



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Menter a Busnes **The Enterprise and Business Committee**

Dydd Mercher, 23 Hydref 2013
Wednesday, 23 October 2013

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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 ynddi 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
Rhun ap Iorwerth	Plaid Cymru The Party of Wales
Byron Davies	Ceidwadwyr Cymreig Welsh Conservatives
Keith Davies	Llafur Labour
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

Sarah Collins	Pennaeth, Uned Caffael Masnachfaint, Adran Drafnidiaeth, Llywodraeth y DU Head, Franchising Procurement Unit, Department for Transport, UK Government
Brian Freemantle	Pennaeth Polisi Cerbydau a Chontractau, Adran Drafnidiaeth, Llywodraeth y DU Head of Rolling Stock Policy and Contracts, Department for Transport, UK Government
Edwina Hart	Aelod Cynulliad, Llafur (Gweinidog yr Economi, Gwyddoniaeth a Thrafnidiaeth) Assembly Member, Labour (Minister for Economy, Science and Transport)
Frazer Henderson	Pennaeth Polisi Rheilffyrdd Transport Scotland Head of Rail Policy at Transport Scotland
Steve Marshall-Camm	Pennaeth Nawdd Rheilffyrdd a Rhanddeiliaid, Adran Drafnidiaeth, Llywodraeth y DU Head of Rail Sponsorship and Stakeholders, Department for Transport, UK Government
Eddie Murszko	Cyfarwyddwr Project Masnachfaint, Adran Drafnidiaeth, Llywodraeth y DU Franchise Project Director, Department for Transport, UK Government
James Price	Cyfarwyddwr Cyffredinol, yr Economi, Gwyddoniaeth a Thrafnidiaeth, Llywodraeth Cymru Director General, Economy, Science and Transport, Welsh Government
David Sexton	Rheolwr Datblygu HLOS, Adran Drafnidiaeth, Llywodraeth y DU HLOS Development Manager, Department for Transport, UK Government
Rowan Smith	Rheolwr Masnachol, South and West, Adran Drafnidiaeth, Llywodraeth y DU Commercial Manager, South and West, Department for

Transport, UK Government

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 09:14.
The meeting began at 09:14.

Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions

[1] **Nick Ramsay:** Good morning. I welcome Members, witnesses and members of the public to this morning's meeting of the Enterprise and Business Committee. The meeting is bilingual. Headphones can be used for simultaneous translation from Welsh to English on channel 1 on the headsets, 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; they should operate automatically. In the event of a fire alarm, please follow directions from the ushers. We have two apologies for absence today, from David Rees and Julie James. There are no substitutions.

09:14

Ymchwiliad i Ddyfodol Masnachfaint Rheilffyrdd Cymru a'r Gororau (drwy Gyswllt Fideo): Grŵp Rheilffyrdd Cyffredinol, yr Adran Drafnidiaeth
Inquiry into the Future of the Wales and Borders Rail Franchise (via Video Link): General Rail Group, Department for Transport

[2] **Nick Ramsay:** I welcome our witnesses from the Department for Transport, if they are still there. Thank you for agreeing to give oral evidence today. Are you hearing me in London?

[3] **Mr Sexton:** We are hearing you, but we do not appear to have the picture at the moment. The camera has swung around away out of view. Can you hear us?

09:15

[4] **Nick Ramsay:** We can hear you. We just have a picture of a heater of some sort, but we can hear you. So, we will continue. Would you like to give your names and positions for our Record of Proceedings? Ah, there you are.

[5] **Mr Sexton:** Can you see us properly now?

[6] **Nick Ramsay:** Yes. That is much better.

[7] **Mr Sexton:** I am David Sexton from rail strategy in the Department for Transport. My colleagues will introduce themselves.

- [8] **Mr Freemantle:** I am Brian Freemantle, head of rolling stock policy and contracts.
- [9] **Mr Smith:** I am Rowan Smith, the deputy director in rail commercial, responsible for the delivery of the current franchise agreement.
- [10] **Mr Muraszko:** I am Eddie Muraszko. I am, at the moment, the project director for letting the Thameslink, southern and great northern franchise in the Department for Transport. I have let the Great Western franchise, so I was involved in the letting of the original Wales and borders franchise.
- [11] **Nick Ramsay:** Great, thank you for agreeing to—
- [12] **Ms Collins:** I am sorry, there is one more. I am Sarah Collins, I am the head of a procurement unit in the franchising directorate of the Department for Transport.
- [13] **Nick Ramsay:** The camera has panned right over now, so I can see that there are some further witnesses—is there anyone else there? There does not seem to be. Thanks for agreeing to be with us today. We have a number of questions for you, so I propose that we go straight into those. The first is from Byron Davies.
- [14] **Byron Davies:** Hello, good morning. My question is around negotiations. While I appreciate that you cannot discuss ongoing negotiations, could you outline the process that is being used and comment on any public evidence that you might have given to the Silk commission?
- [15] **Mr Smith:** Negotiation in respect of what, sorry?
- [16] **Byron Davies:** Devolving issues.
- [17] **Mr Marshall-Camm:** I am the additional person in the room. I am Steve Marshall-Camm, the head of sponsorship and stakeholders.
- [18] We did give evidence to the Silk commission, essentially pointing out that the current arrangements, particularly in relation to the Wales and borders franchise, were not necessarily ideal and that there might be some scope for change, and we basically suggested that this is something that the Silk commission should look at as part of its examination of current devolution boundaries.
- [19] **Byron Davies:** May I ask what you told the commission?
- [20] **Mr Marshall-Camm:** It asked us a series of questions, but I think that it was mainly interested in how straightforward it would be to carve out a separate Wales franchise. It understood, obviously, the complexities of the current arrangements, where services cross the border. So, it appreciated that a simple carve-up might not necessarily be that easy. It was also interested in the comparison with Scotland, for example, where there is a much clearer devolution settlement. The arrangements are much clearer there, simply because the ScotRail franchise is a more clearly defined and geographically defined franchise, whereas the Wales and borders franchise relies heavily on cross-border traffic, both as part of its reason for existence and also as one of its key funding streams.
- [21] **Byron Davies:** In this process of devolution et cetera, what is your opinion on additional funding streams to accompany it?
- [22] **Mr Marshall-Camm:** I am not sure, at the moment, that we necessarily have a view

on that. It is very much a case of, looking at further devolution, a proposition needing to be made by the Welsh Government in terms of what the future might look like, and once that was available, we would be able to get into the details of what that might look like in terms of any financial settlement. Under the current arrangements, this settlement is pretty much complete, in that only a very small proportion of the overall franchise payments are made by the Department for Transport, the large bulk of the money already having been transferred across in 2007.

[23] **Byron Davies:** Picking up on that, may I ask you whether the Welsh Government will lead the specification of the Wales and borders franchise, regardless of whether there is any further devolution?

[24] **Mr Smith:** The Secretary of State is responsible for the letting of the franchise under the current arrangements. So, until anything changes the Secretary of State still has that responsibility in Westminster.

[25] **Nick Ramsay:** That is the situation as it is at the moment?

[26] **Mr Smith:** Yes.

[27] **Nick Ramsay:** Great. Thanks, Byron. The next question is from Rhun ap Iorwerth.

[28] **Rhun ap Iorwerth:** I will be speaking in Welsh.

[29] Allwch chi ddweud wrthym pam mae tystiolaeth Llywodraeth y Deyrnas Unedig i gomisiwn Silk yn dweud y gallai trosglwyddo cyfrifoldebau masnachfaint yn gyfan gwbl arwain at newidiadau cyfyngedig i'r map masnachfaint? Rydych chi wedi cyffwrdd â hyn yn barod, ond tybed a allech chi ehangu ychydig ar yr effaith y byddai datganoli llwyr yn ei gael ar y map ei hun, ynghyd ag unrhyw lefelau o astudiaeth sydd wedi bod o'r mathau o newidiadau y byddai eu hangen?

Could you tell us why the evidence of the UK Government to the Silk commission states that complete transfer of franchise responsibilities could necessitate limited changes to the franchise map? You have touched on the answer already, but perhaps you could expand a little on the effect that total devolution would have on the map itself, along with any levels of studies there have been of the kinds of changes that would be required?

[30] **Mr Smith:** Within the current franchise agreement—the current franchise map—there are four routes that are designated as English services. For those, the Secretary of State in Westminster manages the finances and the operational specification. These are Shrewsbury to Hereford, Shrewsbury to Crewe, Shrewsbury to Birmingham and Crewe to Chester. The revenue from those is also a matter for the Secretary of State to determine in terms of fares. That is the current line for re-mapping in terms of services that sit inside the English domain of the Arriva Trains Wales franchise. There are future scenarios where that could be different.

[31] **Mr Sexton:** It is also worth saying that, unlike Scotland, the services that run between England and Wales continue beyond the borders a good deal into Wales and passengers have historically valued the east-west links between Wales and England. We find that on the south Wales corridor, we have strong passenger flows—Swansea, Cardiff, Newport, Bristol—and on the central rails corridor the Cambrian flows into Birmingham. In north Wales we have flows across the north Wales main line and both up into Manchester and out to the west coast main line. What we have tried to do in the agreements and the specifications is to maintain through services as much as possible, even though we have joint specification between the two Governments for two parts of the same single train.

[32] **Rhun ap Iorwerth:** Wrth gwrs, rydym wedi cymryd tystiolaeth gan grwpiau o'r tu allan i Gymru fel rhan o'r ymchwiliad hwn a'r gred gyffredinol yw eu bod yn hapus i ddod o dan fasnachfaint sydd wedi ei rheoli gan Gymru, cyn belled â bod eu buddiannau nhw yn cael eu gwarchod. Sut ddylai anghenion y rhanbarthau hynny yn Lloegr gael eu nodi a'u cynrychioli yn ardal y fasnachfaint, pwy bynnag yw'r awdurdod masnachfreinio?

Rhun ap Iorwerth: Of course, we have heard evidence from groups outside Wales as part of this inquiry and the general belief is that they are content to come under a franchise that is controlled from Wales, as long as their interests are safeguarded. How should the interests of those regions in England be noted and represented within the franchise area, whatever the franchising authority is?

[33] **Mr Sexton:** The services are feeding in two directions: they are feeding into Wales, but they are also feeding into the major English cities. We would have a service specification that required a minimum frequency, journey time and, in some cases, capacity into the big cities of Bristol, Birmingham and Manchester. That is currently written into the ATW franchise agreement, and I would expect us to look to carry that forward. The second form of protection that I suggest is maintenance of through services, because passengers do not like boundaries and they do not like interchanges. We lose people from the railways if, for example, Cambrian coast line was to cease at Shrewsbury and the connectivity through to Birmingham and Birmingham Airport was lost. I would suggest that there needs to be some agreement about the essential service characteristics that both Governments would always wish to be maintained.

[34] **Nick Ramsay:** The next question is from Alun Ffred Jones.

[35] **Alun Ffred Jones:** Rwy'n siŵr bod amgylchiadau pob masnachfaint yn wahanol ond, yn seiliedig ar brofiad yr Adran Drafnidiaeth, beth yw'r amserlen ddelfrydol ar gyfer pob cam o broses caffael masnachfaint, o ddechrau'r broses, y cam cyn caffael a llunio manyleb i weithredu?

Alun Ffred Jones: I am sure that the circumstances are different for every franchise but, based on the Department for Transport's experience, what is the ideal timeline for each stage of a franchise procurement process, from initiation, pre-procurement and specification to mobilisation?

[36] **Ms Collins:** Since the publication of the new schedule, we have also had a complete relook at our end-to-end procurement process. We published a new franchising process guide in June of this year. However, we are still in the process of working out the timescales. A high-level process takes around 24 months. That is from early specification stage throughout the procurement to the mobilisation. However, it is still untested, in the sense that we are implementing our new process, so we find that this work needs to start much earlier on. We are still refining that. That is the initial steer.

[37] **Alun Ffred Jones:** Unwaith eto, gan dderbyn bod pob masnachfaint yn wahanol, beth yw'r adnoddau hanfodol sydd eu hangen wrth gaffael masnachfaint, yn enwedig o ran niferoedd staff, sgiliau ac yn y blaen? Pe bai Llywodraeth Cymru yn chwarae mwy o ran wrth osod y fasnachfaint nesaf, beth yw'r sgiliau a'r niferoedd sydd eu hangen wrth greu'r tender?

Alun Ffred Jones: Once again, accepting that every franchise is different, what necessary resources are needed in order to procure a franchise, in terms of the number of staff, skills et cetera? If the Welsh Government were to play a bigger role in procuring the next franchise, what skills and numbers would be required in creating that tender?

[38] **Mr Muraszko:** At the moment, we have set up our franchise teams under the new setup as teams of eight within the department. However, that is proving to be, in my view,

quite tight. In addition to that, we have to hire technical advisers, financial advisers and legal advisers. We also draw very widely upon other skills within the department that are not directly within the team. There are support people within the franchising directorate who help design policies. There are people who help us with consistent procurement process. There is also wider support from colleagues in strategy, rolling stock, rail performance, timetable experts and fares experts that we draw upon. When it comes to evaluation, we have a team of about 50 external and internal people.

[39] **Alun Ffred Jones:** Felly, rydych yn tynnu ar wybodaeth ac arbenigedd pobl o'r tu allan i'r adran yn drwm iawn yn y broses. **Alun Ffred Jones:** So, you draw very heavily on the knowledge and expertise of people from outside the department in the process.

[40] **Mr Muraszko:** Yes, we draw very heavily on people from outside and inside the department.

[41] **Ms Collins:** We use external legal, financial and technical advisers.

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

[43] **Alun Ffred Jones:** Diolch yn fawr; diddorol iawn. Beth yw'r prif risgiau mae'r Adran Drafnidiaeth yn eu nodi ym mhroses gaffael y fasnachfaint? Rwy'n gwybod fod gennyh brofiad yn y maes. **Alun Ffred Jones:** Thank you; very interesting. What main risks has the Department for Transport identified in the franchise procurement process? I know that you have experience in this area.

[44] **Mr Smith:** The main risks are risks of legal challenge. Over the last few years, the procurement landscape has changed considerably in legal terms. With the experience of west coast, we are living in a somewhat more fragile environment, and we have to be very careful that everything that we do is sound, is communicated to bidders and that we follow that process. That is the principal risk to any procurement process of this scale.

