



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

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

Dydd Mercher, 4 Chwefror 2015
Wednesday, 4 February 2015

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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
Jeff Cuthbert	Llafur Labour

Byron Davies	Ceidwadwyr Cymreig Welsh Conservatives
Keith Davies	Llafur Labour
Yr Arglwydd/Lord Elis-Thomas	Plaid Cymru The Party of Wales
William Graham	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Eluned Parrott	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Gwenda Thomas	Llafur Labour
Joyce Watson	Llafur Labour

Eraill yn bresennol
Others in attendance

Yr Athro/Professor Stuart Cole	Athro Emeritws mewn Trafnidiaeth, Canolfan Ymchwil Trafnidiaeth Cymru, Prifysgol De Cymru Emeritus Professor of Transport, Wales Transport Research Centre, University of South Wales
Edwina Hart	Aelod Cynulliad, Llafur (Gweinidog yr Economi, Gwyddoniaeth a Thrafnidiaeth) Assembly Member, Labour (Minister for Economy, Science and Transport)
James Price	Cyfarwyddwr Cyffredinol, Economi, Gwyddoniaeth a Thrafnidiaeth Director General, Economy, Science and Transport

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

Rachel Jones	Dirprwy Glerc Deputy Clerk
Andrew Minnis	Y Gwasanaeth Ymchwil Research Service
Marc Wyn Jones	Clerc Clerk

Dechreuodd rhan gyhoeddus y cyfarfod am 09:43.
The public part of the meeting began at 09:43.

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions

[1] **William Graham:** Good morning. [*Inaudible.*]—any members of the public. May I explain that the meeting is bilingual? Headphones can be used for simultaneous translation from Welsh to English on channel 1, or for amplification on channel 2. The meeting is being broadcast and a transcript of the proceedings will be published. May I remind Members and witnesses that there's no need to touch the microphones, as they should come on automatically? In the event of a fire alarm, I ask people to follow directions from the usher.

Masnachfaint Rheilffordd Cymru a'r Gororau—Craffu Dilynol **Wales and Borders Rail Franchise—Follow-up Scrutiny**

[2] **William Graham:** This morning our item is a follow-up scrutiny session on Wales and borders rail franchise. I'm very grateful that Professor Stuart Cole is with us this morning. Professor, could I ask you to give your name and title for the record?

[3] **Professor Cole:** Yes. I'm Professor Stuart Cole. I'm emeritus professor of transport at the University of South Wales.

[4] **William Graham:** Thank you very much. Perhaps we could go straight into questions. Mick Antoniw has the first question.

[5] **Mick Antoniw:** Thank you for coming in. The issue, I think, that really concerns us greatly, and causes a lot of confusion, is the actual nature of the franchise itself. We've had an announcement that executive franchising powers are to be devolved, but there's a certain amount of unclarity as to what that means, whether that is sufficient and what powers we actually need to actually achieve this. So, I wonder if you could, perhaps, outline your views on, I suppose, what is being proposed and what we actually need in order to deliver the sorts of policies that are being developed by Welsh Government.

09:45

[6] **Professor Cole:** Well, there is a slight difference, first of all, between what we had and what we have been promised in terms of the arrangements between the Welsh Government and the Department for Transport in London. At present, the current franchise is a Department for Transport franchise with the Welsh Government as co-signatory. Therefore, any fundamental decisions on the franchise, such as terminating the agreement, would be made firstly by the Department for Transport and then subsequently in agreement with the Welsh Government. The proposal, as was suggested in the last few weeks, is that that situation would transfer from 2018. It would reverse, in effect, and the Welsh Government would become the primary contractor. To do that, there is, I understand, a need to be a change in the agreement between the two Governments that it still falls within the remit of the Railways Act 1993. You would need to ask a lawyer about the exact detail that needs to be changed, but there would undoubtedly be that minor change in the current powers.

[7] The arrangement, therefore, from 2018 would be different, not just in terms of who's the primary contractor, but also what kind of operation would be forthcoming. Under the terms of the Railways Act 1993, all franchises have to be put out to competitive tendering. That's a fundamental issue, and the Department for Transport has never veered away from that. Even when the east coast main line, for example, was brought back into direct management by the department, they then re-franchised the operation. They don't seem to want to change from that.

[8] The issue in Scotland is now where the Scottish Government or a publicly owned business may bid for the franchise in Scotland. Ironically, that franchise has just been awarded, so we've got another 10 years before that matter arises, it would seem. It still says 'may bid', which implies there will still be a competition for the franchise. The options being examined in Wales are what you might call the conventional: that is, the bidding for a franchise by a number of companies. It has been suggested in the past that only organisations with substantial amounts of money behind them are able to bid, and that is how it's turned out. The big bus companies and the overseas railway operators, who are entirely, in Europe, state-owned, have been the only people who have put bids in—unless they've gone in with a partner: a company like Serco, for example, who are operators of various kinds of transport facilities. In the main, it has been a relatively small group of people who can afford to bid,

and that's the conventional bidding process.

[9] Now, there doesn't seem to have been, as far as I'm aware, a not-for-dividend, private sector company that has bid in that way. What Mrs Hart is, as I understand it, suggesting is one of two things: either a strategic rail board or group who would assist in providing the skills necessary to manage a franchise—which is now the Welsh Government's responsibility from 2018—or to use that same team to set up a Government-owned, not-for-dividend company. Either of those is possible because, in the case of the first issue, it will be the usual, if you like, companies and organisations that would bid, and therefore there would be a team of experts able to assess those bids—which is not there at the moment, and I think the Government would agree that there is a need for a new skill set to look after relations with Network Rail, or relations with the train operating company, whoever the winner is, and train procurement.

[10] So, you have this set of options. If you're on the one side, you have a bidding process in the normal way, which may or may not have a private sector, not-for-dividend company, or there's the other alternative, which is a state-owned, not-for-dividend company. That board, which I mentioned, will then become the board of management of that not-for-dividend company. It's the same skills that we are looking for.

