

**ECONOMY, INFRASTRUCTURE AND SKILLS COMMITTEE  
WRITTEN EVIDENCE – UPDATE ON CARDIFF AIRPORT, NEW RAIL  
CONTRACT, ROADS, DEVOLUTION OF TRANSPORT POWERS &  
COMMUNITY TRANSPORT**

**Purpose**

This paper updates the Economy, Infrastructure and Skills Committee on developments in Cardiff Airport, New Rail Contract, Roads, Devolution of Transport powers and Community Transport

**Background**

We are moving forward with our ambitious vision to reshape public transport infrastructure and services across Wales, including local bus services, active travel, rail services through the next Wales and Borders rail contract, ensuring the growth of Cardiff airport and new routes, investments in our strategic road network and the South East and north Wales Metro projects.

Our published National Transport Finance Plan (NTFP) sets out the intended delivery programme for the next 3 years and targets five key areas: economic growth; tackling poverty; sustainable travel and safety; and improving access to employment and to services.

In many ways 2018 will be regarded as the year where Wales enters a new era for the delivery of a transport network truly fit for the 21<sup>st</sup> century. Not only are there exciting opportunities available from the devolution of transport powers from the Wales Act 2017, it is also a year when we expect to become the franchising authority for rail and be able to award the next Welsh rail contract which will deliver better rail services for people across Wales, transforming our network to enable our metro ambitions to become a reality.

We are also moving forward with my vision for the North East Wales Metro. I've recently announced £1.8m to be spent improving public transport in Deeside as part of preparations for the metro. This will not only be a boost to delivering important schemes which will improve access to and within Deeside Industrial Park and the wider Enterprise Zone, linking communities with jobs and services, but also one of the building blocks to achieve our ambitions for a North Wales and cross border area that is a competitive and connected component of the Northern Powerhouse.

Transport for Wales has been commissioned to develop schemes for a new Deeside Parkway rail station, an integrated Shotton rail station and an integrated transport hub at Wrexham General rail station. In addition, c £3m of capital funding has been awarded to Flintshire CC and Wrexham CBC for public transport and active travel schemes that will complement the rail proposals and further contribute to the delivery of the North East Wales Metro. The Deeside Plan, Mersey Dee Alliance Growth Prospectus and the West and Wales Rail prospectus will also help inform the further development of the North East Metro vision.

I will also be bringing forward proposals that will seek to improve the planning and delivery of local bus services for further public consultation in the summer. I want to ensure that in planning and delivering local bus services with our bus operators, more people have access to a bus network that is fast, clean, efficient providing an accessible and inclusive alternative to reliance on

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the private motor vehicle. This work will also consider the contribution that taxis, private hire vehicles and local transport operators working under the community transport permit regime can make to our vision for integrated public transport.

I will also continue to invest in our road network, such as £95m towards the proposed new Newtown bypass, approximately £200m million for improvements to the Flintshire corridor (A55/A494/A548) and £1.2m for the Llangefni Link Road. These, as well as the proposals for the M4 in South Wales at Newport and Swansea and the Third Menai crossing in the north will benefit us all.

Please see below more detailed updates on the areas you have requested.

**Cardiff Airport**

Since the Welsh Government acquired Cardiff Airport it has seen continued growth in passenger numbers, which are now nearing 1.5 million a year, from a base of around 1 million at time of acquisition.

This is a 9% year on year passenger growth, on top of 16% growth in 2016. Within the past 6 months the Airport was named both best airport in the UK (under 3 million passengers) and came seventh in the world in a recent review of airport customer satisfaction.

Financial performance at the Airport is growing in line with its ambitious business plan projections, and the airlines taking off from Cardiff fly direct to over 50 destinations including 9 capital cities, and to over 900 destinations via 11 hub airports.

The Airport recently launched £4million investment into improving the terminal, which includes improvements to the Departures area and car parking infrastructure which will be unveiled this month.