09:30

[45] **Alun Ffred Jones:** Mae gennyf un cwestiwn arall. Efallai fod y cwestiwn yn rhy fanwl neu'n rhy dechnegol, ond beth yw'r ffynhonnell ddata rydych yn ei defnyddio fel swyddogion i ddeall anghenion masnachfaint yn y dyfodol? O ble rydych yn cael y wybodaeth, a pha fath o wybodaeth yw hi? **Alun Ffred Jones:** I have one further question. This question might be too detailed or technical, but what data source do you use as officials to understand the needs of franchises for the future? Where do you obtain that information and what type of information is it?

[46] **Mr Muraszko:** As a project director, the genesis of what we start with and what we are aiming to achieve starts with colleagues such as David Sexton, who works in network outcomes. We are ultimately trying to deliver the outcomes for the rail network, specified by Government or the franchising authority.

[47] **Mr Sexton:** Our data sources from rail strategy are very widely drawn from within the department and across the industry. We have set out a five-year rail investment strategy,

which has identified, at a parent level, what we seek for safety and reliability, and we have identified demand growth for both passenger and freight. We have looked at and set out concepts on environment and energy and created a parent framework around which all the franchises should continue to evolve. That forms the framework specification within which each new franchise exists. There is then a series of information streams coming in from key stakeholders such as Passenger Focus, which will advise on passenger satisfaction, from local authorities, which will clearly have their own aspirations on land-use planning relating to any changes that may happen in the rail network, and from major public transport providers, which may be affected by the new franchise. All these create a strategic framework into which the detail of the franchise will fit. We then pass that across to our colleagues in franchising, who will start to put some flesh on these strategic bones.

[48] **Mr Muraszko:** I think that it is fair to say that the specification of the franchise is perhaps misunderstood as being just specifying trains, capacity and so on, but it is the entirety of what is intended to be bought for the period of the franchise term, in terms of passenger satisfaction, passenger experience, fares and ticketing. It encompasses a huge amount, which then has to be translated into instructions to lawyers, which go into a franchise agreement and eventually become contractualised at the end of the competition. So, it is a major undertaking.

[49] **Nick Ramsay:** You have mentioned the passengers in this process. How are you engaging with passengers to see how they would like the franchise to look? How do you balance up their requirements with the requirements of commercial operators?

[50] **Mr Sexton:** This is an area that our franchising director, Peter Wilkinson, is very keen to review. There is also a report that Passenger Focus issued a few months ago. It is an area where we need to get much better in engaging with passengers directly, rather than just through stakeholders. We have previously gone through passenger groups. Many years ago, we only engaged through passenger groups and we refused to accept comments from individual passengers during a consultation process. At the moment, there is a formal stakeholder consultation process, which takes place as part of the development of the specification, but we do not believe that it engages widely enough with passengers. Far too many passengers do not realise that their franchise has changed until the first day it operates and they suddenly have a new announcement and new colours start appearing on some of the carriages. There is already a project just starting in the department to look at this.

[51] **Nick Ramsay:** Sometimes even passenger groups might have their own agendas as well, so it is good to hear from the actual passengers on the trains.

[52] **Mr Muraszko:** There is no better voice than the passengers themselves. Ultimately, that is why we do what we do. So, yes, we are in full agreement that that will change considerably with the upcoming franchises.

[53] **Mr Sexton:** One point to recall in all of the consultation is that you will usually hear from the people who want change. You have to go out to seek views from those who are reasonably satisfied with the pattern of services. So, you have to do a balancing act on this, as the pressure will always be there for change. It is also worth adding that, in the generation of franchises that we have just started with, including Thameslink, we are including within the requirements of the franchise that the franchisee will publish, each year and also before it starts, a customer report. This will set out exactly what it plans to achieve in the forthcoming year, what it did achieve in the previous year, how it engages with passengers directly, how it has taken their views into account, how it is engaging with stakeholders and how it is engaging with local authorities. This will be a public document that it has to make widely available to passengers, which is a step change in communication that we are insisting franchisees have with their passengers and their stakeholders.

[54] **Nick Ramsay:** That is really helpful; thank you. The next question is from Mick Antoniwi.

[55] **Mick Antoniwi:** I would like to ask a question that follows on from something that you said earlier, before I go into some of the areas that I want to explore. You said that the legal framework for franchises has changed considerably. Could you outline what you see as being the main legal changes, and the impact of those changes on the current franchise considerations?

[56] **Mr Muraszko:** It is not restricted to franchising; procurement practice more generally is becoming a lot more restricted and the level of disclosure and transparency that we have to make to the bidders is much higher than it has ever been. Therefore, we have to put in place a lot more—I am trying to think of the right word here. We have to share with them anything that, ultimately, they can argue later could have changed their behaviour. We also have to put in place much more stringent procedures and policies. That has meant that our legal advice has become a lot more cautious and we, therefore, spend a lot more time concentrating on the development of the invitations to tender and, indeed, before that, the Official Journal of the European Union notice and prequalification documentation has to be completely watertight. So, it takes a lot more time.

[57] **Mick Antoniwi:** I will leave that point. One of the key issues that has arisen in other evidence sessions is the importance of the length of franchise. What is your thinking on the issues that arise from that in terms of whether we are better off looking at longer franchises, and what the advantages and disadvantages are? Where are we within that sort of consideration at the moment?

[58] **Mr Muraszko:** That is an interesting policy debate, because we have gone from having a fairly standard approach of seven-year franchises that are extendable to 10 years, which then, with the coalition Government, became a presumption in favour of 15-year franchises, which was, at the time, driven by quite a lot of pressure by some of the owning groups involved. The owning groups have now maybe drawn back from their keenness on that having seen some of the difficulties that predicting revenue and costs over that period of time can bring. So, our official policy is probably best described as ‘horses for courses’ at the moment.

[59] **Mr Sexton:** From a strategy viewpoint, we accept now that we are in a process of almost continual change and that the concept of a steady state railway, given the demand forecasts for passengers and freight that we are facing, just does not exist, so within any franchise you are trying to look ahead and predict change. The further ahead you look, the more difficult the change becomes. It just tends to bell-mouth out as a range of possibilities, so, if you attempt a very long franchise, you need to be fairly sure that, first of all, you have a contact partner who is going to be willing and able to cope with the change, and secondly, you have a mechanism that can cope with an increasing range of change where you are trying to negotiate a single-tender action with them to deliver something that you have now found is desirable. That can be very time consuming. Against that, you need to balance the fact that the longer someone is incumbent in a contract, the more they are likely, potentially, to invest at the start, and the more they will identify with the medium term rather than the short term. As Eddie says, it really is horses for courses.

[60] **Mick Antoniwi:** Is it fair to say, then, that the department’s view is that the weight of attractiveness of longer franchises is out of the window now, and we are really looking at the shorter to middle-term franchise? The idea of having franchises to enable longer term planning probably carries too many risks and uncertainties.

[61] **Mr Smith:** I think experience has shown that where the industry at one time was

arguing for longer franchises that would enable greater investment, the investment has not actually come from the franchisees and those owning groups. Any investments that have been made have been ultimately made with Government and public money, by and large. So, the real benefits of the long-term franchise from an investment perspective have proved not to be as attractive as were sold to be the case a couple of years ago.

[62] **Mr Muraszko:** Having said that, there are some steady-state franchises such as Essex Thameside, which is going out as a 15-year franchise at the moment, and has just completed as a 15-year franchise, where it might be an appropriate answer. So, we genuinely cannot say that we have one policy preference or another at the present time. However, it is certainly true that there are some investments in the railway—say, in stations or something like that—where it does not matter how long the franchise is, as it is not going to come through an owning group or train operating company mechanism.

[63] **Mick Antoniw:** With regard to the incentive element within the franchises, because there is an enormous amount of public money going into these various contracts, which is what they are, it has been suggested that the contracts, particularly for the shorter term franchises, have been extremely lucrative for the rail industry, and, in fact, the shorter the franchise, the easier it is to identify and maximise profit, which is effectively being paid for by the public, out of those. First, do you agree with that sort of analysis? Secondly, how do we actually ensure that, within the franchises, if we have to put public money into them, that the public is actually getting the best value, and we are not really a flow of public funding into private companies over a whole host of short-term periods?

[64] **Mr Muraszko:** I think, first, with one or two exceptions, that the margins on railway franchises are not that large. I think you would find that, where they have been large, it is perhaps because of unexpected changes that happened during the term of the franchise. So, I think the best guarantee that you get a good deal and that you get good value comes from the holding of the competition itself and making sure that it is a keenly fought competition with clear guidance as to how bidders win, a very clear specification, and something that has a change mechanism where the way that change is managed during the franchise does not give opportunities for bidders to take advantage of the possibility of single-tender actions having to take place to implement change during the franchise term.

09:45

[65] **Mr Sexton:** I think it is also important, at the start of setting your franchise requirements, to understand what you are buying and why you are buying it. I would divide, in strategic terms, what we are buying into three groups. There is the capacity to meet the forecast demand, where we have identified that demand is growing above the current capacity we have. There is an efficiency where you may, for instance, be switching an operator from diesel to electric traction. That will have a short-term, upfront cost, because you have to retrain drivers, you have to bring in electric units to replace older diesel units, and you have new depot and stabling costs. However, as the franchising authority, you are investing in that because, in the medium to long term, that creates better value and a lower subsidy requirement, potentially also with some improvements in journey times and capacity. Then there is the third, often quite difficult to underpin category, where you are investing in transport infrastructure as a stimulus to the economy. So, a northern hub in Manchester, say, is an investment in additional transport infrastructure underpinned by the Treasury because of the growth it is believed it will engender across the north-west and north-east through greater accessibility into the cities by public transport. For all of those, you need to understand where you are changing from the existing, why you are doing it and how much you think it will cost, and not go to the market with a request for a bid that you have not costed to a fine degree of nicety.

[66] **Mr Muraszko:** I would also add, in contractual terms, that under, I think, Regulation (EC) No. 1370/2007, there is a prohibition, almost, on overcompensation to an operator of a rail franchise, which applies more widely, such that in the latest franchise agreements that we have just issued for Essex Thameside and for the Thameslink, southern and great northern franchise, there is potentially not just a profit-sharing mechanism, but a profit cap, so that if profit reached a certain level, all the profit above that level would return to the department.

[67] **Mick Antoniw:** Yes, we have had other evidence about profit-share elements, which brings me on to the final question that I wanted to ask. In our consideration of the various options for franchising, one option that has been suggested is a not-for-profit model. What is the department or the Government's thinking in terms of that as an option in terms of viability? What challenges, risks and advantages does it have, because, publicly, people would see an attraction to all the funding being used for the development of the service, and might see disadvantages in having to produce a profit level, and the organisation of the service being focused around that rather than public service?

[68] **Mr Muraszko:** I suppose it is a trade-off, ultimately, between whether an operator that does not have the motivation of a profit at the end of it will offer in the bidding process as good a proposal as someone who does. I suppose the best way to test it is through a competition in which such organisations are allowed to bid.

[69] **Mr Sexton:** I do not think we have any not-for-profit organisations within the industry. I can point to Network Rail, but that is making profit. However, it is a not-for-dividend company in that any profits it does make have to be reinvested in the rail industry, but the investment location is at Network Rail's discretion. I think if you have a not-for-profit company, in strategy terms you must have a clear understanding of how individuals within the company have an incentive to go that extra mile to try to deliver an efficient service.

[70] **Mick Antoniw:** Yes, thank you for that. Just for the record, I think when I talk about 'not for profit' we all recognise that you have to make a profit; it is about what actually happens to that profit. The point you make is that there are not any other options. Has there been a different approach in Scotland on the organisation? We will be taking evidence later from Transport Scotland but, in terms of suggestions of alternative models, is it just an area that you do not have a particular view on or will you wait and see what happens or what arises?

[71] **Nick Ramsay:** I do need to move things along to the next set of questions, but if you would like to answer that briefly, you can.

[72] **Mr Muraszko:** I do not think that we have a prohibition on a not-for-dividend company trying to prequalify and entering into the tendering competition process.

[73] **Nick Ramsay:** That is fine. I call on Joyce Watson.

[74] **Joyce Watson:** Good morning. I just want to pick up on your profit margins and on the fact that you said that profit is the only driver, or that seems to be what you were saying, for continual improvement. You talk about a profit cap, but we have had evidence that states that supermarkets, for example, operate on a higher profit at 3.4%. The evidence shows—this is the bit that I wanted to tease out—that, when we are talking about profit in the rail industry, we are not talking about any capital investment by those who are running it, because they do not carry that capital investment in any shape or form. Therefore, their profit is more pure than that of those people who have heavy investment in capital.

[75] **Mr Smith:** This is true. Franchises are, generally, investment light as structures go, but they are high risk in terms of farebox. So, it is about getting the right mechanism that

balances and gives the right risk protection between the risks that are taken by Government or the letting authority and the risks that are taken by the franchisee.

[76] **Joyce Watson:** I hate to pursue something, but who is taking the risk? At what point did a franchisee take the risk rather than the Government?

[77] **Mr Smith:** Revenue risk is taken widely and, indeed, revenue risk led to the failure of the National Express east coast franchise, as it bid on a profile of future growth that, once the recession hit, was undeliverable. That is why that franchise failed.

[78] **Mr Muraszko:** Having said that, there are, again, different models of revenue risk. The Essex Thameside franchise is being let with full revenue risk being taken by the operator. The Thameslink, southern and great northern franchise, which I am leading on, is a management contract where the department is taking the revenue risk because of the amount of disruption that is taking place through the seven years. I think that, going forward, we will probably have a mechanism that will try to take the GDP element of revenue risk away from the franchisee but leave revenue risk around its initiatives and how it runs the business with it. So, there will be a share of revenue risk, and I think that that will be the most common—

[79] **Nick Ramsay:** Okay, that is fine. Thank you for that.

[80] **Rhun ap Iorwerth:** Just backtracking a little bit to the not-for-profit and not-for-dividend argument, can you clarify for me whether the Department for Transport's 2013 prior information notice on franchising does invite not-for-profit bids? I think that I am quoting there.

[81] **Ms Collins:** It does. However, what we wanted to set out in the opinion was more that we were open to any organisation entering into the competition. We were just trying to broaden the market. We are doing a lot of early market engagement with various organisations to encourage them to enter into the franchising market.

