



Cynulliad Cenedlaethol Cymru The National Assembly for Wales

Y Pwyllgor Menter a Busnes The Enterprise and Business Committee

**Dydd Iau, 3 Hydref 2013
Thursday, 3 October 2013**

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Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r Cyfarfod
Motion under Standing Order 17.42 to Resolve to Exclude the Public from the Meeting

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, a transcription of the simultaneous interpretation is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Mick Antoniw	Llafur Labour
Keith Davies	Llafur Labour
Rhun ap Iorwerth	Plaid Cymru The Party of Wales
Alun Ffred Jones	Plaid Cymru The Party of Wales
Eluned Parrott	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Nick Ramsay	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Joyce Watson	Llafur Labour

Eraill yn bresennol
Others in attendance

Mike Bagshaw	Cyfarwyddwr Masnachol, Trenau Arriva Cymru Commercial Director, Arriva Trains Wales
David Beer	Gweithrediaeth y Teithwyr, Passenger Focus Passenger Executive, Passenger Focus
Ian Bullock	Rheolwr Gyfarwyddwr Trenau Arriva Cymru Managing Director, Arriva Trains Wales
Richard Davies	Pennaeth Polisi a Chynllunio, ATOC Head of Policy and Planning, ATOC
Mike Hewitson	Pennaeth Materion Teithwyr, Passenger Focus Head of Passenger Issues, Passenger Focus
David Mawdsley	Ysgrifennydd, Rheilffyrdd De Cymru, Railfuture Secretary, North Wales Lines, Railfuture
John Rogers	Cadeirydd, Rheilffyrdd de Cymru, Railfuture Chairman, South Wales Lines, Railfuture

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

Olga Lewis	Dirprwy Glerc Deputy Clerk
Andrew Minnis	Gwasanaeth Ymchwil Research Service
Siân Phipps	Clerc Clerk

Dechreuodd y cyfarfod am 13:15.
The meeting began at 13:15.

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions

[1] **Nick Ramsay:** Good afternoon, everyone. I welcome Members, witnesses and members of the public to this afternoon's meeting of the Enterprise and Business Committee.

[2] The meeting is bilingual; headphones can be used for simultaneous translation from Welsh to English on channel 1, or for amplification on channel 0. The meeting is being broadcast and a transcript of the proceedings will be published. Would Members please turn off their mobile phones? There is no need to touch the microphones, as they should operate automatically. In the event of a fire alarm, please follow the directions of the ushers. We have three apologies this afternoon, from David Rees, Byron Davies and Julie James, and there are no substitutions.

**Ymchwiliad i Ddyfodol Masnachfrait Rheilffordd Cymru a'r Gororau:
Passenger Focus a Railfuture (Sesiwn Dystiolaeth Panel)
Inquiry into the Future of the Wales and Borders Rail Franchise: Passenger
Focus and RailFuture (Panel Evidence Session)**

[3] **Nick Ramsay:** We are, this afternoon, pursuing our inquiry into the future of the Wales and Borders rail franchise, hence our panel evidence session. This is the first formal evidence session of the committee's new inquiry, following the very useful stakeholder engagement event with our witnesses, which we held this morning. I thank you for being with us for most of today and also for your written evidence. Would you like to give your names and titles for the Record of Proceedings?

[4] **Mr Beer:** Hello. I am David Beer, passenger executive at Passenger Focus.

[5] **Mr Hewitson:** Hello. I am Mike Hewitson, head of passenger issues at Passenger Focus.

[6] **Mr Rogers:** I am John Rogers, chairman of the south Wales branch of Railfuture Cymru.

[7] **Mr Mawdsley:** I am David Mawdsley, acting secretary of the north Wales branch of Railfuture Cymru.

[8] **Nick Ramsay:** Great, thank you. We have a number of questions for you, so I propose that we go straight into those. The first is from Rhun ap Iorwerth.

[9] **Rhun ap Iorwerth:** Prynhawn da i **Rhun ap Iorwerth:** Good afternoon to you. chi.

[10] I will start very generally with the two gentlemen on the left from Passenger Focus. Arriva Trains Wales describes the current franchise as being an effective contract. In the most general terms, initially, is it working and has it worked well?

[11] **Mr Hewitson:** I do not think that the contract is effective, because when it was let, it was let on a no-growth basis and that has been one of the problems that it has faced from day one. In terms of Arriva Trains Wales's efforts, we know that punctuality has improved, and we know from all the research that we do in Wales, and across England and Scotland, that that is what drives satisfaction; that is what people expect—a punctual service. So, the better the punctuality, the better the passenger reaction to it. We know, through our own passenger research on satisfaction, that that is increasing as well. I think that there are elements. More people are travelling, which is often the acid test of any product. There are elements of the operation that are good and that stand up, but the contract itself was flawed from the start.

[12] **Rhun ap Iorwerth:** Has it been improving, in franchise?

[13] **Mr Hewitson:** Certainly, overall satisfaction is increasing. It is a slow increase. If

you look at some individual characteristics within it, you will see that they are higher, but like many franchises, it has the same issues. There is a particular issue around value for money and there is a particular one around keeping passengers informed during times of disruption. There are also elements of stations in Wales that are below the averages that you would expect everywhere else, which I think is a function of the number of unstaffed stations. However, on other aspects of it, such as performance and punctuality, it is improving.

[14] **Rhun ap Iorwerth:** We look at passenger satisfaction at levels of around 88%, compared with regional rail at 84%, which suggests that Arriva Trains Wales has been doing well. Do you think it has been an effective contract?

[15] **Mr Rogers:** If you have to have a franchise, how on earth you begin with one that says ‘no growth’, I do not know. However, under the circumstances, with some of the initiatives from this Government, it has not been too bad. My main reason for being here, and it is in my written submission, is to say that the whole framework is wrong, and that we fully support what, as far as I know, is the stance being taken by the Labour Party in Government, which is to go for a not-for-dividend, Government-owned, arm’s-length company, for all sorts of reasons. We can argue for ever about whether Arriva Trains Wales does this, that and the other, but what we want is, if you like, a blank piece of paper, and if at all possible, at the end of the franchise, an end to franchises.

[16] **Rhun ap Iorwerth:** What about—you have alluded to it—the Welsh Government’s management of the current franchise? Has it been managed as well as it could be by the Welsh Government?

[17] **Mr Rogers:** I am not 100% sure, because we are in a halfway house. Devolution is a process and we have not quite got as far as Scotland or Northern Ireland, have we? Northern Ireland’s railways are nationalised still, and run vertically integrated, as are those of the Republic of Ireland. With the agricultural wages board, for example, the Supreme Court is trying to say whether or not we have competence. We do not yet have full responsibility for rail transport in Wales. I, on behalf of Railfuture Cymru, urge the Government of Wales to do all that it can to get maximum and complete powers over rail transport in Wales, so that it can be planned for the benefit of the nation. It should not be about going cap in hand to Westminster and maybe being rebuffed or bogged down.

[18] **Rhun ap Iorwerth:** We do not know, at this point, what may or may not be possible in terms of a future Government’s relationship with the railway in Wales. However, looking back at this one, what is your take on the Welsh Government’s handling and management of it?

[19] **Mr Hewitson:** It can be difficult to handle something unless there are contractual levers that you can pull. Again, I take it back to the original contract. While it would have some performance, punctuality and reliability targets in it, it would not have had much in the way of quality targets regarding passenger satisfaction—how happy the customers are being one of the core focuses of most businesses. There is not a lever in there at present that really says ‘This is not working—do this’. It is dependent on conversations and effort, primarily through investment.

[20] **Mr Beer:** Also, I think that the burden of cost was primarily with the Welsh Government, but it did not really have the means of putting that investment back in, in terms of rolling stock, expanding the rails and infrastructure or paying for additional services that are wanted. Due to the no-growth approach, every time a new service was suggested, it was a case of who was going to pay for it. Without the powers to draw funds together, I think that it was a case of hands being tied.

[21] **Rhun ap Iorwerth:** I am sure that we will come on to lessons learned later on.

[22] **Nick Ramsay:** Thank you, Rhun. I ask both sets of witnesses, in terms of stakeholder involvement in the franchise-development process, how should the new franchise be developed? I am thinking specifically about how stakeholders—namely passengers, local authorities and regional transport consortia—could be involved. Would you like to take that question first, Passenger Focus?

[23] **Mr Beer:** Yes; thank you. Passengers need to be at the heart of it, and I think that their priorities need to be what the franchise is built on. The key things that come out for us are punctuality, reliability, value for money, whether you can get a seat and what happens when things go wrong. Those are the key things that passengers want to work. Their experiences, such as those that are dealt with through the national passenger survey, can give hard evidence as to what is wanted—passenger priorities to be built in, and for them to be consulted as part of it and then on an ongoing basis through measurement and consultation.