New routes being operated by Thomas Cook, TUI and Flybe plus the successful commencement of flights by Qatar Airways from Cardiff will create a gateway from south Wales to the wider world and underpins the Airport's achievements to date. This is why, as sole shareholder in the Airport, the Welsh Government has decided to invest further £6m in exchange of common shares to accelerate the airport's success.

The airport has identified a range of capital projects which will continue to deliver on its recent success and help to maximise the growth and return to profitability. In addition, these developments will create a better environment for its passengers as it continues its journey to become a world class capital city airport.

It has been on a long journey to recovery, and the airport is currently 4 years into a 5 year recovery plan. This investment led stepping up of commercial performance substantially brings forward the airport's ability to be self-

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sustaining, and importantly for taxpayers, also accelerates progress to a potential investment recovery position where the government may consider attracting private sector funding through equity release and potentially returning public funds to government for us to invest elsewhere.

Looking forward, the airport is aiming to achieve 2.5million passengers by 2026 and we are currently working with the airport on a Masterplan for the next 10 years, which will highlight the vision for developing the airfield site and operational infrastructure – we anticipate the plan will be completed mid 2018.

I will also continue to pursue devolution of APD to Wales. The reduction or removal of APD should inject competition back into regional airports, encourage airlines to introduce new regional routes and increase competition, therefore increasing choice for the travelling public.

**Wales & Borders Rail Services Procurement**

As part of the preparations for the next Wales and Borders franchise, in November 2014 agreement was reached between the Welsh and UK Governments to devolve executive franchising functions to the Welsh Ministers so that the Welsh Government could lead the procurement of the next Wales and Borders franchise which is due to commence on 14 October 2018.

I am pleased to confirm that an agreement with the Secretary of State for Transport regarding the transfer of railway franchising functions to the Welsh Ministers has now been reached. The functions will be transferred by virtue of the ‘Welsh Ministers (Transfer of Functions) (Railways) Order 2018’ which was laid in the UK Parliament on 28<sup>th</sup> February 2018. The Order will be subjected to the affirmative resolution procedure in both Houses.

The functions to be transferred are contained within the Railways Act 1993 and the Railways Act 2005 (the 1993 and 2005 Acts). They are primarily connected with the franchising of railway passenger services and the discontinuance or closure of railway services and certain railway assets. Broadly, these align with the functions transferred to Scottish Ministers by the 2005 Act. However, there are some variations which derive from the difference in scope of cross-border rail operations into England and from the fact that responsibilities in respect of the rail network are not being devolved in Wales.

The Order amends the 1993 and 2005 Acts so that the Welsh Ministers become the sole designating and franchising authority in respect of Wales-only services, and enables the Welsh Ministers to designate and franchise the Welsh component of Welsh services (those parts of cross border services to/from England within Wales) contained within the same franchise as Wales-only services.

This scope has been agreed in recognition of the extensive nature of the cross-border services - and services wholly within England - provided by the

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Wales and Borders franchise and the need for appropriate accountability for rail operations on each side of the border.

In view of the need to take forward activity to procure the next Wales and Borders rail contract, the procurement currently underway is being progressed on the basis of agency arrangements established under section 83 of the Government of Wales Act 2006 which permit the Welsh Ministers to act as the agent of the Secretary of State.

To ensure that important cross-border links can continue and be developed further for the benefit of passengers, the Welsh Government will continue to maintain agency arrangements with the Secretary of State to enable the Welsh Ministers to exercise relevant powers under the 1993 and 2005 Acts. This makes it possible for the Welsh Ministers to procure and manage the entirety of the Wales and Borders rail contract which includes services that continue to/from, and operate within, England.

With regards to the procurement process, Transport for Wales has analysed the robustness and technical capability of the two bidders and are confident that they are both capable of providing a high quality solution that will enable us to transform rail services right across Wales.

By the end of May this year, our process will culminate with the decision to award the first rail services contract made in Wales. This follows intensive evaluation and post tender discussions led by Transport for Wales to ensure the contract fully captures the quality service and commitments offered at final tender.