[82] **Rhun ap Iorwerth:** Fine. So, even though you say that you are not aware of any not-for-profit companies in the market, it is something that you are looking at. Do you think that the devolution of powers currently being negotiated might be the vehicle through which a radically different approach may be permitted, and that the Welsh Government, perhaps, will be given the powers to fundamentally reorganise the industry and do things in a radically different way, perhaps with the introduction of a not-for-profit or even a Government-controlled arm's-length body running the railway in Wales?

[83] **Mr Smith:** As regards other devolutions, Transport for London has operated the London overground system in a different franchise model. So, depending on the powers granted to the Welsh Government, as Transport for London did, it would be free to let the franchise for the rail operations on the commercial terms that it would wish to do so.

[84] **Rhun ap Iorwerth:** You have no doubt, however, that the devolution of responsibility for the rail franchise will be a means by which we can have a radically different approach in Wales, do you? That is, do we need that devolution before it can happen?

[85] **Mr Smith:** I think that it would be a matter for the negotiations that presumably will take place in due course.

[86] **Rhun ap Iorwerth:** Has the Department for Transport actually discussed the issues of the alternative delivery methods with the Welsh Government?

[87] **Mr Marshall-Camm:** Not that I am aware of at that level of detail. We are certainly

aware of the interest, but it very much depends, as I say, on the proposition that the Welsh Government puts forward to the department.

[88] **Mr Sexton:** We have not discussed it officially. I have had some informal discussions in strategy meetings with Welsh Government colleagues—they are more exploratory in nature, to try to understand what the issues might be and how they would fit in to the framework structures that we all have to manage. One must bear in mind that sitting above us all is the European structure, and we are now about to go into the fourth package of European regulation that will further change us and push us towards a particular way of separating out and managing the infrastructure and train services. I have come across the concept of, for example, not-for-profit and not-for-dividend and have talked it through with Welsh colleagues, and I have also looked holistically at what might happen if you had a transport operator that was more than just the railways and encompassed a wider portfolio of public transport. However, none of this has been part of a formal, official discussion; it has simply been a couple of experts exploring ideas.

[89] **Rhun ap Iorwerth:** That is interesting in itself, and it is fair for us to feed back to you that there has been in other evidence sessions a substantial appetite for perhaps looking at that avenue. In that context, do you think that there could perhaps be a way of encouraging not-for-dividend organisations to bid, and could issues such as franchise specification and selection criteria be developed in a way that actively encourages not-for-dividend bids?

[90] **Mr Sexton:** It is certainly worth exploring. We have never said that we would not go there. I think that the challenge has always been one of identifying it as the most efficient use of taxpayers' money and whether it would generate an incentivised operator that would bring in the fare-payer revenue as well. We have seen many models in Europe, but I have not seen a model of a not-for-dividend company working effectively yet. That is not to say that it would not work, but I think that we are always wary of letting a major contract become a guinea pig.

[91] **Mr Muraszko:** The other thing to mention is that quite substantial funding requirements are needed to back these bids so that there is some protection for the letting authority should the franchisee not last the course of the franchise term, which could be challenging for such an organisation.

[92] **Mr Sexton:** That is an important point. The Government, whichever it is, is letting a franchise and, ultimately, should the franchise fail, the Government—that is, the taxpayer—would have to step in and recover it. It is too important not to run the train services, so, if you do create a new approach to franchising, one of the things that we would always be considering is what the risk of failure is and what the cost might be if a failure has to be managed.

[93] **Rhun ap Iorwerth:** That is just the rail franchise, though, is it not?

[94] **Mr Sexton:** That is true, but we have, if you like, greater certainty in the models we already know, where a bond is payable by the franchisee, which is held against it and which we would claim in the event of default to cover the cost of potentially having to do much of the re-letting and salvage. How a not-for-dividend company would manage that I do not know; it is one of the areas we need to explore.

[95] **Nick Ramsay:** Thanks, Rhun. We are heading into the last 15 minutes of this evidence session now, and I want to bring in Keith Davies.

10:00

[96] **Keith Davies:** I believe that my questions have been answered.

[97] **Nick Ramsay:** Do you have questions on alliancing and flexibility?

[98] **Keith Davies:** Yes. I would like to ask why you believe that it is for Network Rail and operators to own the solutions and the delivery in terms of alliancing, as indicated in your response to the Brown review.

[99] **Mr Muraszko:** What we do in franchise competitions is encourage bidders to explore the extent to which they can form an alliance with Network Rail. There are two levels here to be aware of. First, there is alliance as in just working better together within the current contractual and regulatory framework, within which we can ask bidders to develop their ideas with Network Rail and put in their bids. Something more extensive than that, such as the deep alliance, as it is called, which South West Trains has with Network Rail, is something that needs our consent and it is something that we have not yet been able to factor in as part of the franchise competition. Therefore, we leave open the possibility that that could happen during a franchise, with our approval, and at that point we would decide the extent to which the savings that would accrue would flow back to the letting authority, stay with the train company or stay with Network Rail.

[100] **Keith Davies:** So, do you think a franchising authority could have an effective alliance with Network Rail?

[101] **Mr Muraszko:** Probably not. We need to keep Network Rail at arm's length as it is, effectively, a supplier to the franchisee.

[102] **Mr Sexton:** The franchising authority does not have a direct, detailed relationship with Network Rail in that sense. The infrastructure is provided for the use of the franchise and the agreements for access are between the franchisee and Network Rail. The efficiencies are usually there at the very detailed level between track and train on how the two companies work together. As the franchising authority, we will operate at a strategic, high level, and will have a relationship with Network Rail around the major investments, but the detail is invariably left to the franchise operator, which manages the day-to-day train operations and is best placed to capture the kind of efficiencies we are after.

[103] **Keith Davies:** Does Network Rail not own the stations as well as the rail track? There could be agreements between the franchisee and Network Rail on the performance of the stations.

[104] **Mr Muraszko:** Stations are an interesting area, because that is an area where we are keen to see whether there are different models of contractual operation. The Greater Anglia franchise, and, indeed, the Essex Thameside franchise, are being let on the basis of a 99-year lease being held by the franchisee. So, we are looking at different models, because it is an area where there has not been sufficient investment and people do not necessarily think that the current one works at its best. So, that is a case of 'watch this space', I think.

[105] **Nick Ramsay:** The next question is from Eluned Parrott.

[106] **Eluned Parrott:** I would like to ask how you go about deciding what outputs you are going to specify in a franchise.

[107] **Mr Muraszko:** Presuming that we already have the high-level outputs from our network outcomes colleagues, we then get requirements or aspirations in from stakeholders and, ideally, from passengers as well. We are aware of some of the other issues that might need to be addressed in performance through the data we hold and through customer satisfaction indices. We then run a series of business case scenarios to test value for money

and to test whether a particular improvement might wash its face financially, or, if it does not, that it provides other economic benefits that are worth including in the franchise. It is a series of value-for-money assessments. That then goes into what I will call a franchise proposition, for want of a better term. On top of that, however, I think it is very important to say that the two franchises that have just been let are starting to take on board the concept floated in the Brown report, of buying quality. So, we do not just take the best price bid and look at quality only in the context of two bids that are close together financially; we now have a quality component in the main way that we evaluate bids, and that means that bidders are incentivised to offer us additional innovation and quality in their proposal, even if it adds to the cost of their bid, because it will improve their overall score. Now, obviously, these two franchises are the first time that we have done this in this country, although it has happened in Europe. However, I think that the bidding community is looking forward to offering us some new and innovative proposals as a result of the way that we have changed our approach.

[108] **Eluned Parrott:** Thank you. I am wondering what you consider to be elements of quality. One of the criticisms that has been raised with us, in terms of the monitoring regime against outputs, is that quality elements—particularly such things as passenger satisfaction—are not included within those. What elements are you going to be including as quality measures, and how are you going to go about developing a monitoring regime against something as ethereal, if you like, as satisfaction?

[109] **Mr Muraszko:** That is a very interesting point. The most recent franchises have all had some reference to the national passenger satisfaction survey results. Two or three key criteria were picked out, and, if they failed to meet that target, the bidders would have to spend some money trying to get that measure up to target.

[110] However, in the Thameslink franchise, where we are taking a revenue risk, we have also had to develop a measure that is an actual measure of quality: so, surveys of station cleanliness, train cleanliness et cetera. There is a financial penalty and incentive regime around those measures to the tune of several million pounds, which is intended to provide an incentive for delivering customer quality around a whole range of things, which is partly intended, in the case of Thameslink, to address the fact that they do not have a revenue incentive.

[111] **Eluned Parrott:** So, in effect, failing to meet a minimum standard will be punished with a stick, but what carrots are you dangling for companies to overachieve and to plan for exceeding customers' expectations?

[112] **Mr Muraszko:** It is a two-way incentive regime. A benchmark is set and it sets out a rising trajectory, so that we are getting improvements, but bidders will be rewarded with extra money if they overachieve from that benchmark, and they will have to pay financially if they underperform. There has been a lot of work done on trying to calibrate the right numbers on that so that it is cheaper for them to rectify the problem that has caused the dip in customer satisfaction, or the dip in the measure, than to pay us the money. So, it is a two-way measure and, beyond a certain point, if they go too far down, it just becomes a breach of the contract.

[113] **Mr Sexton:** I think that it is important to remember that part of the incentive goes back to the kind of passenger traffic that a train operator has, and how we believe that passenger demand will react to quality. If, for example, you have an inter-city long-distance train operator, quality can be quite an important element in discretionary travel. If the operator improves the quality, they are likely to get more income through the farebox. That is a bit different from a commuter TOC, where people are committed to train journeys every morning. Quality may not be something that will affect their travel because they feel it is an obligation that they have to make that journey. We need to understand how passenger use of the railway will respond to quality and where we can create an incentive beyond that to

reward quality.

[114] **Eluned Parrott:** Finally from me, one of the things that impacts on people's experience of the rail network is overcrowding. One of the biggest weaknesses of the Wales and borders franchise when it was initially let was that it did not plan for a growth in the number of people using, in particular, the very busy Valleys lines commuter services. How are you managing those kinds of expectations in modelling the outputs for the next series of franchises? How are we going to avoid this mistake happening again?

[115] **Mr Sexton:** It starts with the strategy that looks at future demand, compares that against capacity, identifies where growth is likely to exceed capacity and assesses the extent to which additional capacity can be provided. That comes back to the split between the taxpayer and the fare payer. Almost inevitably, additional commuter capacity into cities requires additional subsidy. That goes back to the large benefit:cost ratio of maintaining the economy of cities and the extent to which transport is a subsidised good in order to get the wider economic benefits. From that, we have set a strategic envelope that says how much extra demand we believe each franchise should cater for over the life of that franchise. That is passed back to the market to detail. Given that providing additional capacity puts a stress on the network, there is already a well-established industry planning process that has identified what would be required on the network for growth and how many additional trains would be required to prevent overcrowding. For example, in Cardiff, Network Rail, Arriva Trains Wales, the Welsh Government and we at the department have been working for years looking at the demand forecasts and trying to be a step ahead of the crowding. Inevitably, there are times, because you are producing large step changes either in train services or in the infrastructure, when crowding catches up with you. However, you then inject a large capacity change, such as in 2015 when the works at Cardiff will be complete—the new platform 8 will be open at Cardiff Central station and the additional platform at Cardiff Queen Street—allowing a further injection at peak capacity. In short, what you are trying to do is to predict growth and assess your ability to subsidise it and be there ahead of it.

[116] **Mr Muraszko:** It is fair to say, when the Wales and borders franchise was let, that there was not any of this process around an HLOS forward look at what the capacity needs were strategically. The industry as a whole is now much better placed to build those requirements into franchise propositions.

[117] **Nick Ramsay:** That is good news. That is what the committee wanted to hear for the future franchise. We turn to Joyce Watson on community transport.

[118] **Joyce Watson:** On community rail, I would like to ask how the franchise specification and agreement might address community rail.

[119] **Mr Muraszko:** I think that that subject will be addressed on a franchise-by-franchise basis. The franchise I am letting does not have much community rail, but it does have a little bit, so we have placed an obligation on the franchisee to fund and participate in the relevant community rail partnerships. The previous franchise I was involved in was the Great Western one, which obviously did not get implemented, but lots of work was done with community rail groups and local authority stakeholders in the south-west. They identified service enhancement aspirations that did not appear to have a value-for-money case, but which we put into the franchise specification as options. That helped to build in those sorts of aspirations for additional services to Okehampton and so forth, which would not have been forthcoming otherwise. It is just addressed on a franchise-by-franchise basis.

10:15

[120] **Nick Ramsay:** Finally, I have a question on rolling stock. What are the key

considerations for rolling stock procurement? How do you assess the requirement for rolling stock and make sure that the units are procured on time?

[121] **Mr Freemantle:** On the whole, rolling stock is procured through the train operating companies. The only two exceptions to that have been the inter-city express programme procurement and the Thameslink procurement. In terms of procuring units on time, they will make a commitment to us through the franchise agreements around when they are going to deliver that rolling stock. It is usually between the franchisee and what they signed up to as commitments in their franchise agreement.

[122] **Nick Ramsay:** Do you think that it would help if there was a Welsh rolling stock strategy? How would that co-ordinate with a UK strategy?

[123] **Mr Freemantle:** In the command paper of 2012, the Government had taken the conscious decision to be more hands-off on rolling stock procurement—that is, moving away from the Thameslink and the IEP procurements, with the exception of providing a number of caveats to that. I know that, at the moment, the Welsh Government is doing a market sounding exercise. It has written to all the manufacturers and rolling stock owners et cetera, to get some views around how it can get trains for the electrified network. Having a number of different strategies is challenging because, when push comes to shove, the owners of the trains are the rolling stock leasing companies.

[124] **Mr Muraszko:** The way into this is probably to specify the outputs and the requirements that the letting authority is seeking within—

[125] **Nick Ramsay:** So, to specify the outputs you want, but pretty much leave it to the franchisees to decide how they go about that.

[126] **Mr Muraszko:** That would be my recommended approach.

[127] **Nick Ramsay:** Okay; thank you for that. This has been a really helpful evidence session, which we will feed into our inquiry. Today, we will go away with a lot of information in terms of making our recommendations to the Welsh Government. Thanks to Rowan Smith, David Sexton, Brian Freemantle and Sarah Collins, as well as the other two who eventually panned into view at the start. I have rarely used a video link that did not have some kind of technical hitches at some point.