[11] **Mick Antoniw:** Can I ask, then, how the legal powers would operate as regards Welsh Government, for example, choosing to go for, say, a publicly owned company? Would it still have to go through the same tendering process? What are the sort of restrictions that would actually limit? Because one is a policy decision: this is how we want transport to operate and be co-ordinated within Wales. The other one is still a competitive tendering process, where it can only be a factor. So, what are the actual restrictions that the 1993 Act or any other legislation provides in that respect?

[12] **Professor Cole:** Well, as I understand it, the 1993 Act says that there has to be a competitive franchising process, and that is quite clear—even in Scotland, where the big difference between Scotland and Wales in the current proposals of the Smith commission in Scotland is that a publicly owned business may bid. Now, that was not allowed under section 25 of the 1993 Railways Act. It had to be outside the public sector. That's the big change in Scotland. That may be the big change that we're looking for here. That would certainly provide a backing for a bid. These bids can cost anything up to £50 million. They are an expensive proposition, but the return is that you have an income over 10 years of something between £2 billion and £3 billion. It's seen as a worthwhile investment. So, the Scottish Government could bid, or one of its organisations could bid, and that would be the position in Wales were we to be given the same powers and the same amendment to the Railways Act 1993 as Scotland has got. At the moment, we can't do that. At the moment, we only have the option of bidding through the conventional process that's been there since the start.

[13] **Mick Antoniw:** Could I ask then about two aspects to that that are important—well, three aspects, let's ask you about, that deal with it effectively? The first one is the implications of how this might operate with regard to the EU procurement rules. Secondly, there are the potential implications if there is a transatlantic trade agreement with the US in terms of potential intervention there within the procurement process. The third thing is the financial packages that are actually necessary for Welsh Government to actually intervene and move in the direction which the Minister has suggested.

[14] **Professor Cole:** Right. I can't really tell you very much about the Atlantic trade question, so may I put that to one side?

[15] **Mick Antoniw:** Okay.

[16] **Professor Cole:** The implications for procurement are that, at present, the power to procure the franchise with a train operating company that has bid successfully is now with the Welsh Government—or will be once these minor items, which have already been agreed, are set in law. Therefore, the procurement would be done in the same way as the Department for Transport has done in the past. We would need a team at Cathays park to manage that franchise, and to manage the procurement of the franchise. The Welsh Government does have, under the Transport (Wales) Act 2006, however, the opportunity to procure elements of public transport, but not those which are covered by the Railways Act 2005. That means that they could, if they wished, procure the trains. They could become a rolling stock operating company: a ROSCO. So, instead of leasing trains through one of the rolling stock companies, of which there are three, then they would maybe negotiate directly with the manufacturers—Siemens, Bombardier and Hitachi are the three leading manufacturers—for the supply of the trains separately. They would then be owned by and would become the property of the Welsh Government and its partners.

[17] So, I give as an example Siemens. They have an appropriate train called the Desiro. The other two companies also have appropriate trains. A deal would be made between, say, Siemens and the Welsh Government for the procurement of those. If the Welsh Government was able to get borrowing funds allowance from the Treasury, then those could be borrowed directly through the Public Works Loan Board. If that was not forthcoming, and it's probably unlikely that it would be, given the recent discussions over other elements of public expenditure and public borrowing, a third-party finance house would be brought in—a wealth fund, for example, or one or two of the banks—to replicate, in fact, what a ROSCO is, because the ROSCOs are essentially procurement businesses backed by financial institutions.

[18] So, the money would be borrowed therefore—or rather the partnership would borrow the money to produce the trains and then lease them to the Welsh Government. That means that the Welsh Government would have those trains as their property for the next 30 years. At the moment, they are only leased to the Welsh Government for a period of time. So, it's been suggested that that would cut out the current middleman, but we would be paying an interest rate of about 5% to 6%. But that is more or less what Network Rail are paying at the moment because they would borrow their money when they were off-balance sheet in the same kind of way. That's how they borrow their money, at about 5% to 6%. So, it's possible, in terms of procurement, the implications of procurement: first, of the franchise operator and then of the rolling stock, and then second, the financial packages available for funding the railway. Essentially, the revenue side is pretty much as it is now: the Welsh Government will be paying a subsidy and the traveller will be paying their fares. At the moment, about 50% of the income of Arriva Trains Wales comes from the passenger and 50% from the Government.

[19] So, I think there is one other financial implication that occurs to me, and that is that, whatever happens under the new franchise, the Welsh Government will be the operator of last resort. If a franchise fails, for whatever reason, then the Welsh Government would take over the franchise. There would be no break in service. That's the agreement in every one of the existing franchises. The Department for Transport has, as we've seen with the east coast main line, become the operator of last resort when two companies pulled out of that franchise, and there have been some others, as well.

[20] **Mick Antoniw:** Okay, thank you.

[21] **William Graham:** You didn't answer very much on the EU rules.

[22] **Professor Cole:** The transatlantic trade?

[23] **William Graham:** No. European procurement.

[24] **Mick Antoniw:** Yes, if I—

[25] **Professor Cole:** I'm not sufficiently familiar with it.

[26] **William Graham:** Okay, fine.

[27] **Mick Antoniw:** Could I just ask, then? There was an EU funding issue, and that is in terms of the financial packages. I don't know whether this is an area you've got any knowledge in.

[28] **William Graham:** Don't let him lead you.

[29] **Mick Antoniw:** Right. The Juncker plan is about €350 billion, and it's basically about facilitating borrowing and, of course, Welsh Government, as part of the metro thing, has basically put an interest in—I think supported by the UK Government—for about €3 billion. Is this potentially another financial source that might change the game?