Both the Welsh Government and Transport for Wales are geared up to deliver against these dates, allowing proper time to transition to a new operator - and way of operating through Transport for Wales - in October.

**Roads**

With capital budgets remaining under unprecedented pressure, we are working harder and smarter to attract new investment and, to ensure that capital expenditure delivers the greatest benefits in the most effective way.

We are increasingly looking to potentially finance road schemes using the Welsh Government Mutual Investment Model (MIM). The MIM is an innovative way of investing in public infrastructure. It is different to old PFI projects as it allows Welsh Government to share in the profits of the private partner, gives greater transparency into the contract around costs and performance of the private partner, and removes from the contract some of the services which have historically led to expensive, inflexible arrangements.

MIM will see us continue to deliver in areas such as ethical employment, community benefits, and the increased use of technology in infrastructure delivery - these aspects aligning to the Welsh Government's Programme for

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Government, Taking Wales Forward 2016 -2021, Prosperity for all: the national strategy for Wales, and our Economic Action Plan.

*M4 Corridor around Newport Project*

After more than a year the Public Inquiry into this Project heard Welsh Government's closing statement in March 2018. The inquiry has allowed open and robust scrutiny, by independent inspectors, as to whether the project, in collaboration with the South Wales Metro, is the long term, sustainable solution to the problems associated with the M4 around Newport.

The Project proposes a new section of motorway south of Newport as well as reclassification of the existing M4 around Newport as a trunk road and complementary measures to enhance access to public transport and walking and cycling infrastructure.

Development work to date has included ground investigations, environmental surveys, engagement with utilities and diverse stakeholders ranging from the police to local authorities and Newport Docks operators, ABP. This work has been undertaken by officials and a technical, construction and environmental team to inform the statutory process and to identify and manage construction risks before any commitment to proceed. The potential cost of the Scheme at Q4 2015 prices (inclusive of risk and optimism bias allowance) is £1,320.8

The measure of VAT remains under discussion with HMRC. Should it proceed, construction expenditure would be administered under a target cost contract. This would incentivise the contractor to manage costs by allowing them a share of savings if the project is delivered under budget. Conversely, if the costs over-run then the contractor would bear a share of those costs with a cap on Welsh Government's total liability.

Following completion of the Public Inquiry we anticipate to receive the Inspectors' report later this summer. This will inform a decision later this year on whether to proceed with construction. Should it proceed, the new section of motorway could be open by the end of 2023.

*A465*

We are currently undertaking a project to dual the road between Abergavenny and Hirwaun to improve journey times, reliability and safety as well as accessibility to employment and key public services.

This vital project is critical to the social and economic regeneration of the Heads of the Valleys area. The Welsh Government is committed to the completion of the project by 2022. When finished it will represent a capital investment equivalent to over £900m and will deliver a continuous dual carriageway from the M4 along the A465 to the midlands and beyond.

We have already completed three of the six sections while one section is under construction and the final two sections under development. Section 4 (Tredegar to Dowlais) was opened in 2004, Section 1 (Abergavenny to

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Gilwern) was opened in 2008, Section 3 (Brynmaur to Tredegar) was opened in 2015.

Section 2 between Gilwern and Brynmaur is a very challenging project including widening 8 kilometres of the existing A465 alongside live traffic within a very constrained site through the steep sided, environmentally sensitive Clydach Gorge. Construction work on this scheme started in early 2015, by our design and build contractor Costain Ltd. The scheme had an original planned completion date of autumn 2018, which has now been adjusted to the end of 2019.

The site conditions have meant that Costain have found the project far more difficult to deliver than they originally envisaged and planned for. As a result, I requested a comprehensive commercial project review be carried out, the conclusion of which were outlined in my written statement of 27 November showing the scheme currently circa 14 months late and 23% over budget.