[128] We are going to take a break now. It was originally planned until 10.30 a.m., but it will be until around 10.45 a.m. We have had a message from Edwina Hart, the Minister—there has been an accident on the M4 that has delayed her arrival. I suggest that we go into an informal private session to consider what we have heard.

*Gohiriwyd y cyfarfod rhwng 10:18 a 10:39.
The meeting adjourned between 10:18 and 10:39.*

Ymchwiliad i Ddyfodol Masnachfaint Rheilffyrdd Cymru a'r Gororau Inquiry into the Future of the Wales and Borders Rail Franchise

[129] **Nick Ramsay:** I welcome Members back. We have a ministerial scrutiny session this morning. I welcome our witnesses from the Welsh Government. Thank you for being with us today. Would you like to give your names and positions for the Record of Proceedings?

[130] **The Minister for Economy, Science and Transport (Edwina Hart):** I am Edwina Hart, the Minister.

[131] **Mr Price:** I am James Price, the director of the department.

[132] **Nick Ramsay:** Great, and thank you for being with us. We have a number of questions for you, and the first is from Rhun ap Iorwerth.

[133] **Rhun ap Iorwerth:** Good morning, Minister. May we have a quick update, to start off, on the process of negotiations on the devolution of rail franchising powers and whether you have information for us on a timetable from here on in? That would be useful.

[134] **Edwina Hart:** I think that it is fair to say that this is one of the most difficult aspects of any negotiations that we are likely to undertake, because it is about not only the issues with the Department for Transport, but everything around the whole franchise negotiations. We will also be in some difficulty, probably, when we come to answer some questions later as to what information I can give to committee, because of what our underlying negotiation position might be on that. We very much see rail franchising in the context of our evidence to the Silk commission, because I do think that we want to take control of our own destiny. Discussions with the UK Government are currently ongoing and we expect to make progress in the early part of next year. At the moment, however, I suppose that we are defining priorities and outcomes—are we not, James?—to understand where there could be a DFT-led franchise process or a process that would be led by us. So, it is about what we want out of it. The position should therefore be clear by the end of 2014 for the necessary engagement.

[135] The trouble is, when we talk about the transfer of functions, there has to be a fair financial settlement involved, and the negotiations will be quite clear in that particular area. We are now modelling on future costs—I do not know if you want to go into the detail on that, but it might be useful.

[136] **Mr Price:** As the Minister said, it is all ridiculously complicated, really, when you get into the detail of it all.

[137] **Edwina Hart:** Overcomplicated.

[138] **Mr Price:** I think that it has been overcomplicated, and not just in the way the UK Government privatised railways and in the interactions that that led to between different parts of the system, as it is further complicated by our arrangements, which were set up by the Strategic Rail Authority. So, we have to be very careful in understanding all the different points of interaction, and in ensuring that we get fair funding. However, the piece of work that will be the same, regardless of what we do, is in understanding what it is from the Welsh Government perspective that we want to buy, what service patterns we want to achieve, and things like what rolling stock we want to have. We would want to be in a position to influence the DFT or to procure for ourselves, and that work is under way.

[139] **Edwina Hart:** If you look at the current rail franchise arrangements, it was a very limited specification that they did. They indicated that there would be no growth in rail passenger use. Well, of course, that has not been the case, and as it was a relatively long franchise, it means that, significantly, we have had a lot more use. At the end of the day, we have been very constricted by those original arrangements.

[140] **Rhun ap Iorwerth:** You mentioned overcomplication. Is simplification of the system and the franchising arrangements one of the appealing aspects to you of the devolution of these powers?

[141] **Edwina Hart:** Yes. That is the simple answer to that. We think that this has been unnecessarily complicated, do we not, James? If you have an indication of how some of it

works, to show how it could possibly be streamlined, would that be helpful?

[142] **Rhun ap Iorwerth:** Yes.

[143] **Mr Price:** I suspect that you got into this with evidence from other people in terms of the number of different handover points. For example, the DFT and we will have contract performance targets on Arriva. Arriva then has contract performance targets on Network Rail. There are flows of money from us to Arriva and then to Network Rail and, at the same time, to DFT. Network Rail also pays back to DFT. Genuinely, in trying to find any one person who understands how it works, I have yet to find anyone who can properly explain it. You will get a group of people who can explain it, but not one person who can hold it in their head. To my mind, what we are really doing is buying a bus service franchise on rails, so why have we complicated the contractual position to such an extent that you need to spend £10 million on consultancy to let a franchise?

[144] **Rhun ap Iorwerth:** We will break that up into various bits this morning, I know, on alliances and how things can be simplified. There are just a couple of questions more from me. There is one interesting one on the devolution and the possible need then, according to the DFT, to change the franchise map in some way or other, if there is the devolution of rail franchising. What are your thoughts on that?

[145] **Edwina Hart:** The evidence that we gave to the Silk commission was on the vast majority of services that we are looking at for our franchise currently within the Arriva network. Our starting point has to be the Wales and borders franchise from the point of view of looking at services here. We are not ruling out any other change, but we need to be convinced of the overall benefits of any proposals that may emerge from that, because there are services that run in England, and we would be happy to listen to the UK Government's priorities for these with regard to how we can do linking. However, I will return to the complications of this. As it was so narrow in the specification, we needed to put a lot more money into it as well. I believe that we have had to put in additionality of £15 million, have we not?

10:45

[146] **Mr Price:** Yes. We get £150 million from DFT, and it currently costs £179 million. Some of that is profit. I believe that the additionality is about £15 million.

[147] **Edwina Hart:** So, it is about £15 million. That indicates that it is not satisfactory in any way with regard to the way in which it has all been set up historically.

[148] **Rhun ap Iorwerth:** So, those are some of the mistakes that you will want to avoid repeating.

[149] **Edwina Hart:** Yes, absolutely. However, that depends on the agreement that you get from DFT to take it forward and whether we have the devolution of powers in terms of the right settlement. The settlement figures will be enormously important in this.

[150] **Rhun ap Iorwerth:** At this point, you are not anywhere near knowing where you are going to be on that settlement figure.

[151] **Edwina Hart:** No.

[152] **Rhun ap Iorwerth:** I have one last question. What is important to users, ultimately, is not who controls the franchise, but the kind of service they get. Is it of concern to you that the lack of clarity now, in 2013, about what will be happening in the years ahead will cloud

decisions and make decisions more difficult on procurement, specifications and so on for the actual franchise in 2018, or are you happy that there is enough time to iron things out?

[153] **Edwina Hart:** We believe that we have enough time, but we have to be absolutely specific about what we require from this. We have to look at the franchise specification irrespective of who is doing the deal. We have to be quite clear about what we want. We have to be quite clear what we want in terms of rolling stock, what we require to be done where and, importantly, from my perspective, I have to link it in to the announcement yesterday on the metro. We have to be cognisant of all of the infrastructure issues to do with transport, not just the franchise delivery.

[154] **Alun Ffred Jones:** Bore da. Cytunaf yn llwyr â'r Gweinidog pan ddywedodd bod angen i ni gymryd '*control of our own destiny*'. Rwy'n siŵr y byddem yn cefnogi hynny 100%. Rwyf am ganolbwyntio ar gerbydau, neu'r *rolling stock*. Pa drafodaethau sydd wedi'u cynnal rhwng yr adran a chwmnïau cerbydau hyd yma?

Alun Ffred Jones: Good morning. I agree entirely with the Minister when she said that we need to take '*control of our own destiny*'. I am sure that we would support that 100%. I would like to concentrate on rolling stock. What discussions have taken place between the department and rolling stock companies to date?

[155] **Edwina Hart:** This will be very commercially challenging, the issues on rolling stock, because the amount of electrification means that there is a lot of interest in what stock is going on which line. There are a number of franchises that will require electric vehicles and the replacement of the existing electric vehicle fleets. So, there are a lot of issues. I also have to protect my commercial position in some of the answers that I might give on this area today. However, in planning for the future market, we have had discussions and we know what is going on in terms of rolling stock. We will consider both new and refurbished trains. I was a bit sceptical about refurbished trains, but I have met some of the individuals involved and they have shown me what refurbishment could do and it is a reality in terms of the standard—that is, the standard would actually be quite good. So, we are looking at the specifications on that, how we could procure it and how we go for the procurement. That is very much linked to how we will deal with the franchise.

[156] We also have to assess the long-term rolling stock needs, because of the, we hope, continued growth in rail transport. James can tell you about that. We need to look at the travel patterns. I do not know whether James wants to say a bit about that.

[157] **Mr Price:** Yes. The rolling stock needs are obviously dependent on how many people you want to carry and on the service patterns. Dependent on where you are deploying the rolling stock, you need wider doors to get people in and out more quickly, different types of seating, et cetera. One of the things that you have also discussed is rolling stock leasing companies. Our position is that that is not the only option open to the Welsh Government. Rolling stock leasing companies, in my view, are quite expensive. The current stock is very expensive. We have tried to buy it several times over the last 10 years, and we were unable to buy it because the company was making so much money in leasing it to us. So, there is more than one way to go about this.

[158] **Edwina Hart:** That is why we are meeting the companies. It is important that we look at that. There is urgency in terms of the discussion, because we need to take it forward. We need to recognise, as James said, the points about access to trains—the issue of disability access that is emerging and all of those particular issues. However, I am absolutely convinced that the way in which this might have been done historically is not necessarily the way that we will take it forward.

[159] **Alun Ffred Jones:** Dywedodd yr **Alun Ffred Jones:** The Department for

Adran Drafnidiaeth y bore yma ei bod yn ffafrio'r drefn lle mae'r cwmnïau sy'n ennill y fasnachfaint yn prynu'r cerbydau. A ydych yn dweud wrthym y bore yma eich bod chi, mewn gwirionedd, yn ffafrio'r model arall?

Transport said this morning that it favours the arrangement whereby the companies that win the franchise buy the rolling stock. Are you telling us this morning that, in reality, you favour the other model?

[160] **Mr Price:** There are a number, are there not?

[161] **Edwina Hart:** There are a number of models that we are looking at. I have to say that we are not content with the arrangements that applied before. We do not think that they have offered value for money for us.

[162] **Mr Price:** The DFT's evidence suggests something slightly different from a rolling stock company. It is suggesting that the franchisee would buy the rolling stock, which might offer better value for money than a rolling stock company. However, the further option might offer even better value again.

[163] **Edwina Hart:** Namely the purchase of our own rolling stock.

[164] **Alun Ffred Jones:** Un peth a oedd yn glir iawn yn nhystiolaeth y cwmnïau prydlesu cerbydau oedd bod y cyfnod paratoi yn un gweddol faith o ran prynu cerbydau. Byddai angen dwy flynedd i baratoi a thair blynedd, efallai, cyn derbyn y cerbydau. Felly, mae hynny'n bum mlynedd ac mae'r fasnachfaint yn dod i fodolaeth yn 2018. Mae hyn yn cael ei gymhlethu oherwydd, os ydych yn gosod y fasnachfaint yn 2018, mae angen prynu'r cerbydau cyn hynny. Ai dyna yr ydych yn gobeithio ei wneud? A ydych yn gobeithio gosod y cytundeb i brynu'r rhain cyn eich bod yn gosod y fasnachfaint?

Edwina Hart: One thing that was very clear in the evidence of the rolling stock leasing companies is that the preparatory period in terms of purchasing rolling stock is fairly long. Two years would be needed to prepare, and then it might be three years before you received the rolling stock. Therefore, that would be five years and the franchise comes into existence in 2018. That is complicated by the fact that, if you let the franchise in 2018, you need to purchase the rolling stock before that. Is that what you hope to do? Do you hope to let the agreement to purchase the rolling stock before you let the franchise?

[165] **Edwina Hart:** Yes.

[166] **Nick Ramsay:** I believe that what the Minister has said, if I can paraphrase this, is that you do not shut the door on second-hand rolling stock—cascaded rolling stock, is that not the term that you used?—which I imagine would be a quicker process.

[167] **Alun Ffred Jones:** That was not the question.

[168] **Edwina Hart:** James, do you want to outline where we are?

[169] **Mr Price:** Once again, there is more than one factor at play here. In one way, it all looks very sensible for electrification to be coming in at the same time as the end of the current franchise period, but, in another way, that has built a lot of uncertainty into the potential new contract, because no-one will know how good the infrastructure is and how likely it is to break down. You cannot price uncertainty very well into a contract, or you would price it very high if you were bidding for a franchise. So, one option—and I am not saying that it is that attractive—might be to look for an extension with the current operator for a couple of years to allow the new electric infrastructure to be put in place, to see how effective it is. That would allow, probably, a better price from a new franchise operator, but it would also deal with the issues that you are raising in terms of rolling stock. If we did not do that, options for procuring a bit quicker than you said are there, but those options are more

around adding maybe 100 or 200 units to an existing order, rather than specifying something exactly for Wales. Lots of different parts of the UK are currently buying trains and we have had discussions with train builders that have said that, if we come in on the back of that order, not only will we get a better price because we are paying a marginal price rather than a total price, but the additional time taken to manufacture 1,200 units rather than 1,000 units is a marginal increase—if that makes sense.

[170] **Alun Ffred Jones:** Mae gennyf un cwestiwn arall. Mae'n ymddangos, felly, fod cael amserlen bendant ar gyfer trydaneiddio rheilffyrdd y Cymoedd yn hollbwysig o ran y strategaeth gerbydau, pwy bynnag sy'n eu prynu. A ydych mewn sefyllfa i allu dweud pryd y byddwch yn cael y sicrwydd hwnnw ynglŷn â'r amserlen ar gyfer trydaneiddio?

Alun Ffred Jones: I have one further question. It appears, therefore, that setting a timetable for the electrification of the Valleys lines is crucially important in terms of the strategy for rolling stock, whoever is to purchase it. Are you in a position to tell us when you will have certainty in relation to a timetable for electrification?

[171] **Edwina Hart:** It is due to start in October 2018, and it is due to be completed by December 2019. Network Rail will be required to deliver it and the rail regulator must ensure that it is delivered.

[172] **Byron Davies:** I would like to pick up on something that you said, James, on the ROSCO issue of purchasing rolling stock. When Porterbrook Leasing Company Ltd and Angel Trains were here last week or the week before, they talked about the fact that it is a huge process—the financing, the management and the servicing of everything. How do you see yourselves taking that forward?

[173] **Edwina Hart:** Which aspect in particular with regard to taking it forward?

