' strategy will aim to inform the development of the metro insofar as how integrated travel, different types of transport loads and active travel are incorporated into the metro vision. In terms of the 'prosperous and secure'—and, likewise, the 'ambitious and learning' strategy as well will concern the development of twenty-first century schools, colleges and so forth, higher education facilities and how they link into the metro development. In terms of economic development, we've been looking at how the metro can act as a catalyst for regional hubs or regional capitals within the Valleys region. I think

Pontypridd is a prime example of how we'll be using the metro for wider socioeconomic purposes. But we're identifying those hub areas at the moment that could benefit to the maximum and generate the best or the maximum value for the public purse. We're trying to squeeze every penny of value from the metro project.

15:00

[599] **Hefin David:** As an aside, I'd say Pontypridd is probably a bit too far south for the needs of some of my constituents regarding—

[600] **Ken Skates:** Point taken. You've spoken very regularly and with great passion about the northern Valleys areas, and of course, I think it's important that we recognise that the hubs that will be developed should be relevant and accessible to people right across the Valleys region.

[601] **Hefin David:** It's probably unrealistic now to say that your regional strategy for the northern Valleys would include heavy freight criss-crossing the northern Valleys. That would probably not be part of that strategy.

[602] **Ken Skates:** Well, it wouldn't be part of my strategy because, technically, that would be part of the 'united and connected' strategy. So, without attempting to pass the buck, I would refer to my colleague Julie James.

[603] **Hefin David:** We've had enough tennis today.

[604] **Ken Skates:** But I think it's important not to see the development of the metro in isolation from wider reforms of public services as well. So, for example, reform of bus services. The consultation that's taking place on the Green Paper at the moment is of direct relevance to the northern Valleys areas, where we would wish to see better connectivity, not just within the Valleys but also north, into mid Wales, and across the border as well. We can do that with better, more reliable, more responsive bus services.

[605] **Hefin David:** I think—

[606] **Russell George:** Is this your last question? I've got to get Adam in as well.

[607] **Hefin David:** Yes, okay. Very briefly. If I would like to understand more,

it would be how conventional and light rail would feed into the delivery of those regional strategies.

[608] **Ken Skates:** Okay. Yes.

[609] **Russell George:** Are you okay, Cabinet Secretary, for five more minutes, but no longer?

[610] **Ken Skates:** Yes.

[611] **Russell George:** Okay. So, if there is time, I'll come to you, Vikki, after Adam—if we've got time. Adam Price.

[612] **Adam Price:** Is the Welsh Government still actively and urgently trying to remove the prohibition on public sector organisations running rail services in Wales contained in section 25—

[613] **Ken Skates:** Yes, that's still our ambition. Absolutely. We're still pressing for that.

[614] **Adam Price:** If you are doing that, as you've said, with a degree of urgency, why are you negotiating what is, in effect, a 15-year concession for for-profit operators, which means that you couldn't use that power until the early 2030s?

[615] **Ken Skates:** But if we look at what's happening with Scotland, the restriction there was removed in 2016, but their franchise isn't up for renewal until—I think it's the middle of the next decade. The UK Government has insisted that those changes will not be made in the near future; in all probability not in this Parliament. We continue to press for that, but we cannot allow a difference of views and aspirations to prevent us from going forward with the new franchise. Ultimately, we need to make sure that, from the end of 2018, we've got the best possible outcomes for people that are going to be served by the Wales and borders franchise. But our case for making the changes in law will continue. If we are able to bring in the necessary changes sooner rather than later, we will be in a similar position to that which the Scots find themselves in at the moment.

[616] **Adam Price:** So, just to be clear, are you seeking to ensure that, however it's achieved, there is sufficient flexibility within the 15-year concession agreement that, should those powers be devolved to Wales and

the prohibition lifted, the Welsh Government could be able to avail themselves of that option?

[617] **Mr S. Jones:** There will be brake opportunities in the contract should that materialise.

[618] **Adam Price:** Okay. And just finally, then, and just moving on, Transport for Wales, an arm's-length company with an independent board, and yet chaired by a deputy permanent secretary, who is your boss I believe—do you hold him to account, or how does that work?