[30] **Professor Cole:** Right. With the risk of sounding marginally cynical, I think the biggest difficulty that the Minister has—although I'm not party to the discussions—is that the Department for Transport has been completely set against anything other than franchising. Setting up a Welsh railway company owned by the Government does not fall within their thought process, and it's the British Government that has to make that bid to Europe, not the Welsh Government, because that's where we are at the moment. Consequently, I would see the English Department for Transport, particularly as co-signatory as well, resisting any state-owned operation and therefore the borrowing that comes with that.

[31] **Mick Antoniw:** Thank you. That's helpful.

[32] **William Graham:** Thank you very much. Keith.

[33] **Keith Davies:** Fe wnaif i ofyn yn Gymraeg. Fe gawsom ni drafnidiaeth yr Alban o'n blaen ni. Roedden nhw'n dweud eu bod nhw wedi cael trafferth, a bod dim hawl, os oedden nhw'n edrych ar y fasnachfaint, ganddyn nhw i sefydlu cwmni diddifidend, oherwydd Deddf 1993. Gallai'r cwmni yr oedden nhw'n ei sefydlu fod yn erbyn cwmnïau eraill, ond yn ôl trafnidiaeth yr Alban, nid oedd dim hawl ganddyn nhw i sefydlu cwmni. Pam fydd yr hawl gyda ni? A fydd hawl gyda ni?

Keith Davies: I'll ask my question in Welsh. We had Transport Scotland before us. They said that they'd had difficulties, and that they didn't have a right, if they were looking at the franchise, to establish a not-for-dividend company, because of the 1993 Act. The company that they would be establishing could be competing against other companies, but according to Transport Scotland, they didn't have the right to establish such a company. So, why would we have the right? Would we have the right?

[34] **Yr Athro Cole:** Fel rwy'n ei gofio, beth oedd Llywodraeth yr Alban wedi'i ddweud oedd, o dan Ddeddf 1993, Deddf Rheilffyrdd 1993, roedd yn rhaid iddyn nhw gystadlu gyda chwmnïau eraill. Nid oes opsiwn arall gyda nhw ond cystadlu, fel rwy'n deall. Mae hynny dim ond nawr wedi dod i mewn—

Professor Cole: As I remember it, what the Scottish Government said was that, under the 1993 Act, the Railways Act 1993, they had to compete with other companies. They don't have any option other than to compete, as I understand it, and that has only just come in—

[35] **Keith Davies:** Beth a ddywedon nhw, rwy'n credu, Stuart, oedd, oherwydd eu bod nhw'n sefydlu eu cwmni eu hunain,

Keith Davies: What they said, I think, Stuart, was that, because they were establishing their own company, that would be unfair on the

byddai hwnnw'n annheg ar y cwmnïau preifat arall a fyddai'n cystadlu yn eu herbyn nhw, a bod Deddf 1993 wedyn ddim yn gadael iddyn nhw sefydlu cwmni.

other private companies that would be competing against them, and that the 1993 Act therefore wouldn't let them establish a company.

[36] **Yr Athro Cole:** Wel, gyda beth sydd wedi digwydd dros yr wythnosau sydd jest wedi mynd, mae'r Smith *commission* yn dweud:

Professor Cole: Well, with what has just happened over the past few weeks, the Smith commission states:

[37] 'The power will be devolved to the Scottish Government to allow public sector operators to bid for rail franchises funded and specified by Scottish Ministers'.

[38] Sef ScotRail. Felly, maen nhw'n gallu dodi *bid* i mewn, ond y cwestiwn y mae pobl wedi'i godi, rwy'n meddwl, ydy: 'Os ydyw'r Llywodraeth yn dodi *bid* i mewn, a'r Llywodraeth sydd yn penderfynu, sut fydd pawb yn gwybod mae hynny'n mynd i fod yn deg i'r cwmnïau eraill? Dyna'r cwestiwn mawr fanna. Gyda *not for dividend*, mae hynny'n gwestiwn gwahanol. Fel rwy'n deall, nid oes problem cael cwmni *not for dividend* o'r Llywodraeth yn dodi cais mewn am y rhyddfaint. Y cwestiwn mawr ydy: a fydd y gystadleuaeth yn deg, achos mae'r Llywodraeth yn gystadleuwr, *contestant*, a barnwr, *judge*?

Namely ScotRail. So, they can put in a bid, but the question that has been raised by people, I think, is: 'If the Government submits a bid, and it's the Government who decides, how will everyone know that that has been fair on the other companies? That's the big question there. With the not-for-dividend issue, that's a different question. As I understand it, there's no problem having a not-for-dividend company from the Government putting in a bid for the franchise. The big question is: will the competition will be a fair one, because the Government is a competitor, a contestant, and it's also the judge?

10:00

[39] **William Graham:** Okay. Thank you.

[40] **Keith Davies:** Thank you, Chair.

[41] **William Graham:** Joyce.

[42] **Joyce Watson:** Good morning, Stuart. We've already started talking about the not-for-dividend likelihood of delivering the next franchise. Can you tell us, in your opinion, what you really think the options are that are available to the Government?

[43] **Professor Cole:** There were a number of options put forward at the beginning—four. One was to carry on as at present. The second was to have a co-operative, where the company would be owned by the travellers and the workers, like John Lewis, and like the Co-op. The third was a not-for-dividend private sector company, and the fourth a not-for-dividend state-owned company. I think that's whittled down now to a not-for-dividend state-owned company and a conventional bidding process where there may or may not be a not-for-dividend company. Now, it's been suggested by others that there is no not-for-dividend company in the transport industry that is sufficiently strong or wealthy to be able to afford the cost of a bid, whereas the companies that have been putting in bids are very large—either big national or multinational companies. They either cover the whole of Britain or, in many cases, are international. Therefore, the amounts of money involved don't seem to match up to the existence of a not-for-dividend company in the transport business. One may emerge. When we think that, out of Welsh Water emerged Glas Cymru, a not-for-dividend company, it would be just as likely to suspect that the same thing might happen again, because they are

both utilities. The big difference is that Glas Cymru has a large amount of capital asset, real estate, whereas a train-operating company has very little in terms of real estate asset. Arriva Trains Wales, for example, owns nothing. They lease their offices, they lease their trains, and so on. The track is owned by Network Rail. Network Rail is a not-for-dividend company. In the same way, it has a large number of assets, real estate assets.