[24] **Mr Hewitson:** A lot of our research, particularly for other franchises, shows that the first passengers knew that there was a new franchise was when the train rolled up in the morning and there were different uniforms or a different name on the train, which does not exactly give you a sense of engagement. As David said, it is that matter of ‘Give me a chance to contribute and tell you what I want you to deliver’, then make a very public statement at the point that the franchise is signed about what is coming. There should be annual or even half-yearly statements about how the operator is doing in terms of reaching those targets, and passenger opinion should be included in the judgment of the franchise going forward. We would argue that Passenger Focus’s passenger satisfaction survey has already made a measure of that that can be used. However, that could be combined with traditional service-quality audits—was the toilet open when it should be and were the station staff there when they should be? There could be traditional yes/no features, married together with satisfaction. You could get some targets around that, so the passenger voice continues through the franchise and not just once every 15 years.

[25] **Mr Rogers:** Being realistic, we know that if we do not get a Government-owned, not-for-dividend company at the end of this franchise, we have to plan and say what kind of railway system we want in a new franchise. Railfuture is doing this and is soon to publish its development plan. I would imagine that the logical thing for the Government to do would be to liaise with all of the consortia and Passenger Focus, plus, if you like, organisations such as ours, because we have no axe to grind, in a sense. All members of Railfuture are passengers from varying backgrounds some are ex-British Rail, others from a variety of disciplines and others represent organisations such as the Heart of Wales line travellers association. If the Government liaised with all these bodies, it would get common ground and ideas that are relevant to each part of Wales, which could go into some kind of franchise agreement.

[26] **Nick Ramsay:** My next question is specifically for Railfuture. Looking through your written evidence, something that jumped off the page at me was your comment that you think that the UK Government’s vision for rail

[27] ‘remains anglo-centric, if not London/south-east England centred’.

[28] Can you say a little bit about what you meant by that and the implications for the development of the next franchise?

[29] **Mr Rogers:** May I say one word: ‘Crossrail’? Or, if you like, may I go as far as ‘HS2’? I have not completely made my mind up, but with the money going into HS2, you could electrify the rest of the network and reopen closed lines. London will be glad of Crossrail, but what do we get out of it? We get crumbs. How long has it taken us to get a

promise for electrification? We are on the same level as Albania, having no electrified rail lines.

[30] **Nick Ramsay:** However, that will change once we do get the electrified lines.

[31] **Mr Rogers:** Yes, but it has taken all these years. Wales is only now beginning, with, for example, the Holyhead to Cardiff train, to run a unified, north to south service for the country, rather than have everything running east to west.

[32] **Nick Ramsay:** I suppose that Londoners would say that they have waited quite a while for Crossrail as well.

[33] **Mr Rogers:** Yes, fair play. We sympathise. If you live in London, you campaign for London. If you live in England, you campaign for England. Our job is to campaign for Wales.

[34] **Nick Ramsay:** Which is why you are here today; that is fine.

[35] **Eluned Parrott:** I want to ask you about targets and how we monitor the effectiveness of the current franchise. So, setting aside issues about whether we think the design is right, this is about how it is monitored specifically. In terms of target setting, are we measuring the right things to decide whether the franchise is delivering what we expect?

[36] **Mr Hewitson:** We are measuring some of the right things. We measure punctuality—that is, lateness—and cancellations are a separate measure, because they often add to a huge delay for people and add to overcrowding. There should be more hard measures around crowding, whether that is into Cardiff or whether you have a general load factor in other cities. That needs to be looked at in terms of where the issues are. Crowding needs to be looked at. There is a missing gap with good disaggregated targets when it comes to service quality—the softer things that passengers notice. It was mentioned earlier. That is a mixture of qualitative, in terms of how satisfied they are, and harder qualitative targets, if that is not a contradiction, in terms of when they turned the tap on in the toilets did water come out. That is ‘yes/no’ combined with perceptions. That is the bit that is missing. The key is to disaggregate those. Do not just have company-wide or country-wide targets. You need to break it down into line of routes. One of the things that we experience time and again is that people see scores and they think ‘That does not reflect my experience, therefore it is wrong’. The more you can break it down, the better it reflects individual experiences and people’s ability to look at it and think, ‘Yes, that fits; I trust that’. Trust is a big issue in everything that we pick up with passengers. Trust with the railway in general, not necessarily the company, is a big issue.

[37] **Eluned Parrott:** This is a credibility issue in terms of the feedback that people see. Do you think that the engagement of passengers is lost if they do not feel involved and consulted effectively in the monitoring and the judging of the success of the franchise?

[38] **Mr Hewitson:** There is a mixture of views among passengers. An awful lot of people say, ‘I don’t care, just run it on time’. However, when we have done research looking at what information they want and how often they want it, there is a strong sense of, ‘Well, I might not look at it myself, but if it’s there in the public domain it keeps people honest’. That is the transparency and accountability argument that comes through strongly on public targets. It is often as powerful as the target itself.

[39] **Eluned Parrott:** May I direct that to Railfuture as well? Do you think that we are measuring the right criteria in terms of setting targets?

[40] **Mr Rogers:** The obvious one that comes to mind is fare complexity and levels. I

know that it is perhaps dangerous to give a personal example, but I will give you a quick one. Recently, my daughter and my wife went to an open day at a university in Leeds. I booked the tickets from Bridgend to Leeds. On the so-called 'national' website, I factored in everything I could and got a price. Then I went to the CrossCountry website and got a cheaper price. I know to look somewhere else, but an ordinary person would go to the first website, get an answer and think, 'That's a bit dear, I'm not going' or 'Hmm'. On the CrossCountry website, I got a price that was considerably cheaper. It does not make sense.

13:30

[41] **Eluned Parrott:** Okay, so there are issues about visibility and simplifying and streamlining across the board. Obviously, this is not something that is specific to this franchise. It is particularly an issue when you are crossing between different franchises.

[42] **Mr Rogers:** It is a side effect of privatisation.

[43] **Nick Ramsay:** Did you want to comment on that, David Mawdsley?

[44] **Mr Mawdsley:** I was just going to add a few points to what Passenger Focus has said. Punctuality and reliability in terms of cancellations or otherwise are the two factors that are easy to quantify. It is easy to put up a sign on the station saying that you have achieved 88% or 94% or whatever it is. There is an awful lot of what might be described as softer issues, where it is very difficult to produce a quantitative result. It is very much a qualitative result to questions like, 'What do you feel you are getting?' Certainly, things like cleanliness and the availability of toilets is one side of that. The fare structure is another. One of the other key factors is what happens when things go wrong. So often, one is confronted with a situation where you are standing on a station, a train does not turn up and there is no indication what has happened or why it is not there. At best, you get an announcement saying that the 15:15 to Fishguard has been delayed, with no indication of how long it is likely to be delayed, when it might come or what you should do. Those are the sorts of things that are so much harder to measure, but they are ones that need measuring. We need to find some way of capturing that information.

[45] **Eluned Parrott:** In terms of the design of the future franchise, the performance monitoring regime and how often we monitor performance is also important. What kind of mechanisms would you like to see? Would you like to see an annual review that incorporates these things, or is there a time frame over which you think we should be regularly doing a more detailed audit of the service? What do you think would be a reasonable way of judging the success of the franchise agreement?

[46] **Mr Beer:** In terms of service quality, there needs to be an ongoing measuring of the outputs. As we have already explored, things go wrong on a daily basis, so it is about how those individual aspects are dealt with, as well as about having a monthly, six-monthly or annual review. Those quality aspects need to be in there. That needs to be a rolling programme that is taken on board, with incentives for the improvement of those outputs and for target levels to be achieved, but also sanctions when they are not. The franchise also needs to be flexible enough so that if everything goes completely wrong, there is a point at which that can be parted and you can get out of the franchise. Thought needs to be given to the scenario of what happens if that is the case and how that franchise is then replaced. Hopefully, we would not get to that point and the incentives would be there, with the targets placed at stretching points. So, they not only need to be achievable, but stretch things for the future.

[47] **Mr Hewitson:** I would like to add one point to that. I do not think that there has to be a standard template for everything. We currently look at passenger satisfaction on a six-

monthly basis, twice a year. There is no reason why something like punctuality cannot be done on a far more continuous basis, at least on a monthly basis. Ideally, rather than having route-based figures, I would like to go on a database somewhere and find out the performance of the 07:22 service, which is the one that I catch every day. Why can I not see that? The data are there. It is a question of open data; it is buildable and doable. There is complete transparency; it is almost immediate transparency in a sense. You might want to put a time lag on it, so that you are after the compensation window, to stop anyone claiming that they were on the train and were late, when they were not. You would have complete access to a database. You can write to the managing director to say, 'On seven out of the last 10 days my train was late: what are you going to do about it?' You have evidence to hold them to account. Equally, the train company can say back to you, 'Look, actually, your train is not as bad as you are telling me', so it works both ways. So, I think that that could be more immediate and other things can be staged, but at the very least a backstop is needed: this annual statement of 'We said we would deliver in the year, we have delivered in the year and this is what we are doing to improve it if we fail'. That sort of public accountable statement is an absolute backstop.