[174] **Byron Davies:** In terms of managing the whole issue of servicing them, managing the actual stock, making sure that they are in the right place at the right time and taking them to the depots to be serviced. The impression that I got from the companies was that it is quite a task.

[175] **Edwina Hart:** ROSCOs do not do that anyway.

[176] **Byron Davies:** No, but it is part of the whole process.

[177] **Nick Ramsay:** Are you asking, Byron, whether that is all factored into the franchise?

[178] **Mr Price:** Yes, you would simply say to the franchisee, 'You do that. We are providing you with trains: you insure them, you maintain them and you take liability. All we have done is to provide you with the units.'

[179] **Nick Ramsay:** There are different models of doing that, are there not, where you could take more or less responsibility?

[180] **Mr Price:** Yes.

[181] **Nick Ramsay:** Okay; that is fine.

[182] **Edwina Hart:** We have talked a lot in this discussion about the implications of rolling stock, but there are also implications regarding the need for drivers to be trained to use the new electric trains. There are also issues regarding infrastructure needs to train them and there is a range of issues around this. It is not just about rolling stock; it is far wider.

[183] **Nick Ramsay:** On the rolling stock issue—and I asked this question to the previous witnesses—do you think that there will be benefits to a long-term rolling stock strategy for Wales, or do you think that it is better just to leave it to individual franchise agreements?

[184] **Edwina Hart:** I believe that we should look at a long-term strategy in terms of what rolling stock we require.

[185] **Nick Ramsay:** Byron, do you have any further questions on franchise development?

[186] **Byron Davies:** No, that is fine.

[187] **Nick Ramsay:** Are you sure?

[188] **Byron Davies:** No, I have other questions. My apologies.

[189] **Edwina Hart:** Do you want to talk any more about the franchise specification and where we are going and where we are looking, because we would be more than happy to go through those areas in terms of what will be required?

[190] **Byron Davies:** Okay, let us talk about the franchise specification development process. I have a direct question: what is the process by which the Welsh Government will develop its priorities for the next franchise specification, including the methodology that you will adopt?

[191] **Edwina Hart:** It is fair to say that we have experience of all of this, particularly with the director general. We have been looking at our capacity internally as well in relation to how we can deal with issues. However, we are still finding it exceptionally challenging in terms of the level of expertise that we will require to assist us during the process. James will be better placed, as director general, to comment on any of these issues.

[192] **Mr Price:** The important point to start from is where we are. So, we are not starting from nowhere; we have a service pattern that people are used to and, to a large extent, people expect to see it continuing, albeit that we know where there is demand for additional services and we know where we have congestion points. Importantly, as the Minister has already said, we have just had the metro report, which talked about opportunities for significant increases in intervention in south-east Wales, and the Minister has a group looking at this in north Wales as well. So, we have a good idea in terms of the general service patterns we would like to see. Arriva, as an operator, also has data in terms of where it would like to change service patterns, and Network Rail has data in terms of what it would like to see. What we need to do, which we have not yet done, is to pull all of that together into a coherent plan in terms of what we would like to see procured. The extent to which we do that, or we provide data to the Department for Transport to do that, will be determined by how much power we take. Time is not that critical yet, but it will become critical if we do not get moving along the timescales that the Minister stated earlier.

[193] **Keith Davies:** May I add to that, Chair? I was going to ask a question on Welsh Government skills. I will quote what the Department for Transport told us earlier when we asked, on the franchises that it is procuring, what kind of support it had. It said that it had set up teams of eight, but that that was proving to be quite tight. On top of that, it has advisers for technical, legal and financial issues. So, we are really talking about teams of 12 or 15 people. Are you able to set up that kind of scheme?

11:00

[194] **Edwina Hart:** Yes, we are. However, it has not been easy to find sufficient personnel

to be able to assist, because it is currently an overcomplicated process, and it does not need to be, in our opinion.

[195] **Byron Davies:** How are you going to include passenger groups in all this?

[196] **Edwina Hart:** Do you mean in terms of passenger involvement in the franchise? We will obviously engage with the various groups that already advise us and that take an interest. I have already done quite a lot of engagement with passenger groups, and we will keep them, as far as we are able, in the loop on discussions. However, they concentrate on the outcomes for passengers, and we will see then if we can marry where we are going with the outcomes that passengers require. Those, of course, will be improvements in stations, timetables and rolling stock.

[197] **Byron Davies:** We were talking this morning with the Department for Transport, and we think that it has accepted that there was insufficient consultation with passenger groups, et cetera. Clearly, it is an important—

[198] **Edwina Hart:** It is exceptionally important. We might want to look at some sort of forum, as we develop our thoughts on it, to involve all the passenger groups. They have enormous interest and, I have to say, enormous expertise. If any passenger groups come to committee, you will find that they understand the rail service really well.

[199] **Nick Ramsay:** Minister, I am quite happy to nip on a train with you in Cathays at rush hour and garner some views on the way to Queen Street. As you are packed onto those trains, with limited doors opening, you can get quite interesting views on the future of the franchise.

[200] **Edwina Hart:** I had quite a nice train journey on Monday from Swansea, I must say.

[201] **Nick Ramsay:** The Athens of the west. Are you done, Byron?

[202] **Byron Davies:** Yes, that is fine; thank you.

[203] **Nick Ramsay:** Keith Davies, did you have a question?

[204] **Keith Davies:** I have asked my question; thank you.

[205] **Nick Ramsay:** Okay. We will move to Eluned Parrott on the terms of a franchise agreement.

[206] **Eluned Parrott:** Thank you, Chair. We have heard a lot about the weaknesses of the current franchise agreement, and the one that is most often quoted to us is the lack of planning for growth in that agreement. What modelling has been done to anticipate growth levels?

[207] **Edwina Hart:** We are currently doing modelling to anticipate growth levels, because that was the main flaw of the last agreement that we entered into. We have work going on internally.

[208] **Mr Price:** Growth is about 3% a year currently, but that is not even all across Wales. There are particular pinch points. The Valleys lines are still growing significantly. There are two issues there. The first is physical capacity, which electrification will help to deal with in terms of increased frequency of trains and longer trains. The second, which is much more difficult, is the overall cost of operating the system and the fact that, basically, for every additional passenger that requires additional infrastructure—a new train unit—they carry with them a cost for Government, because it is a net subsidised service. So, we have to somehow

find a way of breaking through all of that.

[209] **Eluned Parrott:** With regard to growth modelling, we are making an assumption that there will be growth over a period of time, but we have just heard evidence that the east coast main line franchise failed because the predicted growth level did not materialise. Therefore, the level of revenue was not adequate to cover the cost of running the service. How will you ensure that you are adequately taking into account that kind of risk? Who will bear that risk: the franchise operator or the Welsh Government?

[210] **Edwina Hart:** In terms of the main line service, I would not say that it was a good, direct comparator.

[211] **Mr Price:** In one way it is a good comparator, but in another it is not, in the sense that that was a revenue-generating franchise, whereas with this franchise, as growth comes in, it costs more money for the Government. So, we need to think about the risk and work it through in terms of what infrastructure provision we make. However, in the last 10 years, if the growth had not occurred, it would have cost us less money, not more.

[212] **Edwina Hart:** However, we want growth.

[213] **Mr Price:** Yes, we obviously want growth to occur.

[214] **Eluned Parrott:** I want to ask some questions about how the specifications of the new agreements might coalesce with the plans that you announced yesterday on the metro proposals, for example. One of the things that you might want to do is encourage modal shift, which will potentially take passenger numbers off heavy rail and onto light rail, so that we can increase capacity for freight, for example. How will you plan for that in the decisions on how the metro is going to progress and how quickly we are going to implement some of those longer term proposals? If those decisions are not made early on, surely that will have an impact on how able you are to be specific in terms of the franchise agreement you are developing?

[215] **Edwina Hart:** Yes, that is why it all needs to be drawn together, hence the statement yesterday about bringing a group together to look internally at the development of the metro. It has to link into the discussions we are having on the new franchise. It is very important when we go to franchise that the provider, whoever it may be, is integrated into our discussion as the issues arise. You also raised an important point yesterday about the proposals for where the stations should be. All that will have to be contained in our discussions. We are confident that we have the information base to be able to draw all those various strands together. It is important from our perspective to get that integration, because the metro is not just about the trains. As we have discussed today, it is also about all the other shifts—how we deal with buses linking to it, how we deal with the timetabling and how we do those fairly basic things. Sorting the ticketing out will be a major issue for us as we bring all these particular strands together. You should be able, as happens in the rest of the world, to purchase one ticket to go on the tram, go on the bus, go on the train, and go across the lake in Geneva—you can do all that on one ticket. It will be a challenge for us in the next few years to develop that, if we are to see a transport system that is fit for purpose.

[216] **Eluned Parrott:** You often see that kind of system in urbanised areas, but less often on a national basis. Also, in those urbanised areas in Britain where those kinds of systems are in place, you have passenger transport executives running them as opposed to a much looser—

[217] **Nick Ramsay:** [*Inaudible.*—city region area.

[218] **Eluned Parrott:** Indeed, yes. You hinted yesterday that that might be a direction you would travel in.

[219] **Edwina Hart:** That is an ongoing discussion I am having.

[220] **Eluned Parrott:** In terms of looking at the longer term development of south-east Wales, it is a slightly different kind of network to, for example, the Cambrian line and the north Wales coast line and so on. In the long term, are you going to be looking at asking a passenger transport authority to deliver the Valleys lines and, potentially, a tram and buses? If so, are you thinking in the long term of maybe taking the Valleys lines out of the Wales and borders franchise?

[221] **Edwina Hart:** We are actively looking at the role of future joint transport authorities, because I have those powers. That is one of the areas. We are trying, now that we have the metro report, to engage in a proper dialogue across the metro area with those who have an interest in these particular issues. However, I do not think that there are any common themes emerging, because there is a lot of vested interest in having an involvement in these areas. We cannot afford to have vested interest anymore, because we have to look at it strategically. There are all sorts of possibilities that might emerge if we can get the city regions structure correct and linked to transport.

[222] **Eluned Parrott:** Finally from me on this area, one of the other weaknesses identified in the early franchise lets is the lack of an ability to set targets for performance against quality issues as opposed to very obvious performance targets such as reliability and punctuality. How would you envisage setting up a monitoring regime that was robust enough to be used as a punitive regime if standards were not met, or would you be reliant on the passenger surveys? Alternatively, would you look to the kind of service quality incentive regime approach they have in Scotland, where they send inspectors in?

[223] **Edwina Hart:** We have looked at the SQUIRE approach in Scotland. Some think that it is a bit too much, but I am quite attracted to some of the methods in Scotland. I think, James, that we are giving that consideration.

[224] **Mr Price:** Absolutely.

[225] **Edwina Hart:** The Scottish model is quite interesting.

[226] **Mr Price:** It is, and you will obviously have seen it. I remember when I first got involved in transport here, a couple of quite good friends of mine who were operating English franchises phoned me and said, 'You should look at the way Scotland is doing it, because it really keeps them on their toes'. This was when squabs were missing off chairs on Arriva trains, the toilets were constantly blocked and all those kinds of things. They would have been financially penalised if they were in Scotland.

[227] **Nick Ramsay:** We will be hearing from Scotland.

[228] **Mr Price:** It is arguably more important in a subsidised service than it is in a service where the contractors are making money off the back of the payer. Usually, people would not pay if they are not getting the service. However, when they are guaranteed to get the money, provided they run the train, basically, it is much more important to have a quality measure built into it.

[229] **Nick Ramsay:** We are going into the last 20 minutes. Mick has a supplementary question. Do you also want to ask your questions about management models?

[230] **Mick Antoniwi:** Yes. I will take them through, because we had started to get on to the metro area. This is probably one of the most exciting and challenging periods in respect of transport for generations. Not only is the whole metro concept visionary, but it requires significant culture change among all those who buy into it. One of the difficulties that you have, as you referred to earlier, is vested interest. I appreciate that it is relatively early, but what is your thinking as to how, within the various processes, we get all the organisations to buy into the culture change in terms of the role of transport and all its elements having a synergy?

[231] **Edwina Hart:** I think that business has bought into this cultural change, because it understands its importance. It has looked enviously at other systems, such as the one in Manchester, and at how strategic transport is run there and on the continent. Our problem is within the public sector. The problem is within local authorities, because they naturally have an interest in what is happening to the people who live in their area—how they go back and forth to work and how transport systems are run. On the other hand, with this being such a major change, you cannot have any boundaries any more. This is the cultural change: the fact that there is no boundary. This is all one region and one metro, and it will all stack up. You cannot think individually about what might happen in Torfaen and Newport; this is all strategically interlinked. That is why we have the cultural change agenda. Also, we have 10 local authorities within the area of the metro. They are very different in terms of size and in terms of where they are. The issues on transport infrastructure are totally different in Cardiff. We have Cardiff Bus and some of the commuter lines. It is all very hard. That is the area that we are finding it difficult to get to grips with.

[232] A lot of people are interested in transport and a lot of politicians are interested in transport. However, sometimes, when I am having the dialogue about the cultural change, local authorities are also looking over their shoulders at, dare I say it, Sir Paul Williams's review of what might be going on in the public sector. I think that that is sometimes colouring the judgment issues, which are around seeing the metro and the collaboration agenda as an opportunity. When I speak to the leaders collectively, they see that. However, we also have to remember that there are a lot of people who have a lot of fiefdoms within certain areas and might not have that vision and be able to hold on.

[233] One of the issues that have been interesting in discussions about SEWTA is whether it is part of it. At the end of the day, this is going to be a project that is going to be so complicated, technically and in terms of understanding. I am going to have to look at a structure that can take this project forward. I do not think that I have any old structures that are suitable. That is why I am pleased to confirm that we are looking at joint transport authorities. We are looking at them, but I need that engagement from local government, because I need their financial support, possibly, as well as that of the central Government, as part of the arrangements for sorting out the money behind the metro. I am sure that I cannot be clearer; this is a really hard dialogue to be having. We talk about city regions, and I really loved Dr Haywood's report, but the reality of the implementation of the report is a damn sight harder, because you have individuals. However, the goodwill that emerges from the majority of local authorities is particularly positive. The other evening, I was with you, Chairman, and the leader of Monmouthshire council, which is very pro getting our act together on this metro and is signed up to the collaboration. This is going to be the difficulty.

[234] **Nick Ramsay:** I am very keen on the rural links to the metro as well.