[44] What a train operating company has, as a potential not-for-dividend private sector company, is a financial asset of a revenue stream of half of its income. Now, not many commercial companies have that kind of guarantee, so that does make it a more attractive proposition for outside investors. And, as I said, the outside investors are likely to be the finance houses—in the main, the wealth funds—and they would set up a business to bid for the franchise. So, it's possible, but there doesn't seem to be anybody in the wings waiting to do this. So, we're left with the conventional, or, if you like, the more familiar, names in the bidding process, and the not-for-dividend proposal from the Government, which is, effectively, a state-owned railway company. Now, the big question under the 1993 Act is: can that make a bid? Going back to Mick's question: can it make a bid? Under the Act, it doesn't appear to be able to just be the only bidder. And, at the moment, the situation in Wales doesn't allow it to be a bidder.

[45] **Joyce Watson:** So, could you tell us, please, then—you sort of loosely outlined the benefits, and some of the risks—is there anything that you want to further add to those that you've already outlined?

[46] **Professor Cole:** The primary risk involved in operating a train-operating company, or being a train-operating company, is that either the costs escalate or the revenue doesn't come up to expectations. That's what happened in the case of the east-coast main line on two occasions. The companies who had bid for the franchise, first Sea Containers Ltd and, second, National Express Group plc, didn't find that the returns that they were getting were appropriate, and they used their get-out clause to hand the franchise back to the Department for Transport. So, the DFT is the operator of last resort. That is a risk for the Welsh Government now that it has become the primary contractor for the Wales and borders franchise in 2018. That's the biggest risk—that the revenue doesn't come up to expectations.

[47] On the side of the costs, the big cost risk is fuel. Most organisations have a good idea of what the unions are going to be saying about wages, which is another major cost. But, on the oil side, there is basically no idea what might happen. We've seen oil prices drop, but we also know that the train operating companies have always been able, through hedging, to buy fuel at—I'm not just talking about individual companies, but in general—around about 60p a litre for diesel oil because they hedge, they make deals, and so on. Okay, the price has come down on the pumps to just over £1, but it may well go up again. But it is always a risk that the hedging won't work and that you've got no real way of forecasting what that cost will be. Companies use hedging in order to try and minimise that risk.

[48] The only other risk is that the franchise company might fail. Under the terms of how the Welsh Government is established, it is a AAA organisation so long as the British Government is a AAA organisation, and therefore anything it owns falls into the same risk category as far as lending is concerned. I wouldn't envisage a state-owned company failing, but there may be—in saying this, there may be—a first time, but, you know, it's not something that's happened before. State-owned companies are part of the Government, and therefore are protected by the Government.

[49] So, there is a risk involved in terms of costs, a risk in terms of revenue, and there's always the risk that the train operating company—if it's a franchised operation—will be non-complaint, as happened with Connex on the southern section of the London commuter railway operation. And the contract was taken away from them and was reallocated. It was

owned for a while, and operated by, the DFT directly.

[50] So, those are the kinds of risks that are involved for anybody who goes into this business. There is no particular risk, I don't think, between a state-owned company and a private company. In fact, one might suggest that there's more of a risk to Government having to take over a franchise where the private operator no longer wishes to continue it.

[51] **Joyce Watson:** What about the benefits?

[52] **Professor Cole:** Benefits: like all franchising, if you look at some of the most successful operations for public services or public provision, in hotels, for example, there is the Marriott hotel group; in fast food, you have McDonald's and Kentucky Fried Chicken. Those companies are very successful. They are franchised. Franchising as a principle does not have a problem; it's the management of that franchise that is the key, and getting a really good management team to manage the operation is what's vital for the Welsh Government to do to try and minimise the risks that they would face.

[53] **William Graham:** If I could pause there, I have several speakers to ask you questions on what you've raised here. Keith, please.

[54] **Keith Davies:** Jest i ddilyn hynny lan, dim ond un bach byr sydd gen i. Cwrddais i ag Arriva Trains yn Llanelli y llynedd, neu rywbeth, ac roedden nhw'n siarad am ddiesel a faint roedd yn gostio iddyn nhw, oherwydd beth ddywedodd nhw wrthyf i, wrth gwrs, oedd bod eu contract nhw dros Ewrop gyfan, ac nid dim ond yn y wlad hyn. Ac wedyn roedden nhw'n talu—falle nid oedden nhw'n talu 60c y litr; nid wyf i'n gwybod faint oedden nhw'n ei dalu—ond roeddwn i'n meddwl, 'O, os ydym ni'n mynd i gael cwmni di-ddifidend, a ydy'r gwariant ar ddiesel mor uchel fel bod e'n bwrw ni mas o'r peth?'

Keith Davies: Just to follow that up, I just have a brief question. I met Arriva Trains in Llanelli last year, I believe, and they were talking about diesel and how much it costs them, because what they said to me, of course, was that their contract was across the whole of Europe, and not just in this country. And then they paid—perhaps they weren't paying 60p per litre; I don't know how much they were paying—but I thought, 'Oh, if we're going to have a not-for-dividend company, is the expenditure on diesel so high that it will count us out?'

[55] **Yr Athro Cole:** Wel, mae'n iawn mai Deutsche Bahn sydd gyda'r *deal* am ddiesel, achos mae Arriva eu hunain yn rhedeg trenau dros Ewrop, y rhan fwyaf ohonyn nhw o dan y cwmnïau roedd Deutsche Bahn wedi eu prynu. Ac felly, mae Deutsche Bahn yn brynwr enfawr o ddiesel.