[48] **Eluned Parrott:** My question is regarding how you set targets for growth when growth in passenger numbers is incredibly difficult to predict. Changes in routes are very difficult to predict too, in terms of which will be needed in the future. Looking at a long franchise length of, say, 15 years, would you prefer a sanction-based regime for failing to meet a generic across-the-board growth target or do you think that we ought to be looking at things such as incentives and rewards for accommodating spikes and anticipating growth in the franchise?

[49] **Mr Hewitson:** I think that you have to have some of the latter. You have to either have some flexibility built in or you can have break points within the franchise—you can review the targets to see whether they are still fit for purpose. You can look at demand as well. If there is a new development being built somewhere and you then get a spike there, you have to have some means of going back and changing things to reflect reality, rather than having targets that were the best guess 10 years ago.

[50] **Mr Beer:** That is key to getting people talking together. Where there are those developments happening, for example with enterprise zones, it is key that transport is being planned into those, and that you have that knowledge and those data coming through so that those plans can be updated. Things like rolling stock need to be planned far in advance so that when the capacity is needed, it has to be brought through. It is like building schools for population bubbles; it is the same thing.

[51] **Alun Ffred Jones:** Byddaf yn gofyn y cwestiynau yn Gymraeg. A oes gennych unrhyw farn am hyd y fasnachfrait nesaf? A ddylem ni fynd am un hir neu un byr?

Alun Ffred Jones: I will ask my questions in Welsh. Do you have any opinion on the length of the next franchise? Should we go for a short or a long franchise?

[52] **Mr Beer:** In terms of the length of the franchise, passengers are less worried about how long it is going to be as long as it is being delivered and that it is delivered for what they need in terms of their satisfaction. However, in terms of attracting somebody to actually run it, that stability would come with length and there would be that incentive for investment coming with length as well. However, again, it needs to be flexible so that if the length is not right it can be extended or shortened if needs be. The one that is there at the moment of about 15 years feels about right. If that can attract people to run it, I think that should be a useful model for the future.

[53] **Mr Hewitson:** One of the areas of instability is to do with staff. Constantly having your employer changed every five years creates that uncertainty, and that does not always

lend itself to customer service. If you are happy in your job, you will show it a bit more to the customer. So, that is factored in, and that is one of the benefits of a longer franchise: it gives a bit more stability. However, you cannot lock it in stone. No-one can really forecast rail demand at the moment; it is all a best guess, as far as I can see.

[54] **Mr Rogers:** Given that the Labour Government here seems to be in favour of a not-for-dividend company, would it not be sensible to go for either an extension of the franchise, maybe on a concessionary basis, rather like what Virgin had, or a short franchise so that when it is sorted there can be what an increasing number of people in Wales see as a better way forward?

[55] **Alun Ffred Jones:** O ran **Alun Ffred Jones:** In terms of the disgwyliadau'r fasnachfaint, pa ganlyniadau expectations of the franchise, what key allweddol dylid eu pennu ar gyfer y outcomes should we look for from the new gwasanaeth yng nghytundeb y fasnachfaint franchise arrangements? newydd?

[56] **Mr Beer:** Something that reflects passenger priorities. We have already said that as far as we see it coming through, they are: punctuality, value for money, reliability, getting a seat and what happens when things go wrong. Putting measures around those, as the top priorities, would be useful.

[57] **Alun Ffred Jones:** Mr Rogers or Mr Mawdsley?

[58] **Mr Rogers:** I have to go back to this and ask, while Passenger Focus does a lot of good work and comes up with passenger opinion, why has it never asked passengers whether they would like a return to, if you like, a Welsh British Rail? According to a university body with no axe to grind, public opinion is in favour of it.

[59] **Mr Hewitson:** May I add to that?

[60] **Nick Ramsay:** Yes, go ahead.

[61] **Mr Hewitson:** In a recent piece of work to do with Northern Rail, we had discussions there in terms of the passenger transport executives trying to become the franchise body, and one of the responses from passengers was, 'I don't actually know what British Rail was. It was 15 years ago and I only started travelling 10 years ago'. So, some of them would find it difficult to have a frame of reference to begin with. Some of the older passengers would say, 'It wasn't all perfect, but some bits were good'. So, if you are going to ask about nationalisation, you have to be very clear about what you are going to offer by way of a service, so that they can compare that to the current service. Do not offer up ideologies; you should offer service patterns, timetables and numbers of carriages under one model and what you would get under another. Then, they have something on which to base a decision, rather than just politics.

[62] **Mr Mawdsley:** Esgusodwch fi os **Mr Mawdsley:** Forgive me if I answer in atebaf yn Saesneg. English.

[63] There is a real problem with the length of the franchise, because if it is a short one, there is no incentive whatsoever for the franchise holder to make any investments on their own account. On the other hand, if it is too long, it becomes incredibly difficult to try to work out what the parameters of the franchise should be and whether it has been successful. There are so many imponderable things—unknowns—down the line that it becomes virtually impossible. We have seen some of these convoluted franchise agreements that have been left with cap and collar effects, which try to find a solution to that problem, but I am not sure that

any of them have been entirely successful.

[64] Having said that, some of the long-term franchises have been very successful. I suppose that Chiltern is probably the obvious example, where they have spent quite a lot of their own money making enormous improvements to a service that was on its knees when it inherited it from BR in whenever that was—sometime in the 1990s.

[65] So, it is a problem and I suspect that that is actually one of the reasons why some form of not-for-profit company would be a better solution, because you do not have to grapple with some of those rather difficult problems.

[66] **Mick Antoniw:** That very nicely takes me into some of the things that I would like to explore a bit more such as precisely how do you envisage a not-for-profit company operating? No successful company can be not-for-profit; it has to make a profit. The question is what happens to the profit and how it is actually used. If you start making a loss, we are back to who picks up that loss.

[67] We have the example of Hyder, with water, which might be a great success story. Is that the sort of model that you are interested in and are you advocating a sort of model that has the capacity to raise its own funds and capital and so on?

[68] **Mr Rogers:** I have to say, I am no expert. I do not have a rail background. When we thought of this three or four years ago, we wanted to throw a pebble in the pond and make people start thinking. With time, it became obvious that, for example, in some of the submissions to this committee, there are at least three patterns if you like, and I quickly realised that it was better to call it 'not-for-dividend' rather than 'not-for-profit'. Stuart Cole, in his submission, listed three ways of going about it. For the sake of argument, when we drew up our plan we simply said that, rather like Northern Ireland and the Republic of Ireland—the best example we saw was that of the Republic of Ireland—there should be a vertically integrated not-for-dividend company owned by the Welsh Government, which would appoint the best possible people to run it at arm's length, but lay down what British Rail did not have, that is, complete cross-party political backing, adequate finance, and some kind of parameters for standards of service, reopening and integrated transport. In Wales, there are so many gaps in the rail network, or what is left of it, we should be considering long-distance bus services, as well as rail, as part of the overall pattern. It is rather sad what is happening with Arriva at the moment. We should be integrating Carmarthen northwards, and Afon Wen to the top and so on. I am open-minded on this. If we have a Government-owned, not-for-dividend, arm's-length, high-powered, efficient company that the nation can be proud of, which fulfils the criteria that the Government lays down, I am easy on it. It is a matter of getting rid of this tiresome, hideously expensive franchise system.

13:45

[69] **Mick Antoniw:** There are those who would say that unless you have an in-built profit incentive, no such company could possibly survive or succeed. You talk about efficiency and growth; you are also suggesting that there would be a possibility of new lines and so on. However, without a profit incentive, how do you see that operating?

[70] **Mr Rogers:** I do not know whether 'profit' is the right word to use, particularly in Wales, because I think that no country runs a completely profitable railway. I would rather use the words 'Government support' than the s-word because this is what it is: it is Government support for a vital tool of running the nation. InterCity, I gather, made a profit in the last days of British Rail, which was a brilliant BR initiative, as was the Derby research place; so, BR did get some things right despite Governments. I am losing track of what you were saying now.

[71] **Mick Antoniwi:** I suppose that that takes us to something else that I wanted to ask you about. One of the alternatives being proposed now is that it has to be a sort of private company franchise et cetera. Of course, on the basis that this is wholly dependent on substantial public subsidy, we are not really talking about independent enterprise motivated by the capacity to raise profits and so on.

[72] **Mr Rogers:** Yes. We could have a vertically integrated Government-owned rail company, and that would include the financial criteria, because I think that there is widespread agreement that the regulator spends an awful lot of money and time looking at Network Rail quotes and trying to find out why they should have been a lot cheaper. Let us think about the link between Newport and Ebbw Vale. We all know that Network Rail's quotes are weird. If you take out the fantastic amount of money that goes into franchises—you can look at the sums; they are available—plus ridiculous things like the fact that it was admitted that they had to use a lorry, as we say in our plan, to carry all the details from one place to submit it to the Government, you will how much money is wasted, plus the dividends, which go to the rolling stock operating companies, the Deutsche Bahn, which goes to the German Government. If all that stays in the industry, you are gaining millions of pounds. I am not saying that it will all suddenly become a great rainbow, but we are losing millions of pounds in the process of franchising.