My officials are continuing to actively manage the project to identify ways of mitigating the cost and programme position. My officials have increased resources on site to manage the contract and taken specialist commercial and legal advice on the contractual matters to ensure the currently projected overspend is apportioned between Costain and Welsh Government strictly in accordance with the contract terms and conditions.

As part of this work, we are in dispute with our contractor Costain on a number of matters around the allocation of risk in the contract. Due to the sensitive nature of the dispute we are not able to release details at this stage

In light of the commercial review, the Wales Audit Office (WAO) have begun a review of the procurement and delivery processes used on the project to date in order to better understand the circumstances which have led to the project being in this position. This review is ongoing and will be reported in due course. My officials have been fully engaged with WAO while they undertake their review.

Notwithstanding the commercial issues, work on the scheme is continuing at pace and the project is about two-thirds complete.

Sections 5 and 6 between Dowlais and Hirwaun would complete the dualling project of the A465 and provide a continuous dual carriageway from the M4 at Llandarcy to the Midlands and will unlock the potential of the Heads of the Valleys area. We plan to combine sections 5& 6 and deliver them as a single scheme using the Welsh Government Mutual Investment Model (MIM).

Outline Design and detailed Environmental Impact Assessment for the scheme are complete. In summer 2017 we started the Statutory Process to seek the powers to build the road.

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A Public Local Inquiry is programmed to start on 24 April in front of an independent inspector who will report his findings to me. I will then consider if we should begin the process of appointing an organisation to deliver the project and proceed to construction.

**Devolution of Transport Powers**

*Bus & Taxis*

In relation to local bus services, the current legislation is built on the foundation of the deregulation policy for local bus services introduced by the Transport Act 1985

Challenges facing the local bus sector in Wales show that the open market model has not delivered the improved quality of service and lower fares promised more than 30 years ago

The new devolved settlement introduced by the Wales Act 2017 in relation to the registration of local bus services will enable new arrangements for the planning and delivery of local bus services to be introduced in Wales

Detailed proposals for reforming how services are planned and delivered, based on the outcome of the Welsh Bus Summit and the public consultation held in 2017, will be published for consultation in the summer.

This will include Local authorities proactively planning local bus services, using three operational models to choose from based on a needs analysis for local communities in their areas as part of their local transport plans, rather than reacting in the face of a service failure.

The three models being

- The open market model, maintained with operators registering local bus services with the Traffic Commissioner and delivering those services on a commercial basis without ongoing public subsidy support (other than compensation for mandatory concessionary fares), with the local authority responsible for investing and maintaining the local bus infrastructure to support local bus services;
- Franchising (or what might in normal parlance be described as competitive tendering for bus routes or networks); and
- Local authority ownership and operation.

The intention will be to set up the framework within which local authorities (either alone or working together) can choose whichever one or a mix of these three models best meet the needs of local people.

*Taxis and Private Hire Vehicles*

A policy consultation based on the proposals put forward by the Law Commission for England and Wales in 2014 for the reform of taxi and private hire vehicle licensing was undertaken.

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The Law Commission for England and Wales submitted its report to the UK Government in May 2014, setting out proposals for reforming the law governing the licensing of taxis and private hire vehicles. In making its recommendations, the Law Commission acknowledged that the law governing the hackney trade was more than 200 years old, whilst the law governing the private hire vehicle sector, despite being more recent, had also failed to take account of new travelling behaviours stimulated by the development of new technologies, such as smartphone applications.

Since the Law Commission's report, calls for reform from drivers and licensing authorities have been increasing. Many have argued that retaining the distinction between taxis and private hire vehicles is outdated and artificial given the technological advances in booking private hire vehicles.

As set out in the consultation outcome report published in January 2018, those taking that stance would like to see the distinction removed. There are some however, that consider that the distinction should be retained but all agree that reform is necessary.

Detailed proposals are now being developed by officials on how best the licensing regime can be reformed to better meet the transportation needs of the people of Wales, operators and professional drivers in Wales. It is expected that these detailed proposals will be published for public consultation in Early Summer.