Professor Cole: Well, it's right that Deutsche Bahn has the deal for diesel, because Arriva itself runs trains across Europe, most of them under the companies that Deutsche Bahn had bought. And therefore, Deutsche Bahn is a massive buyer of diesel.

[56] Mae'r un peth yn digwydd gyda'r cwmnïau mawr eraill fel First, ac Abellio, y cwmni Dutch Railways, sydd yn prynu drwy'r *parent company* bethau fel diesel—a lot o bethau eraill hefyd, ond yn bennaf diesel. Os mai dim ond un cwmni sydd gyda'r Llywodraeth, felly mae'n rhaid iddyn nhw, wedyn, edrych ar ffordd arall i dynnu i lawr y prisiau. Byddem yn edrych i weld y Llywodraeth, os ydyn nhw'n penderfynu mynd ymlaen â hyn, yn mynd i mewn gyda

The same thing is happening with the other large companies, such as First and Abellio, the Dutch railways company, which buys through the parent company things such as diesel—and a lot of other things, but mainly diesel. If there is just one company with the Government, they then have to look at another way of bringing down prices. We would be looking to see the Government, if they decided to go ahead with this, to go in with every other government department in

phob adran lywodraethol arall yng Nghymru, sef y byrddau iechyd, y cynghorau lleol—pob un ohonyn nhw—i brynu diesel. Felly, yn gyfan gwbl, maen nhw'n dechrau dod nid cweit at lefel Deutsche Bahn, ond bydden nhw'n gallu talu *hedge funds*, achos mae'n rhaid talu'r *hedge fund*, hefyd, i 'hedge-o'—nid wyf yn siŵr beth yw'r gair yn Gymraeg—ond *to hedge the price*, trwy—.

Wales, namely the health boards, the local councils—all of them—to buy diesel. Therefore, all together, they can start to approach not quite Deutsche Bahn levels, but they'd be able to pay hedge funds, because you have to pay the hedge fund, as well, to hedge—I'm not sure of the word in Welsh—to hedge the price, through—.

[57] Y peth sy'n rhoi'r *benefit* mwyaf i gwmni sy'n prynu rhywbeth fel olew ydy faint rwyf ti'n ei brynu. Felly, mae cwmni fel British Airways, maen nhw hefyd Iberia, Vueling ac yn y blaen, ac maen nhw'n gallu prynu yn eithaf tsiêp yn yr un ffordd â Deutsche Bahn. Nid wyf yn gwybod faint, yn gyfan gwbl, o ddeisel maen nhw'n prynu yn y sector cyhoeddus yng Nghymru, ond y mae tuag at—. Sori, nid wyf yn gwybod faint ydyw, ond bydd hynny'n cael effaith; nid wyt ond yn edrych ar beth mae'r Llywodraeth yn ei wario. So, mae'n rhaid iddyn nhw edrych ar *package*, wedyn. Efallai, bydden nhw'n gwneud *package* gyda chwmni arall llai o seis—nid oes yn rhaid iddynt beidio â gwneud *deal*, ar ôl cymryd y penderfyniad i fynd, os gallen nhw, am *not-for-dividend*, *state-owned* cwmni, a mynd i mewn gyda Dutch Railways neu rywun arall er mwyn prynu olew.

What gives the biggest benefit to a company that is buying something like oil is how much you're buying. So, a company such as British Airways, they're also Iberia, Vueling and so forth, and they can buy quite cheaply in the same way as Deutsche Bahn. I don't know how much, all together, diesel they buy in the public sector in Wales, but I think it's about—. Sorry, I don't know how much it is, but that would have an impact; you're not just looking at what the Government is spending. So, they have to look at a package, then. Perhaps they would do a package with another company that's smaller in size—they don't not have to do a deal, after taking the decision to go, if they can, for a not-for-dividend, state-owned company, and go in with Dutch Railways or somebody else to buy oil.

[58] **Keith Davies:** Diolch.

[59] **William Graham:** Dafydd Elis-Thomas.

[60] **Yr Arglwydd Elis-Thomas:** Diolch yn fawr, Gadeirydd. Un sylw pellach ac un cwestiwn yn codi o hynny ynglŷn â'r gymhariaeth efo'r Alban: y sefyllfa yn y Papur Gwyn a gyhoeddwyd ddiwedd y mis, 'Scotland in the United Kingdom: An enduring settlement', oedd eu bod yn datgan yn glir eu bod yn bwriadu diddymu—yn adran 25 o'r Ddeddf Rheilffyrdd 1993—y cytundeb masnachfaint yn yr Alban, neu unrhyw gytundeb mas o hwnnw. Wedyn, mae hynny'n golygu bod y sefyllfa fel sydd wedi cael ei disgrifio. Ond un cwestiwn y byddaf yn gobeithio ei ofyn i'r Gweinidog maes o law ydy: a yw hi'n fodlon ein bod ni yng Nghymru'n mynd i gael yr un sefyllfa, ar hyn o bryd? Ac os yw hi'n fodlon—

Lord Elis-Thomas: Thank you. One further comment and one question arises regarding the comparison to Scotland: the situation in the White Paper published at the end of the month, 'Scotland in the United Kingdom: An enduring settlement', was that they state very clearly that they intend to abolish—in section 25 of the Railways Act 1993—the franchise agreement in Scotland, or any agreement from it. So, that means that the situation is as has been described. But, one question that I would wish to ask the Minister in due course is whether she is content that we in Wales are going to have the same situation, at the moment. And, if she is content—

[61] **William Graham:** To be fair, Dafydd, the Minister's coming in next.

[62] **Lord Elis-Thomas:** I know. That's what I'm saying. I'm not asking him—. What I'm asking now, in order to get an objective basis to this discussion—

[63] **William Graham:** Okay.

[64] **Yr Arglwydd Elis Thomas:** Beth rwyf am ei ofyn ydy: wyt ti'n tybio fod hynny yn bosibl? Ac a fydd hynny'n ddigon i alluogi i ni redeg y fasnachfaint yn lled annibynnol?