[73] **Mick Antoniwi:** The current arrangements work on a profit of around 6%—

[74] **Nick Ramsay:** Could you please be brief now, Mick?

[75] **Mick Antoniwi:** Do the current franchise arrangements and finance available in the current situation actually prevent us from planning for growth?

[76] **Mr Rogers:** The rate of capital employed, I gather, is the way to look at it. If you think that the 22 train operating companies invest only £219 million, you will find that 2.8% on sales is a 121.6% return on capital. That is a figure from this study. If we remove all this nonsense and the Government controls the financing, it is transparent and you are in control.

[77] **Mick Antoniwi:** I wonder whether we might be able to have a copy of that study—
[Inaudible.]

[78] **Mr Rogers:** I am e-mailing this to your secretariat because it was an eye-opener to me. It is the Centre for Research on Socio-Cultural Change university objective study.

[79] **Nick Ramsay:** I was intrigued by your comments about a new system having total cross-party support. In my experience, it is difficult to get two parties to agree on everything, let alone three or four. That is another story, however. Eluned Parrott, you are next, briefly, and then I want to bring in Joyce Watson.

[80] **Eluned Parrott:** This is for Railfuture. Neither the current Wales and borders franchise nor Network Rail's Wales region is entirely in Wales. In fact, significant chunks of England are served by these areas. How would a vertically integrated company owned by the Welsh Government be answerable to people in Gloucestershire, Herefordshire, Shropshire and Cheshire who are solely served by these franchises?

[81] **Mr Rogers:** I would perhaps use Railfuture as an example. In drawing up development plan No. 4 for Wales, we liaise with our sister branches in those counties that you have just mentioned. For the Marches line, for example, we simply sit around a table and we agree that, if we are improving the services on that line, they are happy with improvement, and they suggest what kind of improvement is needed. It is the same on the continent, where

most of us who have travelled by rail will cross borders on a long journey. It is simply a question of sitting around the table and liaising and hammering it out.

[82] **Eluned Parrott:** But it is also a question of governance and accountability, is it not, which would be lacking for those passengers in England?

[83] **Mr Rogers:** I do not see that that is a reason not to do it or that it is an insuperable problem.

[84] **Eluned Parrott:** Okay; thank you.

[85] **Joyce Watson:** Good afternoon. I am going to ask Railfuture about routes and infrastructure. Do you think that the route network that is currently included within the franchise area is appropriate? If you do not think that it is, what key additions would you like to see, and why would you like to see them?

[86] **Mr Mawdsley:** May I answer that speaking from a north Wales perspective? I regret that I am not as familiar with the network down in this part of the country. However, the key requirements for transport in north Wales are to be able to get to the big, commercial centres. Whether you like it or not, some of the big commercial centres that we have to respond to are Chester, Liverpool and Manchester. As far as Chester is concerned, that is generally fine, but getting to Liverpool and Manchester is less easy. I am not suggesting necessarily that the infrastructure needs to be within the franchise, but the services that are operated certainly need to extend to places like Liverpool and Manchester. We have the ridiculous situation at the moment that Arriva Trains Wales has planned its timetable for the trains from Llandudno to Manchester to have sufficient layover time at Manchester to go through to Manchester Airport, but they are not allowed to do so, apart from three in the middle of the night, as I think it is.

[87] Equally, the other big area, Liverpool, is not really very accessible from north Wales. It is certainly possible to change at Chester and take the electric service to Liverpool—that is fine. However, it does not go to Liverpool airport. There is the Halton curve, which may mean something. It is a short link line of less than a mile, I think, that links the main line from Chester to Manchester to the line from Crewe to Liverpool. It is still there, but it is only used once a week. Providing a proper service over that line would enable people from the north Wales coast and from the Shrewsbury-Chester line to access Liverpool and Liverpool airport, which is probably the primary holiday airport used by passengers from north Wales. So, there are many examples.

[88] At the west end of north Wales, there are two reopening schemes that have been on the cards for a long time and which do not seem to be making a great deal of progress, but I think that they should be pursued. One is the reopening of at least the first section of the Amlwch branch line as far as Llangefni, to provide access to Bangor and to connect with the services on the north Wales coast line. The other is the line from Bangor to Caernarfon. Caernarfon must be, I suspect, the biggest tourist trap in north Wales, and it is not accessible by rail, which is probably a sad statement of where we have got to. Those are the sorts of things that ought to be looked at and ought to be included in whatever arrangement is made going forward, whether it is a not-for-dividend company or a new franchise.

[89] **Joyce Watson:** I am certainly not getting into a debate about which is the strongest tourist attraction in north Wales, I can assure you right now. *[Laughter.]* Anyway, having said what you have said, you also briefly mentioned the effect of other franchises on what Wales wants to do, and gave an example of that. How do you think that the Welsh Government could seek to have influence over the other franchises?

[90] **Mr Mawdsley:** This is a matter that needs to be debated and sorted out. Just as a matter of history, the railroad companies themselves, prior to 1948, had no problem with this at all. You had companies that owned lines, owned their infrastructure, owned their trains, and they quite often ran those trains over other companies' lines by means of inter-company agreements. That sort of thing was perfectly normal then, and it should be perfectly possible to produce something similar for the future.

[91] **Mr Rogers:** May I just add to that very quickly? We envisage, even with our plan, that First Great Western, for example, might still be running trains from Paddington to Swansea or Milford, but perhaps paying a track access charge to Welsh rail.

[92] **Joyce Watson:** As somebody who lives in Pembrokeshire, perhaps I had better not pass too much comment on that. I used to catch that train. You have identified some infrastructure enhancements. Are those the key infrastructure enhancements that you think ought to be prioritised to increase passenger numbers, or to improve the utility and performance of the rail service post-2018?

[93] **Mr Mawdsley:** I think that the Railfuture development plan—a draft of which has been sent to your secretariat—does set out a whole range of options of improvements that could be made, both to infrastructure and to services. I do not want to dwell on individual ones now, but certainly there is scope for considerable improvement on where we are at the moment.

[94] **Nick Ramsay:** We have three minutes left, so I ask Members and witnesses to be succinct. Alun Ffred Jones is next.

[95] **Alun Ffred Jones:** Mae gennyf gwestiwn ynglyn â'r stoc a cherbydau. Yn amlwg, byddai pawb eisiau gweld *rolling stock* mwy cyfoes ac mwy addas, ond beth ddylem ei wneud ynglŷn â'r fasnachfaint newydd? A ddylid mynd ar ôl trenau trydan newydd o'r dechrau, gan obeithio y bydd trydaneiddio yn digwydd, neu, gan fod pum mlynedd neu beth bynnag yw e nes inni gael y trenau newydd, beth ddylai'r strategaeth fod ynglŷn â stoc newydd? A ddylem aros fel yr ydym am y tro?

Alun Ffred Jones: I have a question on the rolling stock. Clearly, everyone would want to see more modern and appropriate rolling stock, but what should we do about the new franchise? Should we actually seek new electric trains from the very outset, hoping that electrification will take place, or, as it is to be five years until we get these new trains, what should the strategy be in terms of new rolling stock? Should we remain as we are for the time being?

[96] **Mr Hewitson:** From my perspective, you get the biggest impact on passengers if you do the infrastructure and the trains at the same time. You can have the wow factor then. Not only is it a more reliable service, and a slightly faster service, but there is a brand new train as well. You will see customer satisfaction almost go vertically up the graph—you will get that much of a passenger dividend for your investment. If you phase it in, you will see improvements, but it is more gradual. Obviously cost is an issue, but if you are going to replace the trains after five or 10 years, if it can be done immediately, you will get a bigger bang for your buck, so to speak.

[97] **Alun Ffred Jones:** That means diesel trains for the time being.

[98] **Mr Hewitson:** Well, you try to coincide as best you can, obviously, the electrification with the new trains. I know that is easier said than done sometimes with the railway, but I think that having the whole package is the aim. How you go about that and how feasible it is is another question, but I think in terms of coinciding the infrastructure and the train, there is the big dividend for passengers. That is where you will get the most recognition.

[99] **Mr Beer:** Also, it is incumbent on the network to have all trains accessible by 2020 to comply with disability discrimination legislation. That is at the very start of the franchise, so there is a need for those diesel trains that are not accessible at the moment to be accessible by that point. That is talking about quite a large proportion of the fleet, and if you are looking at a considerable franchise length you have to look at the lifetime of that particular fleet. It is not just about whether you have trains being cascaded that will provide electrified services, but about the meantime between failures and, if that rolling stock has been in use elsewhere for some considerable time, then that might be towards the end of its useful life, the spare parts might not be available and refurbishment costs for those trains might—

14:00

[100] **Nick Ramsay:** Okay, David, you have made that point very well. I will stop you there because I want Rhun ap Iorwerth to have the last word—if you still want to ask your question, Rhun.