[235] **Edwina Hart:** Exactly. Good points were made yesterday by William Graham. If we look at Magor, we will see that Magor is not in it. However, if things change and if houses are going to be built and people go back and forth to work, then it will naturally go into those areas. We have to be prepared for a fundamental rethink in terms of where people think housing developments are going to be and where new communities are going to be. If people

are not prepared to take this into account within their psyche and say, ‘The world is not going to be as it is currently, because this project is going to take a long time’, then we are not going to make progress on it.

[236] **Nick Ramsay:** There is a large new development in Chepstow called Severn Quay, which is using the railway station there. That is something for you to look at.

[237] **Edwina Hart:** Absolutely. That is key. The trouble is that because this is a long-term project, nobody sees any immediate benefit. That is why it was important, when we had questions yesterday, to talk about the short-term wins in this. They have to be seen, so that people know that there is good faith, that the project has started, that there is some work going on, that there are stations that align, and that everything is done. They can then see that something satisfactory will come in after 2020. However, this is the hard part of trying to do something, so I am always very grateful for the maximum cross-party consensus that we can get in the Assembly to be able to drive the project forward.

11:15

[238] **Mick Antoniw:** I have been trying to avoid, throughout the development of this debate and in the evidence sessions, making references to rolling programmes, but, effectively, that is what we have here. There is a whole series of rolling programmes to be tied together. To what extent might that impact on the length of term of a franchise? One of the areas that we have been exploring has been the difficulty between looking at the pros and cons of short-term franchising, as opposed to looking at long-term franchising, which probably lends itself more to the overall vision, but, of course, has potential downfalls as well.

[239] **Edwina Hart:** Yes, you are absolutely correct. If we could get the specification and everything right, in terms of the arrangements, I would favour going for more of a long-term relationship with someone. That would be my preference. However, James is more of an expert in this area.

[240] **Mr Price:** I would say a longer-term contract where people are incentivised correctly and where there are some sticks as well, so that you can break the contract if people start doing things that you really do not like—or not things that you do not really like, but things that they know that they should not be doing. You need to be able to break contracts. There are contracts like that—contracts that incentivise people and contracts that also allow you to break those contracts.

[241] **Edwina Hart:** We think that you can then build up relationships in terms of your wider plans. As I answered earlier, whoever gets this will have to be involved in the wider planning. Sometimes, when it is too short term, the franchisee will think, ‘How can I make a quick buck on this? Am I going to get it next time?’ So, there is merit, if you can get the specification right. This is something that we are going to have to find our way through in terms of what happens, depending on who is leading these discussions.

[242] **Mick Antoniw:** Minister, the course of the debate on the issue that we were discussing a year or two ago in respect of the possibility of not-for-dividend models has changed, because we are now talking about a whole series of other groupings coming into it. The department officials in the earlier evidence session indicated that they had no mandate or objection to that, as a concept, being developed. What is the Welsh Government’s thinking on that now?

[243] **Edwina Hart:** To be perfectly honest, everybody talks a lot about the options on this, but no substantial amount of work has been done anywhere on this. It has all been rather floaty stuff, such as ‘Wouldn’t it be nice to do this?’, rather than there being anything

specific. We are looking at options, and we are more than prepared to look at this, to create an even playing field that would allow an operation of that sort to come forward, but I would not say that we have got anything specific that I can share with the committee today. Everybody has said something about it. I have had dialogue with the trade unions about it, but I think that they recognise that nobody has got a piece of work that says, ‘This is how it would be, this is how it would operate and if you created this playing field, this is what would be done.’ We do not have that, and, to be honest, we have not had the luxury of the time in the department to explore it fully. I think that is fair, is it not, James?

[244] **Mr Price:** I think that that is right. You would have to go through some quite convoluted things to ensure that there was a not-for-dividend model on a franchise basis. So, a franchise, I believe, having looked at everything, would need to be competed for, and it would be potentially difficult to exclude players that were not not-for-dividend vehicles. The Welsh Government could, of course, set up an arm’s-length not-for-dividend vehicle, but it would then have to bid for the work against other players. An entirely different model might be a concession model, where you could set up a not-for-profit model. That would be a whole lot simpler, but we would require the powers in order to do that.

[245] **Edwina Hart:** If we knew that we were to have the powers, I would do some work on that particular model.

[246] **Mr Price:** That would work much more with the bus stuff that the Minister has talked about and the metro.

[247] **Edwina Hart:** Yes.

[248] **Rhun ap Iorweth:** Chair, may I come in there? It is the same question that was asked to the department earlier: would you be interested in incentivising, in some way, a not-for-dividend option through the specification and—

[249] **Edwina Hart:** Yes, you can do that, and that might be something that we would consider. However, we would have to be certain that that would then emerge, would we not?

[250] **Rhun ap Iorweth:** Is it something that appeals more than the traditional way of doing things or is there an equal appeal for you?

[251] **Edwina Hart:** I think that it does appeal, because it is an out-of-the-box solution that might work. There is something appealing about it, and we will do some further work in that particular area. However, I would not like the committee to have the impression that stacks of work has been done on this, because that is not the case.

[252] **Rhun ap Iorweth:** No, but—*[Interruption.]*

[253] **Nick Ramsay:** You are not joining any conference, Minister, despite what that voice we can hear from another committee room tells us. You will get your final 10 minutes with us. *[Laughter.]*

[254] **Rhun ap Iorweth:** Going back to my point, it is useful for us to find out from the various people giving evidence what their preferred option is, and I take it from that that it would, in an ideal world, be a preferred way forward.

[255] **Edwina Hart:** It would be a good option. I doubt that the Department for Transport would think that it was a good option.

[256] **Rhun ap Iorweth:** It is not saying that it is bad either.

[257] **Nick Ramsay:** I need to move things on. I will bring Byron Davies in next, briefly, and then Keith, who has some questions on infrastructure, too.

[258] **Byron Davies:** My question is slightly out of context now, because it is on the earlier point that you raised about LDPs and housing, and we talked in the Chamber yesterday about a joined-up approach to the whole thing. Who will lead on the strategy on this?

[259] **Edwina Hart:** In terms of the transport part of it or the city region part of it? They actually interlink now. It is quite fortunate that transport has come into my portfolio, because it allows us to take a coherent approach to the development of transport links, which would be excellent for city regions and for economic development. So, we will be taking the lead on setting the policy agenda, but when I hopefully make the announcements to the Chamber in November, you will see the type of lead that the region will have to take, by the people who will be appointed on the board, because, as I said yesterday, it will be a private-sector-led board within south Wales, not a local government one, as there is in the south-west.

[260] **Keith Davies:** Byddaf yn gofyn fy nghwestiwn yn Gymraeg. Roedd Arriva Welsh. Arriva Trains joined us last week or Trains gyda ni yr wythnos diwethaf neu'r the week before and it said: wythnos cyn hynny a dywedodd:

[261] '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.'

[262] A ydych chi'n meddwl bod eisiau Do you think that we need to change the newid map presennol y fasnachfaint? A oes current franchise map? Do we need to bring eisiau dod â mwy i mewn? Beth yw eich barn more in? What is your opinion on that? chi?

[263] **Edwina Hart:** Where we are currently with the Wales and the border franchise is just a starting point. We might want to consider bringing further people in, but that would be a matter for discussion with the DFT. Am I correct, James?

[264] **Mr Price:** Absolutely. The simple thing here is that routes into major urban areas tend to make money and routes that are less used tend to require a subsidy; I suspect that the DFT would have said that earlier. So, if we could gain some of the routes into a Wales franchise that made money, it would cross-subsidise other things. However, given that we are negotiating with the DFT for a transfer of resources, I suspect that it would also know that and net that off any transfer. So, provided that everyone is as smart as each other and that everyone is honest in this, it will all be okay whatever happens.

[265] **Edwina Hart:** We hope so.

[266] **Keith Davies:** Roeddech chi'n **Keith Davies:** You said earlier that you get dweud yn gynharach eich bod chi'n cael £150 million from DFT or Network Rail. £150 miliwn oddi wrth DFT neu Network Does that include, for example, going to Rail. A yw hynny'n cynnwys, er enghraifft, Shrewsbury? eich bod chi'n mynd i'r Amwythig?

[267] **Mr Price:** It is £140 million or £150 million—I think that it is £150 million. It is not from Network Rail, it is simply a block transfer into our grant that was originally put there to cover the Wales and borders franchise. It does not cover the cost any longer.

[268] **Edwina Hart:** That is because of the exponential rise of passenger numbers who we

have had to pay for.

[269] **Mr Price:** That is right.

[270] **Keith Davies:** Mae gennyf un cwestiwn arall. Rydym ni fel pwyllgor wedi bod yn edrych ar y lle newydd sydd gan Network Rail i edrych ar bob llinell sydd yng Nghymru. A yw hwnnw'n edrych ar y llinellau sydd yn Lloegr hefyd? Yn Canton, aethom i mewn i weld y cyfrifiaduron i gyd ac roedden nhw'n dangos pob trê'n a oedd yn mynd yng Nghymru. A ydynt yn edrych ar y trenau yn Lloegr hefyd yno?

Keith Davies: I have one further question. We as a committee have been to that new place that Network Rail has to look at every line in Wales. Does that look at those lines that are in England as well? In Canton, we went in to see all of those computers and they showed every train that was going in Wales. Are they also looking at trains in England there?

[271] **Mr Price:** They look at the trains that run across the border. I am not exactly certain where Network Rail's cut-off point is in terms of that unit, because it has another unit. There is one in Swindon that does a similar thing as well.

[272] **Keith Davies:** Yr hyn a glywsom yn gynharach bore yma oedd bod y fasnachfaint yn gwneud elw o'r llinellau sy'n mynd i mewn i'r Amwythig, i Fryste, i Fanceinion, ac yn y blaen. Fe fyddem yn meddwl ei bod yn bwysig ein bod yn cadw'r rheiny.

Keith Davies: What we heard earlier this morning is that the franchise is now making money from those lines that go into Shrewsbury, Bristol, Manchester, and so on. I would have thought that it is important that we retain those.

[273] **Edwina Hart:** Yes.

[274] **Nick Ramsay:** I think that the cut-off point for that control centre is somewhere around the Severn tunnel. I think that they are trying to move all the signalling of the Welsh area to there. Alun Ffred Jones has a brief supplementary question and then, finally, we will hear from Joyce Watson.

[275] **Alun Ffred Jones:** Just to confirm that you are thinking, therefore—sorry, I am going back to a previous point—about buying rolling stock and then, presumably, presenting that to the successful bidder for the franchise. That will cost a great deal of money. I think that the figure that was mentioned the last time was about £2 million per unit, perhaps more than that.

[276] **Mr Price:** It is between £1.5 million and £2 million.

[277] **Alun Ffred Jones:** It is less for a refurbished unit, but that is a chunk of money that will come out of the Government's coffers. Is it realistic?

[278] **Edwina Hart:** Yes, it is realistic in terms of the issues that we are looking at, but, obviously, that will stack up in value-for-money terms, and we will have to look at how it can be dealt with financially.

[279] **Joyce Watson:** Hello, good morning. I want to ask about community rail and the benefits of an enhanced role for community rail in the next franchise. Do you envisage such a role?

[280] **Edwina Hart:** Yes. We are actually doing quite a lot with the partnerships in community rail, because I am doing something with community rail partnerships generally and I have been doing quite a lot of work with the Cambrian line partnership on some things,

because it is going to do a survey for me, which I think that it has just started, has it not, James?

[281] **Mr Price:** Yes.

[282] **Edwina Hart:** It started last week, and I will make an announcement about the work that we are doing, because we have a very active community transport sector, and there are five different rail partnerships within it, and we engage with them on a regular basis. I think that it is valuable from the point of view of developing what customers want and, as I indicated in an earlier response, some of these people really know their business in terms of understanding the rail service, and we will look, when we look at the new franchise, as I indicated before, at strengthening relationships with them, so that they can help us in terms of policy development.

[283] **Joyce Watson:** Thank you for that. Are you considering including any specific obligations in that next franchise agreement that will require the operator to support and develop community rail?

[284] **Edwina Hart:** I think that that is one of the aspects that we will be looking at, but we have not made a decision yet about whether we would include it specifically.

[285] **Joyce Watson:** On the effectiveness of current support for community rail in Wales, are you happy that the current level of support is sufficient?

[286] **Edwina Hart:** We have one rail officer allocated, do we not, to each?

[287] **Mr Price:** That is right, yes—and that we fund.

[288] **Edwina Hart:** We fund that group, but I am more than happy, if the committee feels that that is relevant, to pick that up when we look at future developments.

[289] **Nick Ramsay:** Great. Thank you, Minister, that is really helpful. I thank the Minister, Edwina Hart, and also James Price, director general of EST, for being with us today. We will consider your comments and make our recommendations to the Government accordingly.

[290] **Edwina Hart:** It might be helpful, Chair, for me to say that, if there are developments on the franchise issues, I would be more than happy, in a private session, for there to be further briefings to members of the committee, if there are issues that I would want to discuss with you as fellow Assembly Members and committee members that would not be appropriate to discuss in the public domain, as discussions develop.

[291] **Nick Ramsay:** That would be helpful. We fully understand that there are large commercial considerations at this point, but, whatever we can do to try to make the next franchise more successful, the committee will endeavour to do that.

[292] **Edwina Hart:** Lovely. Thank you very much, Chair.

[293] **Nick Ramsay:** We need to set up the video link with Transport Scotland for the session that is due to start at 11.35 a.m., so we will take a break until then.

*Gohiriwyd y cyfarfod rhwng 11:29 a 11:36.
The meeting adjourned between 11:29 and 11:36.*

**Ymchwiliad i Ddyfodol Masnachfrait Rheilffyrdd Cymru a'r Gororau (drwy
Gyswllt Fideo)—Transport Scotland
Inquiry into the Future of the Wales and Borders Rail Franchise (via Video
Link)—Transport Scotland**

[294] **Nick Ramsay:** I welcome Members back to this morning's meeting of the Enterprise and Business Committee, continuing with the committee's inquiry into the future of the Wales and borders rail franchise. We now have an evidence session via video link with Scotland. I welcome our witness from Scotland. Thank you for giving oral evidence to us at such short notice, following much interest from the committee in the way that things are being done in Scotland. Would you like to give your name and title for our Record of Proceedings, please?