Lord Elis-Thomas: What I do want to ask is: do you believe that that is possible? And will that be sufficient to enable us to run the franchise relatively independently?

[65] **Yr Athro Cole:** Ie. Ar y cwestiwn cyntaf, a ydy e'n bosibl, nid wyf eisiau swnio fel Syr Humphrey, ond bydd yn rhaid i ti ofyn i'r Gweinidog ble maen nhw wedi mynd.

Professor Cole: Yes. On the first question, is it possible, I don't want to sound like Sir Humphrey, but you'll have to ask the Minister where they have gone.

[66] **Yr Arglwydd Elis-Thomas:** Ond lle byddem ni'n cael—

Lord Elis-Thomas: But where would we get—

[67] **William Graham:** One second. The translation's stopped. Right. Try again, please.

[68] **Yr Athro Cole:** Ocê, diolch. Y cwestiwn cyntaf oedd, a ydy e'n bosibl? O dan y Ddeddf fel y mae ar hyn o bryd, nid yw'n bosibl. Os ydym yn cael yr un pwerau â'r Alban, fel sydd yn Smith commission, mae'n bosibl i Lywodraeth Cymru sefydlu cwmni, not-for-dividend neu beidio, i dodi cais i mewn am y rhyddfaint—os ydym yn cael yr un pwerau ag sydd yn y comisiwn Smith.

Professor Cole: Okay. Thank you. The first question was, is it possible? Under the Act as it is, it is not possible at the moment. If we have the same powers as Scotland, as in the Smith commission, it is possible for the Welsh Government to establish a company, not-for-dividend or not, to put in a bid for the franchise—if we have the same powers as in the Smith commission.

[69] Yr ail beth ydy: a ydy'n ddigon i gael beth mae'r Gweinidog wedi gofyn amdano? Fel rwy'n deall, ar hyn o bryd, nid yw'n ddigon, ond, os ydy Llywodraeth Cymru wedi bod yn sgwrsio gyda'r Llywodraeth Brydeinig ynghylch cael caniatâd i fynd am *state-owned not-for-dividend*—. Ond nid wyf yn gweld yr Adran Drafnidiaeth yn Westminster, fel *co-signatory*, yn rhoi caniatâd i hynny. Mae wedi bod yn gyfan gwbl yn erbyn unrhyw beth ond rhyddfrentiau.

The second issue is: is it sufficient to have what the Minister is asking for? As I understand it, at the moment, it isn't, but if the Welsh Government has been discussing with the UK Government having permission to go for a state-owned not-for-dividend—. But I can't see the Department for Transport in Westminster, as a co-signatory, giving permission for that. They have been completely against anything other than franchises.

[70] **Yr Arglwydd Elis-Thomas:** Diolch yn fawr.

Lord Elis-Thomas: Thank you.

[71] **William Graham:** Eluned.

[72] **Eluned Parrott:** Thank you. I was wanting to ask about kind of slightly different kinds of models and I'm wondering, I mean, Transport for London, for example, is a not-for-

dividend company, essentially, which is operating—although not main-line train services. I'm wondering how that sits within the rail regulation, because obviously, that's not a franchise model.

10:15

[73] **Professor Cole:** Transport for London is a unique body in Britain. It was set up under a different set of legislation. It has powers. It owns the underground; it owns the bus routes. It's impossible to run a stopping-bus service in London unless you're part of a Transport for London bus franchise. Similarly, the underground has been partly run by private companies under contract, but one of those contracts has already been brought back into direct management. I don't think that Transport for London probably has the stomach for any future excursions into franchising out, or contracting out, the operation of the underground. The overground is on track owned by Network Rail. The funding of the services was transferred from the Department for Transport to Transport for London. They therefore hold the franchise for those main lines, if you like—the sort of British Rail-type services—which operate within the greater London area.

[74] So, pretty well within the whole of greater London all public transport services—all bus services, all taxi services, underground and train services—are operated under a contract with Transport for London. There is no other option. So, they have that ultimate power, and they've also acquired other powers, such as the river buses and so on. So, they are a different organisation, and a different organisational structure altogether. There is a mayor of London, who is the over-arching elected person. Under Boris Johnson there is Sir Peter Hendy, who is the transport commissioner for London, and he operates what's called the London model. That is a totally different piece of legislation. Now, if we had that piece of legislation, then the Minister could do all the things that the Minister would wish to do. I've heard the Minister say that she would rather like to set up British Rail—well, Welsh Rail—again, but it's not within her gift. I think that there will be difficulties ahead in trying to get a state-owned not-for-dividend company. It has many advantages and disadvantages that we've discussed, but legally—I would bow to any legal authority on this, but as I understand the legislation at present, that isn't an available option. However, I might well be wrong.

[75] **Eluned Parrott:** So, a whole new set of legislation would be required to set up something of that nature.

[76] **Professor Cole:** Or modifications to the Railways Act. I mean, there's been one modification in terms of—. Up until the Smith commission's final settlement, to which Lord Elis-Thomas referred, that's given Scotland the opportunity—for the Government—to bid for a franchise, which we don't have. It would be one stage further again for—setting aside the concept of not-for-dividend—just a state-owned company to acquire the contract without bidding. Now, Scotland has the power to acquire the contract by bidding, but subject to the points that I made to Keith Davies a minute ago.

[77] **Eluned Parrott:** So, we need a change of heart in the DfT, a significant amount of lobbying to change the Railways Act, and presumably a very much more significant change to the Railways Act or new legislation to make that a credible option.

[78] **Professor Cole:** The second two are probably easier than the first.

[79] **Eluned Parrott:** Probably, I imagine. Do we change the profile of risk at all if we break down the franchise into different areas? Clearly, at the moment we're talking about a one-Wales Wales and borders franchise, but in Scotland what they've done is they've broken out some individual parts of it and franchised them separately, haven't they?