[101] **Rhun ap Iorwerth:** On the relationship, once again, between Network Rail and the franchise owner, I know Railfuture's position on vertical integration, but what is Passenger Focus's position on vertical integration?

[102] **Mr Hewitson:** It does not, necessarily, have the ownership. The south-west trains network has what it calls 'a deep alliance' with a single MD, which seems to be having some impact with regard to getting the engineers to talk to the train planners, and such. So, it is doable without that ownership element, but the closer they work together, the better, without any doubt at all.

[103] **Rhun ap Iorwerth:** My second question was going to be whether a deep alliance works, and you have answered that. So, I will just ask whether there is a halfway house between where we are now and the perfect vertical integration?

[104] **Mr Rogers:** It is better than not having it. The Republic of Ireland just continued its rail operations as they had been and satisfied Europe by having separate accounting. They told me, because I phoned them to ask, that that is all that Europe wanted: separate accounting for the trains and the track and infrastructure.

[105] **Rhun ap Iorwerth:** So, perfect integration is what Railfuture wants and Passenger Focus thinks that some sort of integration would be useful.

[106] **Mr Hewitson:** It is better than disintegration, yes.

[107] **Mr Mawdsley:** The further it goes, the better.

[108] **Nick Ramsay:** Thank you; the fact that integration is better than disintegration shall certainly go into the report. On that note, I thank our witnesses from Passenger Focus and Railfuture for being with us today. It has been most helpful. I particularly thank Railfuture as I always like a reference to Wales pre-1948 as it helps to get some of the current issues in focus.

14:03

Ymchwiliad i Ddyfodol Masnachfaint Rheilffordd Cymru a'r Gororau: Trenau Arriva Cymru a Chymdeithas y Cwmnïau Gweithredu Trenau (Sesiwn Dystiolaeth Panel)

Inquiry into the Future of the Wales and Borders Rail Franchise: Arriva Trains Wales and Association of Train Operating Companies (Panel Evidence Session)

[109] **Nick Ramsay:** I welcome our new witnesses. Thank you for your written evidence. As you know, as I believe that you were in the gallery, we are pursuing our inquiry into the future of the Wales and borders rail franchise. Would you like to give your names and titles for the Record of Proceedings, please?

[110] **Mr Davies:** I am Richard Davies, the head of policy and planning for the Association of Train Operating Companies.

[111] **Mr Bullock:** I am Ian Bullock, the managing director of Arriva Trains Wales.

[112] **Mr Bagshaw:** I am Mike Bagshaw, the commercial director of Arriva Trains Wales.

[113] **Nick Ramsay:** Great. Thank you for being with us this afternoon. We have a number of questions for you. The first is from Alun Ffred Jones.

[114] **Alun Ffred Jones:** Gan edrych yn ôl ar y fasnachfaint bresennol, beth oedd y prif wendidau yn y broses yn arwain i fyny at honno yn 2003? **Alun Ffred Jones:** Looking back at the current franchise, what were the main weaknesses in the process leading up to that in 2003?

[115] **Nick Ramsay:** Who wants to take that question?

[116] **Mr Bullock:** Shall I start? I was not personally involved in the franchise back in 2003, but I would observe that, certainly from our perspective and having operated the franchise for the last 10 years, there was an apparent lack of involvement in the Assembly in setting the requirements for that franchise. So, it does not seem to us that the Assembly's aspirations were necessarily part of that franchising process back in 2003.

[117] **Mr Davies:** Having been involved in the original letting when I was part of the Strategic Rail Authority, the other big thing, looking back on it, was the way in which the franchise was not set up to handle growth. It was done at a time when budgets were incredibly limited, so the option of increasing rolling stock size and some of the things that Arriva has done subsequently was not anticipated. It has had to be substantially redone over the time of this franchise, as has the northern franchise, which was done at about the same time and which had many of the same issues.

[118] **Mr Bullock:** The other point is the lack of capital investment that was required. Many franchises were let with new trains, investment in stations, et cetera. The current franchise was let with a capital requirement of spending £400,000 on five car parks over a 15-year term. So, very minimal investment in the franchise was planned, and, as Richard said, the growth was not an aspect that was catered for either.

[119] **Alun Ffred Jones:** O edrych ymlaen at y fasnachfaint nesaf, sut y dylid cynnwys barn a sylwadau rhanddeiliaid, yn arbennig teithwyr, wrth arwain i fyny at y penderfyniad? **Alun Ffred Jones:** Looking forward to the next franchise, how should the opinion and comments of stakeholders, particularly passengers, be included in the run-up to the decision on that?

[120] **Mr Bullock:** I listened to the Passenger Focus representatives earlier, and I think that they made some very good points about the work that it has done with the northern franchise in getting passenger opinion right at the start. This committee is happening at the right time, because it is far enough ahead for us to build those consultation processes with passengers into the process. So, I think that it is very timely that we are having those thoughts now.

[121] **Alun Ffred Jones:** Do you have sufficient interaction with passengers?

[122] **Mr Bullock:** For now, yes. If you were to ask what the three priority areas were for looking at a future franchise, the first of the three areas that come across to us most in correspondence is the rolling stock. There are two issues with the rolling stock. One tends to be the quality and age of the rolling stock, and the second is the amount of rolling stock so that we can adequately cater not only for growth over the next five years, but for a future franchise. The other small aspect is to cater for things such as special events at the stadium, where, at the moment, we are very stretched. We have every train that we have out for a RBS 6 Nations event; there are no more trains.

[123] The second area that comes up regularly is stations, including areas such as station facilities and accessibility. We have a network where only about half of the stations are fully accessible. So, that is an area that comes up a lot in the correspondence that we receive.

[124] The final area—the third point—is around the train service, or the train plan. We get a lot of correspondence asking for the system to do more. That is quite difficult, because it relates back again to the rolling stock and to the costs and affordability of the franchise.

[125] **Alun Ffred Jones:** You mentioned that the Government of Wales should have a greater role to play in setting the future franchise. You obviously have interaction with the Government at the moment. Does the Government have sufficient expertise in Wales?

[126] **Mr Bullock:** In terms of the management of our franchise at the moment, yes, it does. We have effective working relationships with the officials, and we have regular contact with them. I think that a consideration for the committee should be about the outputs the committee and the Assembly want from a future rail franchise. To a degree, that will set the governance and administration arrangements that need to be put in place. As we heard from previous witnesses, if there is a not-for-dividend or gross-cost contract-type arrangement, that implies far more administration and management by the Assembly. If it is more of a net cost, where the operator takes the risks and does the planning, that requires less administration and less risk.

[127] **Rhun ap Iorwerth:** We are trying to learn lessons, of course, and they are about outcomes. Going back to 2003, do you think that the bosses of Arriva Trains Wales at the time would not have believed their luck that they had got this contract that was going to have no requirement for growth in it, in that it was an ideal position for the company to be in?

[128] **Mr Bullock:** I am sure they were pleased to win it, but in terms of no planning for growth, that is not a particularly good place to be because—

[129] **Rhun ap Iorwerth:** Not a good place for Arriva.

[130] **Mr Bullock:** I am talking about now, because what we have seen is the 60% growth, and what Richard was describing earlier was that the assumption in 2003 was that there would not be any growth. That was the given assumption. We have now seen tremendous growth, which is great, and we have seen more and more people using the railway. So, we will probably carry 30 million people by the end of this year, from 18 million when it started. However, that then poses problems and causes the issues now about how you accommodate

that growth. There are no more diesel trains for hire and there probably will not be until the electrification cascades start in 2017. So, certainly, my colleague, Mike, spends a lot of time with the train planners trying to work harder with what we have got, with the appreciation that we are not going to get any more rolling stock.

[131] **Mr Bagshaw:** Just to reiterate that point, we are carrying a lot more passengers now than the franchise ever envisaged. We have broadly the same number of fleet, but we are doing a lot to work the trains harder and we are changing the maintenance regimes and the timetables so that we can get more capacity. Last year, we delivered an additional 0.5 million seats a year just by sweating our assets and getting more out of the trains that we have. So, we are working very hard with the resources that we have available, but clearly, with the level of growth that we are seeing, which is likely to continue during the current franchise and beyond, we need to think long term and about the rolling stock strategy and making sure that we enough capacity for that growth.

[132] **Rhun ap Iorwerth:** My suggestion is that the growth happened in spite of Arriva Trains Wales rather than because of Arriva Trains Wales, in that there has been a general growth in rail use—

[133] **Mr Bagshaw:** Not necessarily. We have invested in things like the yield management system, which has enabled to bring in lower cost fares, airline-style pricing. We have also invested in marketing and in other aspects of the franchise. Those things have contributed to passenger demand, as well as the external factors, such as rising fuel cost and some of the other issues that are encouraging more people to travel by train.