Ports

The devolution of responsibility for most ports and harbours will bring exciting opportunities for us to enhance our working relationships with the sector and support the key role it has to play in achieving a prosperous, secure united and connected Wales.

Welsh ports are a driving force for economic wealth. They support economic growth and jobs throughout Wales, as well bring added value to local communities. We are already reflecting the contribution of ports at a strategic level, such as through our programme for government, *Taking Wales Forward*, and further expanded in our strategy, *Prosperity for All*, and in our *Economic Action Plan*. This is also reflected in the draft *Welsh National Marine Plan*, which we recently consulted on. The consideration of the role of ports within the wider transport network will also be a key pillar under the Welsh Transport Strategy.

Our policy approach will be to preserve the freedom ports have to make commercial, market-led decisions, which is a key part of what has enabled them to adapt quickly as businesses to changes in the market. We will look to build on this successful model by delivering a framework which best enables Ports to adapt to change whilst also contributing to sustainable economic growth in line with the Well-being of Future Generations Act.



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We have been preparing for the significant increase in activity that ports devolution will bring and have established a dedicated ports team within Welsh Government to strengthen collaboration and engagement. We are already working to consult, engage and support the sector using the levers at our disposal, in the last financial year, we provided £2 million through the Ports Development Fund to a range of ports across Wales to help them grow and prosper.

In addition to legislative competence, the Wales Act will transfer executive functions to the Welsh Ministers including the regulatory regime under the Harbours Act 1964. Officials are closely engaged with partners who currently have this responsibility in the UK – including Transport Scotland and the Marine Management Organisation – as well as ports sector representatives, to ensure we have the right skills and expertise to undertake this function efficiently and effectively before commencement of the powers.

We are working collaboratively with the Welsh Ports Group on a range of issues to ensure that the Welsh Government is able to deliver for ports following devolution, and to ensure Welsh ports and the Welsh economy is not disadvantaged as a result of any decisions taken by the UK Government in respect of Brexit.

At the spatial planning level, the Welsh Ports Group has been closely involved with the drafting of the Welsh marine plan, including the identification of Strategic Resource Areas for ports. We are also developing the National Development Framework for land planning we will ensure Welsh ports are closely engaged with its development.

Speed limits

The Wales Act 2017 will give the National Assembly the ability to legislate on national speed limits from 1 April 2018, as long as the legislation did not create or modify road traffic offences or affect exemptions from speed limits.

Research into the road safety and environmental impacts of changing national speed limits remains inconclusive therefore we currently have no plans to change the existing national speed limits.

The Department for Transport has commissioned a three year study into 20mph limits, which aims to consider road safety and wider impacts and we will consider the results when it reports, which is now due in Summer 2018.

We have also conducted a review of speed limits on the trunk road network, giving due consideration to the nature of the road, safety of the road and use of the road by the community, in line with the guidance on Setting Local Speed Limits in Wales.

Community Transport

The legislative framework for issuing community transport permits is a non devolved matter and it is understood that the community transport permit

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regime will continue to be a matter reserved to the UK Government following commencement of the Wales Act enacted in 2017.

On 8 February, the UK Department for Transport launched its public consultation about reforms proposed to bring the community transport permit regime in line with EU Regulations.

I have already made it clear to the UK Government the Welsh Government is keen that operators providing local bus services from the community transport sector should continue to be able to bid for public sector contracts. I will be responding to this public consultation about the future arrangements for community transport permits setting out our commitment to delivering an integrated public transport network that includes community transport providers.

Community transport can offer a cost-effective flexible alternative to conventional bus services, especially in rural or more remote parts of Wales and I am keen that community transport will continue to make a significant contribution to our plans for an integrated public transport system in Wales.

Last November, Cabinet agreed to develop a new Wales Transport Strategy. The current strategy was published in 2008. It is my intention to update members early summer on the proposed communication strategy which will outline how we will engage with organisations across Wales, including community transport operators. We are aiming to publish a new strategy by the end of 2019.