[80] **Professor Cole:** They have. It's much bigger, of course, in Scotland. You have a passenger transport authority still there in the shape of Strathclyde. We didn't get one of those. Had the Labour Government won the 1979 election, Cardiff and Newport would have become a passenger transport executive and there would still be an executive left to take over, maybe, the kind of role that is currently envisaged for either a joint transport authority in south-east Wales or the metro board, whichever one you would prefer, but we don't have that provision. So, there would need to be a new organisation set up, if you're talking about a geographical split. You could try to split up the financial risks, and split the procurement of the trains from the tendering operation so that the Welsh Government, with one of the manufacturers and a finance house or two, would buy the trains and then lease them to the train operating company. So, you could break up both the risk and the financial liabilities in that way. You'd still need an awful lot of work to be done by the bidders to prepare the bid, because it's not just the acquisition of the trains; they have to work on what the demand's going to be, what their costs are going to be, what staffing they need, where the depots are going to be. There's a whole kind of range of jobs that need to be done, and acquiring the trains is one of those jobs, once you determine what the demand is.

[81] **William Graham:** I'm keen to move on. Our time is going. Jeff, on this point?

[82] **Jeff Cuthbert:** No, it's been covered.

[83] **William Graham:** Oh, thank you very much. Byron.

[84] **Byron Davies:** Thanks, William. If I can just turn the clock back a second to risks, I mean, as you say, it's either a franchise or a Government-owned franchise or whatever. It seems, if it all goes belly up it comes back to the Government, the taxpayer, to pay it anyway, or to bear the brunt of it. One of the things that we haven't discussed—talking about financial implications with risks, and what have you, if it is a Government-owned franchise—is the maintenance of the rolling stock. I mean, that's a huge financial implication, isn't it? If you just deal with that first of all, and then I'll come back on my other point.

[85] **Professor Cole:** If the Government was to decide to acquire the trains directly, either in its own ownership or, more likely, in partnership—

[86] **Byron Davies:** That's what I mean, yes.

[87] **Professor Cole:** Yeah. If they acquired it in a partnership—. I picked on Siemens last time; I'll go to Bombardier this time. If it was Bombardier and a finance house and the Welsh Government that formed the partnership to acquire the trains, then, with that acquisition, there would undoubtedly be a maintenance contract with the manufacturers. So, therefore, Bombardier would be bidding, because there would be bids for those trains, obviously: Siemens, Bombardier and Hitachi, as the leading manufacturers, would bid, and they would bid for the supply and maintenance of trains. So, that would include cleaning, routine maintenance, heavy maintenance every five years and a whole range of other issues. They would take over, for example, Canton works, and carry out the maintenance operations. That's one way that the Welsh Government could get round the ownership of the trains. That would normally be the job of the train operating company. Now, if the Government decided to set up an arm's-length company and go through the whole process we just talked about, that company would then have responsibility for doing that, but one would expect it to enter into an agreement for new trains. Then we come to the issue of second-hand trains, or cascaded trains, which is what probably most of the diesel trains would be currently because—

[88] **William Graham:** Is it the Thameslink ones?

- [89] **Professor Cole:** Sorry?
- [90] **William Graham:** Potentially Thameslink?
- [91] **Professor Cole:** What? For—?
- [92] **William Graham:** Those trains. The cascaded trains.
- [93] **Professor Cole:** The diesel trains. They could be. Those are the trains running west out of Paddington. The Turbostars are certainly trains that—. It's not Thameslink; it's the Thames valley trains, I think.
- [94] **William Graham:** Right, okay.
- [95] **Professor Cole:** Those trains are diesel trains; they are about 25 years old. Nothing is as good as a new train, but they can be refurbished, but you have to keep in mind that it costs about 70% of the cost of a new train to get a high-quality refurbishment—
- [96] **William Graham:** So, it would be a little bit like Trigger's brush. It would be actually almost completely renewed.
- [97] **Professor Cole:** Indeed, it's exactly like Trigger's brush.
- [98] **William Graham:** About 70% of the cost of a new train—
- [99] **Professor Cole:** Seventy per cent of the cost is what the rolling stock companies have told me, having talked to them. A basic train with no modifications worth talking about, other than cleaning up and repainting, would be about 25%, but we wouldn't want one of those because most of those trains have no toilets, to start with, and they also have five-across seating, which we haven't got used to in Wales. Second, what's called 'refreshing', which is to take out the inside and clean it all up, that takes you up to about 50% of the cost. But a complete refurbishment, which is mechanical and what the passenger sees, and the seating and so on, is about 70% of the cost. So, it's an attractive short-term proposition and will take us through this current franchise from 2018.
- [100] **Byron Davies:** The last point I just wanted to raise with you is: if it all came down to the Welsh Government to operate all this, it's about investment in infrastructure and how we do that out of the franchise.
- [101] **Professor Cole:** Well, I would anticipate that, if there was a state-owned, not-for-dividend company, owned by the Welsh Government, they would join ATOC, which is the Association of Train Operating Companies. All franchise companies are required to join ATOC. It's what enables ticketing allocation to be carried out, for people to make through journeys on the same ticket and so on, and all sorts of network benefits to do with timetables.
- [102] So, they would be a normal member of ATOC; ATOC may have some grumbles, I really don't know, but they would become a member of ATOC. They would, in terms of the infrastructure, have the same kind of agreement for track access as do the franchised train operating companies, but also, of course, there are a number of free-standing companies that don't receive any kind of Government assistance already. Grand Central, for example, runs trains from Leeds and Bradford to London with no subsidy. It negotiates with Network Rail the train paths along that route where they are competing with the east coast main line. So, it's a matter then of negotiating with Network Rail for train paths, but that would have to be done by any train operating company, and in the early years of a contract, that would be exactly the same as it is now, because people are used to a timetable as it is. If another company came in,

you wouldn't expect them to change the timetable instantly—it would get changed maybe over a period of 18 months—but the negotiations with Network Rail would be for the timings for a complete path, say from Merthyr to Cardiff, or Swansea to Cardiff.