[134] **Mr Bullock:** We have invested something like £30 million onto that initial requirement of £400,000. That has been done on the basis of growing and developing the business. So, for example, by the end of this year, we will have 120 ticket machines. That means that people can buy tickets easily, so it is not a difficult process for them to use the services that we have. We have worked very hard with Welsh Government on the station infrastructure and developing that, and we have seen some tremendous improvements in the station stock that we have. In our evidence, we reference Swansea station for instance. The investment and the work there has transformed the passenger experience. Passenger Focus, which independently monitors passenger satisfaction, has seen Swansea go from 50% satisfaction to 93%. That must help in terms of people wanting to use the system because there are good facilities.

[135] The other area that we have worked very hard at is the punctuality and reliability of the system. We now have a pretty reliable system in Wales. I would not say to this committee that there are never going to be problems or we will never have a broken-down train, but we are now the fifth best punctual railway in the UK. If you look at things like the right-time measure, we are second best in the UK. Those factors also help to drive passenger growth, because it has become a reliable means of transport—a means for getting to work, a means for business and a means for leisure.

14:15

[136] **Nick Ramsay:** Ian, I am going to stop you there, because we need to make some progress—I can see that the clock is ticking. Mick Antoniw, did you have any questions?

[137] **Mick Antoniw:** Is not the problem with the franchise system that we have inherited that it effectively stifles growth and is incapable of accommodating growth, because it is dependent on the amount of money that is available for the franchise?

[138] **Mr Davies:** From an ATOC perspective—we referred to it in our evidence—we have

recently published some research on the value of the franchising system in a growth and prosperity report. We have looked at the experience of coming up for 15 years of franchising in its various colours and flavours. We are finding that the growth that has come through has been very substantial right across the piece, not just here in Wales. That has helped to support the development of the rest of the network. We have increased the number of train services nationally by about 20% compared with prior to privatisation. About half of the trains in use out there are new—a lot of the British Rail trains have gone—while almost all of the rest have been extensively refurbished. We have changed the way that passenger information is handled—there is a lot more information available—and we have made tickets easier to buy. There is an awful lot that we have done to promote growth, because with the franchising model it is in our interest to do so.

[139] **Mick Antoniw:** Do you talk about growth in terms of encouraging more passengers or growth in terms of expansion of the network—looking at new lines and new rolling stock?

[140] **Mr Davies:** It is primarily in terms of journeys made and passenger miles. There has also been growth in terms of new services, new stations and station reopening—Warwick Parkway is probably the best-known example, which was entirely promoted by Chiltern Railways to create a parkway station to feed the Chiltern service into London. Our experience is that people under a franchise contract have good commercial incentives to provide the services that passengers want. They go out there to find out what passengers want and find ways of delivering it; in that case, it was better access to the railway and better car parking, hence the parkway station. Passenger information and ticketing are other examples of this. We think that the franchising model has actually been very powerful. Clearly, economic growth has played a role in the big increase in demand—we have seen about a 70% increase in journeys since privatisation. However, it does not explain all of it by any means.

[141] **Mick Antoniw:** Is that your view at Arriva Trains Wales as well?

[142] **Mr Bullock:** I think that Richard has covered it very well. All that I would add is that, when we are thinking about a future franchise, which is exactly the premise of your question, we need to plan for that growth. We need to start thinking about it now and ensure that any future franchise model can accommodate that growth so that it does not stifle it.

[143] **Mick Antoniw:** We have to look at models and make recommendations on considerations that the Welsh Government will ultimately proceed with in a particular way. There is a question on particular skills that I would like to ask you. However, in respect of the other models, one model that sounds attractive is the Hyder-type model—an arm's-length company that has a clear set of criteria as to what its role is and it can raise its own funds as well. What are the advantages and disadvantages of that as a model, as you see them?

[144] **Mr Davies:** There is clearly a very active debate about models taking place, particularly over the last few weeks of the party conference season, so this is very topical. I think that the thing to bear in mind with those kinds of models is really twofold. First, how can you organise a practical procurement process that is fair to all parties, once there is effectively a state-backed bidder of some kind? The question is whether other bidders will put their best foot forward in such a circumstance. The committee may be aware that the Tyne and Wear metro is now operated on a concession arrangement, and there was an in-house management bidder for that, which was an incredibly complicated thing to set up and a very challenging thing to do. I think that the other area to bear in mind with these kinds of models is the value of getting lots of different people to look at what is possible in the case of Wales's network. Having been around this for goodness knows how many years, that is the biggest ultimate value added: that you have a bidding system, a tendering system. You get people with tons of experience in railways, you sometimes get people with tons of experience in other sectors as well, to come in to look what could be done. It does not necessarily have to

follow the well-established patterns of, 'This is the way we've always done things'. We can market the services differently. We can propose different train plans and different types of trains. That is the kind of area that is important to think about in the franchise. It is about getting new people in and we have successfully done that. We have the franchise owner group, which has support from BR people, people from the banking finance sector, people from airlines and hotels right across the piece, as management.

[145] **Mr Bullock:** Another way of looking at this might be to look at it from the other end of the telescope and ask what outputs we want from the future franchise, and then to look at the best model that delivers those outputs at a level of affordability that the Government is prepared to pay. It should start from the premise of, 'This is what we want the rail system in Wales to do, so this is the better model'.

[146] **Nick Ramsay:** You have just unwittingly rolled into my next question.

[147] **Mick Antoniwi:** I am sorry, Chair, I have one more after that.

[148] **Nick Ramsay:** I just want to ask Arriva Trains Wales a question, and I will bring you back in then, if you want, Mick.

[149] In the formation of a new franchise, how are you engaging with stakeholders, particularly passengers, to see what they have not found helpful with the existing franchise, which could be improved and how you are relating to passengers' concerns in doing that?

[150] **Keith Davies:** If I could add to that, Chair, I have a question on the key service outputs from the franchise. What do you think are the key service outputs?

[151] **Nick Ramsay:** I think that Mick has something to add as well. This is a new way of questioning witnesses. *[Laughter.]* If you could focus on the initial question first.

[152] **Mr Bullock:** What we see most in our postbag, coming up the passengers' agenda, is overcrowding and its management. When the franchise first started, that certainly was not an issue on anybody's agenda. It is now right up there at the top of our postbag—managing that capacity issue. We have a lot of passenger data, which we are very happy to share with the committee, so that you can see what passengers are saying when you deliberate what they are saying to Arriva Trains Wales. That is the one that I would pick as being a key issue that has risen up the agenda.

[153] **Keith Davies:** We had that in the group we had before lunch. They were talking about the Fishguard to Manchester line. There are just two carriages—I can vouch for that, because I sometimes jump on it in Cardiff—even though it is heavily used. Arguments put forward by colleagues earlier were that, if you have long train journeys like that, you have to make sure that you have carriages that can accommodate all those passengers.

[154] **Mr Bullock:** Mike does this as a day job; do you want to briefly touch on how you try to do that?

[155] **Mr Bagshaw:** We monitor passenger loadings regularly. The rail network in Wales is very seasonal as well, so when the sun comes out, certain routes become incredibly popular. We might see 10 times as many passengers, for example, in west Wales on a sunny day than we would in winter. Planning the stock and getting it in the right place is difficult. The route that you mentioned from Fishguard right through to Manchester is one of our busiest routes. We have recently increased the capacity on that line. We are trying to run as many three-car trains as we can on that route and limit the number of two cars, but we are constrained by the fleet. We will be making a further improvement in December, as we have identified another

way to make one of the busiest trains longer. We are doing what we can. We also use pricing as a way of balancing demand. We offer very cheap fares on some of our quieter trains so that people who are a bit more flexible on time can travel on those trains and relieve crowding from some of the busier ones. We are actively doing that. We have somebody in our office, full time, monitoring loadings and looking at where we offer the cheapest fares to try to balance those loadings. My planning team are regularly looking at how we can juggle the fleet to make sure that we are putting the right capacity where we need it.

[156] **Nick Ramsay:** Mike, what do you make of Passenger Focus's suggestion that passengers should have a role in monitoring the franchise delivery?

[157] **Mr Bagshaw:** Certainly, passenger feedback is essential. We already get passenger feedback in a number of ways from the various surveys that Passenger Focus carry out. We also review the letters that we get from customers. So, when there is a complaint about overcrowding, we will look at it to see if there is anything that we can do about it. We are already measuring customer feedback in that way. Any new franchise has to have a strong mechanism for ensuring that passengers' views are at the forefront of everything that the train operator does.

[158] **Mick Antoniw:** My final point is this: we have seen some absolute disasters in procurement within the franchising processes up until now, which we are all aware of. It is an incredibly complex and specialist area. I would like your comments on two points. First, do we, within the Welsh Government, have sufficient skills to handle that process? Secondly, do you understand the process in terms of who is going to be taking the decisions? I have great difficulty in understanding where the legal or statutory responsibilities lie or are being divided and who is going to decide what, where and so on. If you understand that, perhaps you could enlighten us as to what the situation is.

[159] **Keith Davies:** As well as who is going to pay.

[160] **Mr Bullock:** That is a very good question. I can only speak from my understanding of the current process. Currently, there are cosignatories to the franchise between the Welsh Government and the Department for Transport. What happens next is around devolution and whether the powers for the rail franchise are devolved fully to the Assembly. Assuming that that happens, to answer your second question, my understanding is that the Welsh Government and the Assembly will be making the decision on the future franchise. That is my understanding from where I sit.