[619] **Mr S. Jones:** Well, for the purposes of that, then, yes, I do. It's an odd dynamic, and one which has been tested by our audit and risk committee on a few occasions. I think the argument for why we have that is that it isn't an arm's-length company at the moment, it's an extension of Government. And ultimately, James Price, who you're referring to there, is responsible for the expenditure of the company anyway, whether he's in the civil service, or he's acting as the chair of the company. And the decision has been taken that, actually, James having his hand of the tiller of how the company operates, given that it's acting as an extension of the civil service, gives him more control as the additional accounting officer than if he were to step back from the company.

[620] **Adam Price:** Would—and possibly this is a questions to you, Cabinet Secretary—you accept, though, that in—? I'm trying to scrabble to think of another example where a company or an organisation, which will be generating revenue, is effectively chaired by a civil servant. So, is this just a transitional arrangement, and you would normally—in due course, then, the chair will be an independent person who will be held to account, in extremis, of course, by asking that person to resign or to sack them if necessary?

[621] **Ken Skates:** I think therein lies one of the problems with the argument that's been put forward that we should have, if you like, a big name to head up Transport for Wales who you can sack if it goes wrong. But there's only one shareholder in this, and that's Welsh Ministers, and I'd rather ensure that we don't reach the point where the best part of £1 billion has been spent, only to find that the person in charge has done a bad job and you've got to sack them. I'd rather make sure that there is the accountability there, as an extension of Government rather than an arm's-length company. It would be different if it was an arm's-length company, but it's an extension of Government, and the arrangements, as they're being designed, reflect a

similar set of arrangements in London, and I think it's fair to say that it's probably worked rather well there.

[622] **Adam Price:** There's only one shareholder, is there not, with the airport? Am I wrong in thinking that?

[623] **Mr S. Jones:** The management arrangements at the airport are different. So, there's a holding company that sits between Cardiff Airport Limited and Welsh Ministers, and Cardiff Airport Limited is run as an arm's-length company, so the board is given independence. The holding company, essentially, has three duties: one is to approve the annual business plan; two is to monitor progress against that; and three is to deal with exceptional items when changes come up in the business plan in the course of the year. That is the only role of the holding company; it isn't steering the ship of what the airport does, it isn't saying, 'Go and talk to this airline' or 'Let's re-paint the terminal', whereas the model with Transport for Wales is very much that Ministers are able to make those calls about 'We need to do things differently.'

[624] **Adam Price:** So, this is a permanent model, then—the chair will forever be a senior civil servant.

[625] **Mr S. Jones:** Sorry, I—

[626] **Adam Price:** There's no intention to change, then. There's no current intention to change the model—it'll be a civil servant.

[627] **Ken Skates:** I see no problem, at the moment, with it being a civil servant. If there are benefits that can be proven to changing it, then I'd be open to consider those changes. But as we have designed the system to reflect what's happening in London, and I think it's a model that works, I'm confident at the moment that having it chaired by a civil servant is the best way to ensure that we are held to account for the services that are going to be delivered.

[628] **Adam Price:** Okay.

[629] **Russell George:** If Vikki and Mark can promise me their question is less than five seconds, then you can both ask your questions and then the Cabinet Secretary can round up. Vikki.

[630] **Vikki Howells:** How important is capacity at Cardiff Central station to the successful delivery of the metro?

[631] **Russell George:** And if I can ask Mark for his five-second question.

[632] **Mark Isherwood:** Whether for profit, non-profit, or capped profit, we've had lots of evidence saying there must be an incentive to innovate and grow passengers. How will you accommodate that?

[633] **Russell George:** There we are.

[634] **Ken Skates:** Okay, well, first with Cardiff, it is important, and it's one of the choices for CP6. We've said that, along with other improvements in station capacity. Station capacity improvements at Cardiff are absolutely essential in terms of providing the headroom for innovation. That's been very clearly part of our set of priorities for the next franchise, and although we're looking at being able to cap profits for the ODP, we are incentivising them to be as innovative as possible.

[635] **Mark Isherwood:** I've no time to ask you, but I think we'd love to hear a lot more about what that means.

[636] **Russell George:** There we are. Can I thank you, Cabinet Secretary, for allowing the extension by 10 minutes? In that case, I thank you for your session with us this morning, Cabinet Secretary. I'd like to wish Members a very happy Easter and bring proceedings to a close.

Daeth y cyfarfod i ben am 15:10.

The meeting ended at 15:10.