[295] **Mr Henderson:** Bore da. I am Frazer Henderson, and I am the head of rail policy at Transport Scotland.

[296] **Nick Ramsay:** Thank you, Mr Henderson, and bore da to you. We have a number of questions for you, the first of which is from Mick Antoniw.

[297] **Mick Antoniw:** Good morning. We are very interested in the Scottish approach to the issues of powers within the devolution settlement, and also in looking at transport with different management models. I wonder whether you could perhaps outline to us the specific Scottish approach to the franchises and what your vision is for the sort of franchise and arrangement that would best serve the public.

[298] **Mr Henderson:** There are number of issues in that, and it might be better if I were to give you a time frame and an idea of where we sit legislatively. As you are probably aware, the Railways Act 1993 has been executively devolved to the Scottish Parliament, but not legislatively devolved. So, we still have to act within that framework. That has a couple of issues in it for the Scottish Ministers. One, quite clearly, is that, in section 25 of the Act, there is a prohibition on public sector involvement in rail franchising. The only element by which the public sector could realistically become involved is through the Scottish Ministers being the operator of last resort should a franchise exercise fail or, indeed, should a current franchise cease to operate effectively, as we could then step in as the operator of last resort.

[299] That was one of the things that we looked at initially, way back in 2011: what would be the framework for our franchise? Our Ministers were quite keen for all options to be on the table, but, quite clearly, the legislation prohibits public sector involvement. The legislation, however, does not state what model, or, indeed, what form, the franchise should take, and it would therefore be open to us to specify the terms, or, indeed, to specify whether it was going to be a service contract, a co-operative venture, a not-for-dividend, or a conventional franchise. We looked at all of these issues and undertook a great deal of study, drawing on, in fact, some of the issues around the setup of Glas Cymru, for instance, and Network Rail.

[300] In 2011, when we were looking at this, there were no realistic organisations that could take forward a not-for-dividend franchise and the Ministers could not stimulate such an organisation, because that would have been in contravention of the general laws on competition and fair procurement. So, at the end of the day, after a lot of discussion, and a lot of consideration, we were left with pursuing a standard franchise approach using private sector operators. Our Ministers made a number of representations to Westminster for changes to the 1993 Act that devolved powers to them, but all of those representations were rejected. That, in a sense, is the background of where we are, so we are in fact going forward on a standard franchise approach. What our Ministers wanted to do was to ensure that the franchise was attuned to the needs of the Scottish people. In terms of that, we took forward a large

consultation exercise, which I would be happy to expand on if there are further questions in that regard.

[301] **Mick Antoniw:** [*Inaudible.*—the franchise model, is that really just a continuation, perhaps on better terms, of what you have, or have you looked more at how you might integrate that within other elements of transport as well?

[302] **Mr Henderson:** The framework is a standard franchise model in that we will be engaging a private operator to take forward our wishes. The model itself is slightly different. We have two franchises that we are letting. We are letting the Caledonian sleeper franchise, and we will be letting that for a 15-year period; in fact, the invitation to tender has gone out to the three successful parties who are eligible to bid for that. On the ScotRail franchise, we are letting a 10-year franchise but with a five-year break point, and the break can be initiated by either party. In terms of the framing of the franchise, our Ministers are very clear that the specification in it aligns with greater transport ambitions, predominantly around integration. So, smart ticketing will be a specification within the next franchise and, on greater integration, we will be looking for the bidders to come forward with their propositions to integrate much better with buses, with active travel, cycles, and with pedestrian footpaths to the stations, bearing in mind that the stations are merely the portals to the service, so, how do we integrate those within the community? Talking about communities, there is a greater emphasis on community rail, so that the rail stations become the centres of the communities in terms of a transport perspective, and then there are a number of issues around that, which are the general integration elements. So, it is a key element for the Scottish Ministers. It is one element of our transport network. Allied to that, there is substantial investment going into the railways. As you are probably aware, in Scotland, we have opened a number of new lines, and we will be opening another new line in 2015, taking railway services from Edinburgh into the borders. There are a number of new stations planned, and, in terms of the franchise itself, there will be a huge uplift in the quality of the rolling stock. We are investing in new rolling stock to link Edinburgh and Glasgow together. So, actually, an awful lot is going into Scotland's railway network to help with integration, to help Scotland get moving, and to help Scotland plc.

[303] **Mick Antoniw:** May I just make one short point on that? I know there are a lot of questions to answer, and it is very interesting. On the length of franchise, you referred to almost a break-clause approach within it. What challenges does that present in terms of actually putting together the whole franchise? It potentially creates an additional element of risk and uncertainty for those putting in for the franchise.

[304] **Mr Henderson:** You are absolutely right on that. The background to it, really, is that the general view on franchising pre the Brown review was that longer franchises were good news, because they allowed the franchisee to put enough investment into it. However, one of the realities is that it is very hard to forecast what is going to happen in five, seven or 15 years' time. So, we took a view that 10 years would be appropriate. Our Ministers wanted to put a break clause into it, to be initiated by either party, to enable us to rebase the franchise if, for instance, the economic climate should change dramatically, or there should be other exogenous factors. The break clause was to ensure that the franchisee was delivering on the specification that we had set, and we would be looking in particular at key performance indicators in terms of service and performance quality.

11.45

[305] We felt also that it is indeed a risk for both parties entering into that, but if the contract is framed in such a way that the contractor is delivering on our specification, we have no concerns or worries, and that, if exogenous factors are controlled as far as they can be, there will be no need for us to enter into substantial rebasing at the five-year point. So,

although on balance it would appear as a risk, we think that there are benefits for both parties, because both parties can renegotiate some of the terms of the contract.

[306] I cannot go into much more detail, because the invitation to tender, which will set this out in more detail, is going to be published, and the Minister will wish to pull the rabbits out of the hat rather than allow some official to do it on his behalf. However, that is the general approach to it.

[307] In the sleeper franchise, which we have let as a 15-year franchise, there is a substantial amount of capital investment. The Westminster Government has provided us with £50 million to upgrade the rolling stock. Therefore, we felt that it was appropriate to get a longer franchise, not with break points, but with review points for the seven-year time period. Given that the investment is going in and that it is a much smaller franchise—it runs two services south and two services north—we thought that there was less risk attached to that. Hence why we have gone for the 15-year franchise on that one.

[308] **Rhun ap Iorwerth:** I have a very brief question on a point of clarification on the not-for-dividend issue, and the fact that you came to the conclusion, back in 2011, that you were unable to go down a not-for-dividend route. How do you square that with the Department for Transport's prior information notice on franchising this year, in that they were inviting not-for-profit bids, if you do not think that that is particularly doable?

[309] **Mr Henderson:** Perhaps I should clarify. In 2011, there were no organisations that realistically could have operated a railway. If you recall, when the east coast franchise failed, there was some discussion from the trade unions, which were considering whether they would put in a not-for-dividend bid to operate the railways. In 2011, no other organisation to our knowledge could operate that. Our Ministers have been very clear that they would welcome any bidders coming forward with a not-for-dividend approach, but they could not stimulate because, as I mentioned, that would have been in contravention of general competition and fair procurement law. So, they could not stimulate it, but they would have welcomed such an approach. Indeed, throughout the whole of our pre-franchise exercise, we have been saying that we would encourage not-for-dividend bidders to come forward. None have come forward, and we do not believe that there are any out there at the moment with the necessary competence to deliver a railway service.

[310] **Rhun ap Iorwerth:** So, it is just the fact that, within your timescale, it was not possible, and that it might be in other circumstances, for example, in Wales in years to come?

[311] **Mr Henderson:** If there is a body in Wales that wishes to bid on a not-for-dividend basis, it would clearly be the case.

[312] **Nick Ramsay:** The next few questions are from Byron Davies.

[313] **Byron Davies:** I notice that you considered a wide range of issues in the development of the franchise specification. What is the process that you have adopted in developing the invitation to tender?

[314] **Mr Henderson:** If I go right back to 2011, it all hinges on the specification. I can go back to how we came up with the specification and the whole process through to the tender—is that what you are after?

[315] **Byron Davies:** Yes, that would be very helpful.

[316] **Mr Henderson:** In 2011, policy officials met with the Ministers, in recognition that the franchise would be coming up for renewal in 2015. We were looking at the evidence base

that we currently hold about the current franchise—quite clearly we have that evidence base from the execution of the contract, and we had it from Passenger Focus information about the expectations of passengers and those who do not travel on rail but would like to do so. We sat down with our Ministers and they were heavily engaged—both at Cabinet Secretary level and at ministerial level. We looked at a number of options, effectively on a clean sheet of paper. We went through all of the considerations of what the form of the franchise should be, what the length of the franchise should be, whether it should be not for dividend, whether it would be a concession, a standard franchise or whether we would be encouraging bidders to come forward on a co-operative basis.

[317] In order to enhance our evidence base, we thought that it was appropriate that we spoke to the people of Scotland. We therefore conducted a qualitative consultation in late autumn 2011 through to February 2012. This consisted of my team and me holding 23 stakeholder events right across Scotland for 160 organisations, and 16 station events—standing in the main interchange stations, the main termini stations, at stations in Stanraer or Fort William, in the more remote areas—to gain the views of people. We had two parliamentary debates during that period, we had three committee sessions, and we had 150 ministerial cases and correspondence. What I am really trying to illustrate to you is that it was probably the most extensive consultation that we had ever undertaken, because our Ministers believed that setting the rail agenda for the next 10 or 15 years was that important to the people of Scotland.

[318] As a consequence of that consultation, we had over 1,300 responses. All of that activity was contained within transport stock and rail division—we did not go outside, because we did not want views to be filtered before they came to us and, indeed, to the Ministers. We felt that it was that important. The analysis of all of the consultation took place in the spring of 2012, and that was undertaken independently of Transport Scotland, so that there would be a degree of objectivity in those responses. The culmination of all of that, together with a further round of engagement sessions with regional transport partnerships—similar to your regional transport consortia, of local authorities, Passenger Focus and equality bodies—was that the Minister was able to stand up in Parliament in June 2012 to announce the framework that he was going to set for the franchises and, indeed, the specification.

[319] Thereafter, from 2012, we engaged in much more detailed work in translating the wishes of the people of Scotland and their aspirations—and the aspirations of Ministers—into policy documents that could then be shaped into specifications for the franchise. That went through 2012 to the beginning of 2013. In the spring of 2013, we embarked on the formal engagement of the franchise process with the warming up of the market and the issue of the Official Journal of the European Union notices of what we were intending to do, then the issue of the pre-qualification questionnaire and, subsequently, the invitation to tender on the Caledonian sleeper franchise. We have done the PQQ on the ScotRail franchise and we will be issuing the ITT later. That was a huge investment of both time and resource, but it is perhaps worth considering that the ScotRail rail franchise will be the single largest contract signed by the Scottish Government. We are talking billions of pounds. The Caledonian sleeper franchise is probably in the order of the fifth or sixth biggest contract that the Scottish Government will be signing.

[320] **Byron Davies:** I am sorry to interrupt you, but may I ask you why you divided that franchise into two?

[321] **Mr Henderson:** We divided the franchise because the sleeper had hitherto been, in the ScotRail franchise, something of a niche product. It was not, we believed, showcased enough and there was not a maximisation of the opportunities that it presented. So, we separated it out. It is a night service, as against the day service in Scotland that ScotRail operates. We separated it out. We want the sleeper service, through the investment going into

it, to be truly transformed so that it becomes emblematic of the best of Scotland: when the service goes down to Euston and you step on the train, we want you to effectively step into Scotland. There is a lot of totemic value attached to the sleeper. The ScotRail franchise, aside from services that connect with Carlisle, is wholly within Scotland itself, providing all of our day services. A point that I should mention is that the ScotRail brand is actually owned by Scottish Ministers. We own the brand of ScotRail. It is known by passengers as ScotRail; although we have operators, such as National Express and the First group, it is known as ScotRail. So, it is important for Ministers that their brand is not corrupted in any way. That is why we have put all the investment into getting the specification right and why we have taken time—four years, effectively, from thinking about what we were going to put in to the franchise to letting the franchise on 1 April 2015.

[322] **Byron Davies:** That was very informative, thank you. That is a tremendous consultation process. Are there any warnings that you could give us to help avoid any negatives along the way?

[323] **Mr Henedrson:** There were some challenges within the consultation. Our Ministers were very clear that it should be an open and frank consultation, arguably something that had not happened hitherto. As a consequence of that, a number of parties and individuals believed that it was stated policy when we questioned, for instance, whether certain stations were necessary, and there were a lot of geographical issues. Separating the sleeper from the ScotRail franchise was an element that caused some consternation. We had to spend a lot of time explaining our reasoning for it. It is about articulating that it is indeed a consultation and that nothing has been determined as yet, and that it is not a specification—that was one of the biggest challenges that we faced. I have been speaking to Welsh Government officials, because I am aware that they are going through similar things, and we will be hosting them next month to talk about some of these specific issues.

[324] **Nick Ramsay:** Frazer, you mentioned the run in to the franchise in Scotland from 2011 to 2015. The committee has been trying to get its head around—this is a new process for the Welsh Government—the length of time needed. In retrospect, is a four-year run in sufficient? Could you have done it in a shorter time, or would it have been beneficial to have started the process earlier?

[325] **Mr Henderson:** Clearly, we are still in that process. One of the things that happened within that time was the west coast debacle and the considerations around the Laidlaw review and the Brown report. We wanted to consider the outcomes of both those inquiries. Therefore, we extended the current ScotRail franchise by about five months, to give us some leeway for consideration. In answering your question, it is going to work out as four years I think that three and a half years would have been appropriate. Our Ministers do not want to have the franchise that we have; they want it to be transformational and attuned to the needs of the people of Scotland. That takes time to find out. It takes time to specify and to shape a franchise in a way that addresses those issues. I am not saying that what we have in our franchise is necessarily novel, but it is different and the emphases are different to what might be a conventional DFT franchise. So, our advisers have to get their heads around what we are after and the public and the stakeholders need to get that. So, there is a whole lot of shaping that needs to go. If you were to rush the shaping, you may not end up with the outcome that you are seeking to achieve.

12:00

[326] **Nick Ramsay:** On the new lines and services that you mentioned, are they a reopening or re-establishment of older services that were closed, or have they started from a completely new base?