[161] **Mick Antoniw:** And if it does not happen?

[162] **Mr Bullock:** Is that if devolution does not happen? I guess that the status quo would apply, but I am not a lawyer.

[163] **Mr Davies:** There are a variety of ways of doing this and a variety of methods have been used in the past. The ScotRail franchise—I cannot remember if it was the current or previous franchise—was let just before devolution. It was run on the basis that the proto-organisation, which became Transport Scotland, in practice, did all the management of the procurement process, even though the legal powers to do so stayed in London. That is another way of doing it if, for whatever reason, the parties cannot quite sort it out.

[164] **Nick Ramsay:** I want to chip in on Mick's question about whether the devolution will happen. Is that uncertainty causing you a problem or are you quite happy to work with whatever happens in terms of the devolution of the franchise?

[165] **Mr Bullock:** It is not causing us any problems at all.

[166] **Nick Ramsay:** Okay, I just wanted that on the record.

[167] **Mr Bullock:** Assuming that it is devolved, it is then about the level of risk that the Welsh Government wants to take on. For example, in Scotland, which I know Richard is familiar with, they have taken on the risks in terms of Network Rail, the asset base and the liabilities that come with that asset base. So, that might be a consideration. Then, we come back to the contractual model about what level of risk the Welsh Government wants to take on. Does it want to take the risk that the revenue does not behave as everybody hopes it does? It is about a risk transfer, really.

[168] **Mr Davies:** It is probably worth adding that we work with a lot of the devolved administrations and Governments on a whole variety of models. We have certainly had quite an active debate in Scotland on how the future ScotRail franchise might be structured. The system that Transport Scotland has eventually gone for is very similar to the classic franchise model. They have looked at the not-for-profit alternatives and so on, but, on balance, they have come down for something that is pretty similar to the current system. However, it is adapted around the particular quality requirements and so on that they are seeking going forward, and to get the most out of the investment projects that they are putting in, particularly electrification.

[169] **Mick Antoniw:** What about the skills point that I raised with regard to Welsh Government and so on? Are you confident that the level of expertise is there now?

14:30

[170] **Mr Bullock:** I think it goes back to the previous answer, which is: what type of authority does the Assembly want to be? What level of risk and planning do you want to take on? That will determine what levels of skills you need. I was talking informally to a member of Transport Scotland, and it has a team of 80 people, but it does a lot of the planning and very much looks at the social aspects and does a lot of active planning work. So, it has a very big team. It is horses for courses, really.

[171] **Nick Ramsay:** We need to move on now, because we are into the last 15 minutes of this session. Joyce Watson is next.

[172] **Joyce Watson:** I have a question on routes and infrastructure. Arriva, you mention the importance of cross-border routes being recognised in the new franchise. Can you give the reasons for that?

[173] **Mr Bullock:** Yes. When you look at the current Wales and borders map, very simplistically—and I am simplifying—the routes within Wales do not cover their operational cost. When we go cross border and into England, those routes do cover their costs, and, in fact, contribute a little to the cost of the franchise. So, our advice to the committee would be that it is important to keep those routes, not only from a financial aspect, but also because it is a key customer flow. That east-west flow is what we see as the key customer flow when we transport passengers. I heard one of the previous people giving evidence saying that it was north to south. Well, that is not what we see. The key passenger flows are east to west and west to east. I offer my advice to the committee that it is important to keep those English flows, not only for the economics, but for the passenger. They do not want to have to change trains at the border. I do not think that we want a kind of border control at Shrewsbury or something if the passenger wants to go to Birmingham.

[174] **Joyce Watson:** I am glad that you do not want border controls, I have to say. Moving on, I have a question that both of you might like to answer. How are the Wales and borders

route network and service levels affected by other franchises and how can the Welsh Government seek to influence the authorities and the franchise operators? Clearly, one impacts on the other, and, if you were listening, you heard an example of that.

[175] **Mr Davies:** Just to amplify the point that Ian just made, the future Wales and borders franchise clearly needs to be planned alongside the next stage of the Great Western franchise and the future Virgin trains franchise for the north Wales coast routes, and both of those will be done by the Department for Transport in London. So, setting aside, as it were, the national politics of it all, I think, in practice, that it is essential that there is pretty good co-operation between the two, because, as Ian says, you cannot really pull the Welsh network out, and it certainly has a key role in providing the inter-city service and commuter capacity into Cardiff, for example. So, they all have to go together. There are also quite significant investment plans, such as electrification and IEP, which are being planned on a cross-border basis.

[176] **Mr Bagshaw:** It is also worth mentioning that there are some big changes planned in the Manchester area as part of the northern hub project, which could significantly impact on cross-border services in north Wales. It is particularly important that the Welsh Government is involved in those discussions and represents the views of cross-border passengers travelling from north Wales to Manchester.

[177] **Joyce Watson:** Is it likely that it will be involved?

[178] **Mr Bagshaw:** We very much hope so. We have certainly been involved in the discussions. We have a strong interest in our passengers that are travelling to Manchester and the connections into England. I think it is important, looking beyond, into the next franchise, that those discussions continue to ensure that cross-border services are protected and enhanced and that any re-writing of the services around Manchester takes into account the importance of those flows.

[179] **Nick Ramsay:** Before you come back in, Joyce, I think Rhun wanted to come in on a burning issue about east-west routes versus north-south routes.

[180] **Rhun ap Iorwerth:** Yes. I apologise for being a burden on your network in that I want to travel from north to south Wales and do not make you any money, but do you think that there should be a requirement in the next franchise for whoever gets the franchise to expand and grow north-south demand by, for example, putting on trains that are suitable for travelling from one end of the country to the other, rather than forcing people to travel from one end to the other on trains that are basically only suitable for very short journeys, like going five hours without a cup of coffee, you know? That kind of level.

[181] **Mr Bagshaw:** Although the north-south market is a relatively small one compared to some of the others, it is one that has grown and one that we have developed in partnership with the Welsh Government. We have worked hard to reduce journey times. There has been an announcement today on some further track doubling between Wrexham and Chester, which will enable us to look at the opportunity to see whether we can reduce journey times further. From this December, we are looking at retiming our premier service between north and south Wales to make sure that it is at a more convenient time for business people travelling back to north Wales. So, we are working hard on that flow, as well, and it is an important aspect of the next franchise, even though the passenger numbers might not be as great as on some of the east-west flows.

[182] **Nick Ramsay:** Thanks, Rhun. Joyce Watson, had you finished?

[183] **Joyce Watson:** I have one last question to Arriva Trains Wales. Can you see a need for any additional infrastructure? This is something that people talk to us about all of the time.

They see it; do you see it?

[184] **Mr Bagshaw:** The answer is ‘yes’. We have seen some improvements in the infrastructure, for example, the track doubling through Gowerton has enabled us to put more services at that station and improve the service to west Wales. The announcement about the track doubling between Wrexham and Chester will enable us to improve the service, but there are many other constraints on the network. There are places where we could improve the timetable if the track and the signalling were better. We work very closely with Network Rail to look at all of the re-signalling schemes that are coming up to make sure that they take into account what the likely future demand for services is going to be. There are some big re-signalling projects going forward. However, the answer is ‘yes’, we need to look at improving the infrastructure to encourage further growth and ensure that the rail network delivers what we would like it to.

[185] **Mr Bullock:** Chair, may I just pick up on a point? I think Rhun made a very good point about rolling stock and its suitability. When the committee is thinking about post the next franchise, you cannot divorce this from electrification and the cascade that that might lead to in terms of diesel fleet. So, absolutely, to address your point, electrification and planning future rolling stock are things that we need to think about together. Ensuring the suitability of the vehicles for long distances and making sure that we have the right number of vehicles is really important.

[186] **Nick Ramsay:** You very diplomatically answered Rhun’s north-south versus east-west question. Could we move on to Eluned Parrott now?

[187] **Eluned Parrott:** Which question are you expecting me to ask?

[188] **Nick Ramsay:** I thought that you wanted to ask about alternative management models.

[189] **Eluned Parrott:** Okay. I want to look at the idea—obviously you heard Railfuture talking earlier—of the benefits that could be gained from a not-for-dividend model and also the idea of a vertically integrated model for rail in Wales. If I could take that second aspect first, what do you think could be gained by vertical integration and what are the barriers that prevent that from being practicable?

[190] **Mr Davies:** Vertical integration is a debate that has bubbled up and down over the last few years. You are probably aware of the McNulty review, commissioned by the Department for Transport, which looked at some of the aspects of this.

[191] Creating a single large company that deals with infrastructure and the train operations is, in many ways, appealing on the surface, but bear in mind that this would be a very major company. The experience that McNulty got was that the business of maintaining and renewing the infrastructure is substantially an engineering and operational task, whereas the task of the train operation side of it—commercialising it and making the interface with passengers work and work better—is perhaps a rather different business. Perhaps the synergies were not so strict and clear—

[192] **Alun Ffred Jones:** May I interrupt you? The things that, perhaps, are stopping the development of some services are precisely such things as signalling, track conditions and so on, so it would seem that there is a very close link between them.