[327] **Mr Henderson:** No. We have opened between Airdrie and Bathgate, which was a case of putting back lines that went, from a freight perspective, in the early 1980s. At the moment, we are constructing a line from Edinburgh down into the borders, and that should be opening in 2015. That is on the old Waverley line that used to connect Edinburgh to Carlisle. So, they are predominantly putting back lines where they were previously taken out through the Beeching or the Serpell inquiries, and we are putting additional stations in. In the Strathclyde area, since about the mid 1970s, we have put in a large number of stations there, and, in fact, we were still putting in new stations in the 1990s. We have a number of requests for new stations as communities grow and require the service.

[328] **Nick Ramsay:** That is helpful. I am going to bring in Alun Ffred Jones now, briefly, and then Keith Davies.

[329] **Alun Ffred Jones:** You mentioned that you have received some finance from Westminster to buy rolling stock. Was that on the Caledonian sleeper?

[330] **Mr Henderson:** Yes, it was. It came about because, during our consultation exercise, there was a misconception that the Caledonian sleeper was under threat, and the Scottish Ministers received an approach from the Chief Secretary to the Treasury, Danny Alexander, that Westminster would be keen to invest £50 million in the sleeper, provided that the Scottish Ministers could match that sum. The Scottish Ministers matched the sum and it therefore came forward. So, we have—

[331] **Alun Ffred Jones:** I am sorry to interrupt you. So, the total cost was £100 million for so many trains. Are you paying any of that money back to Westminster, or was it in the form of a grant? Who owns that rolling stock at present?

[332] **Mr Henderson:** At the moment, the rolling stock is owned by the rolling stock companies, which is common throughout all franchises. I should clarify that Westminster provided £50 million towards the rolling stock. We said that we would match that and more. Our matching and more is not for the rolling stock but for infrastructural improvements; it is to improve the stations at which the Caledonian sleeper calls. So, it is not £100 million going into the rolling stock; it is £50 million going into the rolling stock, with potential for slightly more to go in, which would be a contribution from the Scottish Ministers of up to, say, £60 million, so that the total of rolling stock value would be about £60 million. In terms of the rolling stock itself, that is for the bidders to come forward with their propositions against the very tight specification that we have set, and they may come forward with new rolling stock, a refurbishment of the existing rolling stock or a refurbishment of rolling stock that might be elsewhere in this country or overseas.

[333] **Alun Ffred Jones:** Just to clarify again, you said that this rolling stock costs £60 million. Is that in operation now?

[334] **Mr Henderson:** No. The rolling stock is part and parcel of the sleeper. The successful bidder for the sleeper franchise has to come forward with a proposition on the rolling stock. That franchise will be let on 1 April 2015. The current rolling stock that we have is owned by a number of rolling stock companies—Porterbrook and Angel Trains, I think—and is leased from them by First group, which operates the ScotRail franchise currently.

[335] **Nick Ramsay:** How did you come to the decision to leave the rolling stock issue to the franchise company?

[336] **Mr Henderson:** That is a very good question. Predominantly, the expertise resides with the company. Purchasing rolling stock is about much more than just getting the trains, as

it is about getting the engineering and the maintenance. Also, there are the commercial negotiations in the purchase. We felt that the franchisees were better at determining what the numbers would be. It is about how they use it in terms of their diagrams day to day and what they might do in terms of stabling. Another fact that comes into play is that it is quicker for the franchisees to acquire than it is for Governments to acquire. We felt, on balance, that it was better for the risks to lie with the franchisee rather than the Government. We have undertaken that previously—we worked with the current franchisee to purchase new electric rolling stock about three or four years ago. What happened in that case was that the risks were with it, but we underwrote the negotiations with the rolling stock companies. What happens in normal circumstances is that the rolling stock reverts to the rolling stock companies at the end of a franchise. However, at the end of the current ScotRail franchise, we have agreed that we will novate some of the electric rolling stock into the next franchise. So, effectively, the current franchisee in ScotRail was able to sign up a 17-year agreement, even though its franchise had only seven years to run.

[337] **Nick Ramsay:** Is that part of a formalised Scottish Executive rolling stock strategy, because it seems to me that you are talking beyond franchising here and about a longer-term strategy, or is it just something that you will do with the negotiations at each point?

[338] **Mr Henderston:** It is something that we will negotiate at each point. If the bidders come to us for the ScotRail franchise—which, as I have mentioned, is a 10-year maximum franchise—and say, ‘We can get a really good deal from the rolling stock companies if we can guarantee them that the new rolling stock will be there for 15 or 18 years’, then that is something that we will look at, because that has an effect on the subsidy line that we are paying to the franchisee. So, we would look at it on a case-by-case basis. We want to make sure that it is a good deal for us and that we get the best deals that we possibly can. However, the risks, predominantly, will lie with the current franchisee. So, it is not part of a strategy; it is the approaches that we take.

[339] **Nick Ramsay:** There is a lot in interest in this. We have a short question from Rhun ap Iorwerth.

[340] **Rhun ap Iorwerth:** It is a very short question. It should be a short answer as well. Who will actually own the sleeper? Will it be the Scottish Government?

[341] **Mr Henderson:** The answer is that I do not know, because we could get a bidder coming forward that owns the rolling stock itself.

[342] **Rhun ap Iorwerth:** I just thought that, because you were coming up with the funds, maybe you were going to buy the stock. It has not quite been decided, then.

[343] **Mr Henderson:** No.

[344] **Keith Davies:** Rwy’n mynd i ofyn fy nghwestiwn yn Gymraeg. Dywedoich ar y cychwyn mai adran drafndiaeth a rheilffyrdd yr Alban sydd wedi bod yn gyfrifol am baratoi y fanyleb. Faint o adnoddau dynol a oedd ynghlwm â’r peth? Roeddech yn sôn am yr holl gyfarfodydd. Pa sgiliau sydd eu hangen ar y tîm a fydd yn paratoi’r manylion? A ydynt yn wahanol i’r sgiliau sydd eu hangen i reoli’r fasnachfaint yn y pen draw?

Keith Davies: I will ask my question in Welsh. You said at the beginning that the department for transport and railways in Scotland has been responsible for preparing the specification. How many human resources were involved in that process? You talked about all of these meetings. What skills were needed to prepare the specification? Are they different to the skills needed to manage the franchise, ultimately?

[345] **Mr Henderson:** The answer to all of that is ‘a lot’ and ‘yes’. In terms of the consultation exercise, we have, in Transport Scotland, 65 people who deal with rail issues, so the group is of a moderate size. Almost all of those people were engaged in some aspect of the consultation exercise. In terms of the detailed specification, that was undertaken by my team, and that is, broadly speaking, a total of about 14 people taking that forward. We have a commercial unit. My responsibility is to come up, quite clearly with the Ministers, with the specification and then hand that over to our commercial team, which will then take forward the franchising of that specification. We have a commercial team of 12 people, a number of whom have been drawn from the railway industry, of long experience, and they are supplemented by financial advisers, technical advisers and legal advisers. Those are all contracted out from parties that have bid for the work who have good experience in franchising within the UK.

[346] It is not an inconsiderable cost. Roughly speaking, for a Government to go through a franchising exercise would cost in the order of £4 million. We have two franchises and we have two running simultaneously. It does not necessarily mean that there are economies of scale in that respect. In some regard, it has proved a little bit more challenging than one would have thought.

[347] It is interesting to note that the DFT, particularly through the Laidlaw inquiry, identified a skills shortage. That is something that we picked up on and sought to bolster within Transport Scotland. It comes back to the size of the contracts. You get one shot at this, and you need to get it right, so you need the right people in place. We think—in fact, we believe—that we now have the right level of resourcing to deliver two franchises successfully.

[348] **Nick Ramsay:** Rhun, do you have a question on fares?

[349] **Rhun ap Iorwerth:** I will come on to fares in just a second. On the question of alliancing, first—I appreciate that there might be two different answers, in that you have the sleeper and the ScotRail franchises to deal with—how have you approached the issue between the franchisee and Network Rail in Scotland?

[350] **Mr Henderson:** Currently, and I have noted that this was mentioned by your Network Rail witnesses last week, we have an alliance in Scotland between ScotRail and Network Rail. That has delivered some tangible benefits. They did a piece of work that has been heralded throughout the UK as the exemplar, which was on electrifying a line called the Paisley canal line. That was undertaken within record timescales and below cost estimates. We believe that that is the future—that the two parties should be working closer together. That is in the current franchise.

[351] In the next franchise, in terms of the specification, quite clearly we want improved performance, enhanced resilience, greater operational effectiveness and, ultimately, a better service. However, in the next franchising, we are saying that we support measures to accommodate alliancing, and that we will support the bidders in their negotiations with Network Rail prior to their bids coming forward. That will deliver the outcomes that we are seeking. However, we are not mandating alliancing within the franchise, and the bidders are free to make their own proposition on improved working arrangements. Indeed, no bidder will be at a disadvantage if they do not come forward with any alliancing proposition. The reason for that, quite simply, is that the alliances with Network Rail are third party, and we are entering into a contract with the operator. We are not entering into the contract with Network Rail.

12:15

[352] **Rhun ap Iorweth:** You mentioned standards, and I know my colleague Eluned will question you on how to monitor future standards in just a moment, but one thing I know passengers will be looking at is the issue of fares, and the Minister, in the summer of last year, outlined a fare policy with particular reference to making sure that fares worked out fairly in rural parts of Scotland. Do you want to outline the kind of fare policy that is going to be attached to the new franchise?

[353] **Nick Ramsay:** Before you respond, Mr Henderson, I should ask, as we are overrunning slightly, whether you have a few more minutes, or are you on a tight schedule?

[354] **Mr Henderson:** No, I can make as much time as you need.

[355] **Nick Ramsay:** Okay. I propose that we go on for another five minutes or so. Sorry to interrupt.

[356] **Rhun ap Iorweth:** That is okay. So, can you give just an outline of how you are approaching the fares policy issue?

[357] **Mr Henderson:** I can be really quite categoric on the fares policy. We are going to regulate more fares than we currently do. The regulation will be that, in the peak period, fares will not increase at a rate greater than RPI. In the off-peak period, fares will not increase at a rate greater than RPI -1%. The operator will have the freedom to set advance fares, season ticket fares and any first-class fares that he wishes to implement. That is our policy as regards fares. In terms of the specification, we will be encouraging the bidders to come forward with proposals that will increase patronage on lightly used services, whether that is in the evening or off-peak, and particularly on rural lines. They may come forward with that by using fares as the mechanism to deliver that growth in patronage. There are some other aspects allied to that, but I am not at liberty to refer to them at this stage—they will be specified within the invitation to tender, which will be out probably in mid-November.

[358] **Nick Ramsay:** That is great. Eluned Parrott has the next questions.

[359] **Eluned Parrott:** Just quickly on that point, how are you going to ask operators to accommodate fuel cost inflation, whether it is electricity or diesel, within an off-peak fare regime of -1% on RPI? Will you be subsidising that directly to make that happen?

[360] **Mr Henderson:** Currently in Scotland, we run a wholly subsidised railway. The passenger only contributes about 25% of the costs of the railway in Scotland, which I think is probably the most heavily subsidised in the UK. Therefore, our Ministers want to get the greatest utility out of that resource, but all fares are to remain affordable. In terms of the specifics of your question, the bidders will know exactly what they are bidding for in terms of our fare strategy, particularly in the off-peak period, and they will take that into account within their bid.

[361] **Eluned Parrott:** I want to ask about the SQUIRE regime, which is obviously quite specific to Scotland. Can you tell us very briefly what you think the benefits of that have been in terms of encouraging quality? Can you tell us what the cost implications have been of implementing it?

[362] **Mr Henderson:** We have 10 staff who sit within Transport Scotland: three administrative staff and seven inspectors, who go out and, every four weeks, inspect every single station in Scotland—all 347 of them. So, there is a staffing resource attached to that. We have put £0.25 million into giving them laptop devices so that they can do instantaneous reports and come back, and so that the operator can make the necessary changes. In 2008-09, the operator received penalties of £1 million, and, in the latest figures that I have, they were

under £200,000. We own the brand of ScotRail, as I mentioned, and, therefore, it is in our interest to preserve our brand, and that is why we have put so much effort into SQUIRE. It is something that has generated very high passenger responses—good responses. ScotRail is always at or near the top in terms of that. It improves safety and it encourages people to use the railways. One of the key things that you will not find in Scotland, because we have zero tolerance on graffiti, is graffiti on the trains or in the stations, and, anecdotally, foreign visitors to Scotland—tourism is a big issue for us—compliment us on the cleanliness of our stations and trains vis-à-vis those in the rest of Europe. That is particularly important to us when we have two of the top five scenic railway journeys in the world.

[363] **Nick Ramsay:** Thank you. I call on Joyce Watson.

[364] **Joyce Watson:** I want to ask how Transport Scotland supports community rail and about any benefits, if you do support it, that have resulted from that.

[365] **Mr Henderson:** We have come late to community rail. Previously, we had station adopters and the operator had done good work in working with communities. We engaged Neil Buxton and his team at ACoRP last year, under a contract, to provide us with two part-time officials to stimulate community rail within Scotland. We assigned £50,000 last year and £50,000 this year, and we will be assigning up to £100,000 next year. We expect community rail partnerships to come forward next year on some of our lines. In the next franchise, we want to move up a further gear on that, and we will be looking to the bidders to come forward with their propositions, and to the Scottish Ministers to come forward with a certain sum of money—quite clearly, I cannot announce what it is, but it is substantial—that the bidders have to allocate from their resources to support the expansion of community rail. Our Ministers think that it is of such importance, particularly to our rural communities, that it does need that amount of effort going into it so that we derive, as I mentioned before, the greatest utility that we can from our rail network.

[366] **Nick Ramsay:** Great. May I thank our witness Frazer Henderson, head of rail policy in Transport Scotland for being with us today on the video link? That has been incredibly helpful and, as I said at the start of the session, we really appreciate your coming in at short notice, but we were very eager to talk to you in Scotland, given your experience of this process so far.

[367] **Mr Henderson:** Diolch yn fawr. **Mr Henderson:** Thank you very much.

[368] It was, indeed, a pleasure.

[369] **Nick Ramsay:** Diolch. **Nick Ramsay:** Thank you.

12:23

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

[370] **Nick Ramsay:** I ask a Member to move a motion under Standing Order 17.42.

[371] **Byron Davies:** I move that

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

[372] **Nick Ramsay:** I do not see any objections.

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 12:23.

The public part of the meeting ended at 12:23.