[193] **Mr Davies:** There is a close link between them. They are rather distinct businesses in business terms, but there needs to be very close articulation between them, and perhaps one of the main learning points of the privatised railway has been the need to keep those kinds of

links going. So, we have a very active process for developing future investment projects for dialogue with Network Rail at all different levels—on signalling, track layouts and so on. Also, an activity that is now in many parts of the country are alliances of various kinds, where Network Rail and the train operators are working closely together locally in ways that best suit their own circumstances to address the co-ordination issues that, perhaps, the privatised structure left us with. There are several different ways that that could be done. The best-known example is the south-west alliance for services out of Waterloo—there is a very close degree of integration between them—but there are also many other options; there are options that are being looked at in Wales, and also in Scotland.

[194] **Mr Bullock:** Just to add quickly to that, in terms of our relationship with Network Rail, it certainly has transformed since the devolved route was set up in Wales. The route managing director and I have almost daily contact, and we have a written agreement about how we are going to take those work streams forward. We now have nine work streams on which we are working with the senior level in terms of how we can get better value out of rail in Wales.

[195] **Eluned Parrott:** Looking at the differences between different kinds of models of management for the train operators themselves, clearly, you are running a franchise, so you are going to be a fan of the franchise model, at least to the point where you actually bought into one. However, what, do you think, are the benefits of a franchise over, for example, a not-for-dividend operation, or, alternatively, over a concession-based kind of management structure?

[196] **Mr Bullock:** Certainly, looking at the current franchise, there are clear targets for us to achieve, both in terms of performance and customer satisfaction. For us, the profit motive is our reward for that risk that we take, both in terms of operational risk, with the passenger revenue et cetera, and in terms of the investment that we make into the business. I think that it is a powerful motivator for the management team. I think that it makes us more efficient; we spend time, for example, looking at efficient procurement, and making sure that we procure things as efficiently as possible. It is not something that is given to you. It is not that you are given a cheque on a plate. As a management team you have to earn that, and there are various levers that we have already talked about in terms of growing revenue and improving customer satisfaction that lead to that. I am not sure that the not-for-dividend model will have that. I will just reiterate the point that I made earlier, which is that I would start from the other end of the telescope and ask, 'What outputs do you want the rail system in Wales to deliver?', and then think about the types of contractual model and see which best fits, and also, importantly, which model the Assembly can afford.

[197] **Eluned Parrott:** I agree with you absolutely on that point, that it is the outputs that are the important part in terms of the franchising. That is my personal opinion, but—

[198] **Nick Ramsay:** Could you please be brief, Eluned?

[199] **Eluned Parrott:** I will. However, the question remains. You talked about risk and the transfer of risk, and the affordability of the franchise in the long term, not just in the short term in terms of the agreement, is important. What is the size of the risk that we would be transferring to the public purse if we were to run a not-for-profit business, for example?

[200] **Mr Bullock:** For example, if you went down the route where the Assembly takes all of the risks, you are looking at the labour cost risks, the fuel cost risks, and things such as the revenue not coming in. When these things do not happen, my perception is that the only place that the not-for-profit company will be coming is back to the Assembly, saying, 'Revenue is 10% down this month. Please can you provide us some more money?', whereas, at the moment, when operational risks change—so, my fuel bill has gone up £50 million since the

start of the franchise—the only person that has to manage that risk is the train company.

14:45

[201] **Mr Davies:** The best way of thinking about the franchise is that it is an agreement over a period of time to develop the railway and to get resources in place. That has led to increased revenue, which has allowed a lot of the extra investment to take place. In these other models, I think you have to think about how that is going to work on a multi-year basis. I used to work once upon a time for British Rail, and of course the big problem that we always had was that you could not plan anything on a long-term basis; you were in an annual budgeting cycle all the time. I wonder how these kinds of structures would work in practice, as Ian says, when, if risks happen, if things happen, you end up cutting into the long-term development plans. With a franchise you can take a longer-term view.

[202] **Nick Ramsay:** So we are moving from a situation that is known to one that may be beneficial, but there are unknowns in it.

[203] **Mr Davies:** Sorry?

[204] **Nick Ramsay:** We are moving from a situation which is known—if you go to a different type of model other than a franchise model—to a situation where we are not as able to quantify what the risks might be.

[205] **Mr Davies:** It is certainly that, but also I would just encourage you to think about the franchises as a commercial deal over a period of years—five to seven years, or whatever term is eventually let—rather than a year-to-year arrangement. I suspect that these kinds of alternative arrangements will take us back to the kinds of structures that we have had in the past, which were very hand-to-mouth kind of existences.

[206] **Mick Antoniw:** Are those timescales long enough? What would be your preferred franchise period in terms of achieving all those things that you have been talking about?

[207] **Mr Davies:** We do not have a settled view on franchise length. Clearly, it has got to be long enough to introduce changes to the rolling stock, and get new rolling stock in. Equally, there have to be some opportunities to review as you go along as well, which is one of the big learning points from the Arriva Trains Wales franchise.

[208] **Mr Bullock:** I thought both Railfuture and Passenger Focus made similar points in their evidence, which was that 15 years feels about right; it gives certainty for the staff and allows investment plans to take place. It means that you have got sufficient time when you do invest to get some payback from that investment.

[209] **Mick Antoniw:** You cannot achieve growth without a long-term plan, can you?

[210] **Mr Bullock:** No, exactly.

[211] **Rhun ap Iorwerth:** I was down to raise some points on the vertical integration zone, but they have been dealt with already. Just on the possibility of the public purse, if you like, taking the risk in Wales, on the other hand, of course, the public purse would have opportunities to gain. I do not know how many times, since you have had the franchise, you would have been in a position where you were making a loss. I would suggest that you are in a position where you are making money every year, which is why, presumably, you want to get the franchise again. The Welsh Government could run it at a profit to the public, of course.

[212] **Mr Bullock:** I think that we have already said that the Welsh Government could go into it, but all I would say is that it should go into it with its eyes wide open about the risk. One further point around profits: there are different mechanisms that can be applied. For example, we have a level in the franchise that says that if we make more than £20 million, we have to give 30% and then 60% back to the Government. One of the things that you might consider is whether that is appropriate. You might think that £10 million is enough, or £5 million, or £3 million, or £2 million, and still have some level of risk transfer. All that I would say is that, the lower that level is, that then affects levels of investment and attitudes to risk.

[213] **Mr Davies:** Can I just also add that, in terms of the panoply of franchises there have been since privatisation, there have been 45 contracts let since 1995, and not all of them have made profits every single year. Some of them have made losses, and some have made higher levels of profit under profit-sharing arrangements in the contract, but it is by no means a one-way street. There have been, unfortunately, some exits as well.

[214] **Rhun ap Iorwerth:** You made a very good point that it is important to go into this with eyes wide open, and there is a possibility of being better off in terms of the public purse, not just carrying a risk that is guaranteed to make people pay.

[215] **Keith Davies:** With the Wales and borders franchise, there is something that might be different, and that is an enhanced role for community groups, especially with the way the Heart of Wales line forum is pushing things. Are there going to be benefits?

[216] **Nick Ramsay:** Just a 'yes' or 'no' is fine. *[Laughter.]*

[217] **Mr Bullock:** I think it is important to explore these areas. We have said that in our submission—we are happy to facilitate that.

[218] **Nick Ramsay:** Finally from me, this would not be complete without a timetabling question to you. When will we have hourly services between Shrewsbury and Aberystwyth? I do not have an interest to declare; I do not intend to use that service in the near future.

[219] **Mr Bagshaw:** It is a decision for the Welsh Government, really. Clearly, additional funding will be needed to run that level of service. We would have to recruit additional staff. The infrastructure is now in a position where it can deliver extra services, so it is really a decision for the Welsh Government, and perhaps something to think about in the future franchise as well.

[220] **Nick Ramsay:** So, not immediately.

[221] **Mr Bagshaw:** We have not been asked to look at it at the moment.

[222] **Nick Ramsay:** Okay, thank you. I thank our witnesses, Richard Davies from ATOC and Ian Bullock and Mike Bagshaw from Arriva Trains Wales, for being with us this afternoon. Thank you for your evidence; it has been really helpful. We will keep you posted on the development of our inquiry into the future of the franchise.

14:51

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r
Cyfarfod**
**Motion under Standing Order 17.42 to Resolve to Exclude the Public from the
Meeting**

[223] **Nick Ramsay:** I ask that a Member moves a motion under Standing Order 17.42 to exclude the public from the remainder of the meeting.

[224] **Mick Antoniw:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order 17.42(vi).

[225] **Nick Ramsay:** Thank you, Mick. I see that the committee is in agreement. The rest of the meeting will be conducted in private session.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 14:51.
The public part of the meeting ended at 14:51.*