[103] **William Graham:** Now, I'd like to move on. Joyce, were you going to ask about integration with the metro?

[104] **Joyce Watson:** Yeah, I was going to ask if you have an opinion on the potential role of the not-for-profit/dividend Welsh Government subsidiary in integrating public transport in Wales more generally.

[105] **William Graham:** Shall we look at metro and—

[106] **Joyce Watson:** Yes, general.

[107] **Professor Cole:** There's an interesting issue in south-east Wales. I won't, sort of, hog that issue, because there's a big, large chunk of Wales that isn't in south-east Wales, as Keith and I are well aware. In terms of how you run an integrated public transport service, two main elements: trains and buses. On the train side, there is no reason why the negotiations between a Welsh state-owned company and all the other companies with which they coincide, such as Virgin Trains on the west coast main line and the north Wales line, and CrossCountry and Great Western on the south Wales main line, would negotiate the timetables between themselves in the same way as a private company would do. So, integrating between train and train will be as it is now; hopefully, better than it is now, in many cases. But that's a matter of negotiation.

[108] Integration between trains and buses. In Cardiff, there are two publicly owned bus companies, plus two privately owned bus companies, in the main, there are some other companies, as well—sorry; three privately owned bus companies—and one or two other services as well, but five major players. Under the terms of the bus legislation, currently, it is not possible to fully integrate bus services, because the only ones that can be fully integrated are TrawsCymru, Bwcabus and local authority tendered services, because they have a contract to run certain services, specified by the Government authority involved—by the public sector authority.

[109] Similarly, with the metro concept, whatever that's called, it would be responsible for public transport in total in south-east Wales. The joint transport authority had the same potential power if it was set up, and it can be set up under the Transport (Wales) Act 2006. The difficulty is that the remaining part of the bus operation, which is currently operated on a profitability basis by the bus companies—quite rightly, that's the law; that's the legislation under the terms of the Competition Act 1998 and under the terms of the Transport Act 2005.

10:30

[110] They give private companies first pick on services and then what is left is picked up by the local authorities or, in the case of the national luxury bus network, TrawsCymru, by the Welsh Government. So, that situation would only change if the Silk commission recommendation to transfer powers of bus regulation from the Westminster Parliament to the National Assembly here—. And then it would be up to the National Assembly to decide whether or not it wished to have bus regulation in Wales. The last time that measure was introduced by Huw Lewis, some years ago, there was pretty much total agreement that this is what we wanted. Interestingly, currently, Manchester are asking for that power to be transferred to them. So, that's the difficulty at the moment—that the commercial bus operations are not regulated. Going back to Eluned's point, Transport for London regulate all of those and you cannot run a local bus service in London—you can run coach services long

distance, but you can't run a bus service in London—without the TFL agreement.

[111] **Joyce Watson:** Thank you.

[112] **Rhun ap Iorwerth:** Mae yna lawer o drafod wedi bod bore yma ynglŷn â'r posibilrwydd y gallai corff gael ei sefydlu a pheidio â rhannu difidend ac ati. Mae'n bosib ei fod yn werth atgoffa'n hunain o beth yr ydym yn gwybod yn barod, sef bod y Llywodraeth yn sefydlu corff hyd-braich oddi wrth y Llywodraeth—dyna gyhoeddodd Edwina Hart yn y pwyllgor ychydig fisoedd yn ôl—a'n dealltwriaeth ni, rwy'n meddwl, fel pwyllgor, ydy bod y corff hwnnw'n mynd i gael ei sefydlu'n fuan iawn yn y flwyddyn yma, ac mai rôl y corff hwnnw fyddai i gymryd drosodd y cyfrifoldeb o wthio'r fasnachfaint nesaf yn ei blaen. Gallai hynny olygu gwneud cais am y fasnachfaint neu ddilyn model mwy traddodiadol. Mi allai hefyd olygu, er enghraifft, prynu *rolling stock* ac ati. Ai dyna eich dealltwriaeth chi o le rydym arni o ran y corff hwnnw'n cael ei sefydlu?

[113] **Yr Athro Cole:** Fel rwy'n deall—nid wyf wedi siarad â'r Gweinidog o gwbl am le maen nhw ar hyn o bryd—ond rwyf wedi gweld beth y mae hi wedi'i ddweud wrth y pwyllgor a hefyd yn *Plenary* am beth y mae'n medru ei wneud. Mae'r wasg drafnidiaeth yn dweud ei bod yn mynd i'w wneud e, ac y mae'r proses sydd ganddi, fel rwy'n deall, yn un *two-stage*: y *stage* gyntaf ydy sefydlu'r grŵp yma o bobl sy'n gwybod sut i redeg rheilffordd yn y ffordd yr ydym wedi siarad amdano. Maen nhw'n gallu gwneud un o ddau beth: rhoi cyngor i'r Gweinidog ar roi allan y rhyddfaint newydd i bwy bynnag sydd yn mynd i'w gael e, trwy gystadleuaeth, a bydd cwmnïau eraill wedyn yn dodi cais i mewn am y rhyddfaint. Mae'n gallu gwneud hynny ar hyn o bryd—does dim problem gyda hynny a, fel rwy'n deall, dyna beth y bydd hi'n dechrau gydag e. Ond, os ydy'r penderfyniad yn mynd tuag at *not-for-dividend*, *state-owned* cwmni, fel rwy'n deall eto, y syniad ydy trosglwyddo'r grŵp hwnnw wedyn i redeg y gwasanaeth ei hun. Bydd dim rhyddfaint—dim ond rhedeg y gwasanaeth gyda chwmni, mwy neu lai fel yr oedd British Rail.

Rhun ap Iorwerth: There has been much discussion this morning about the possibility that a not-for-dividend body could be established. Maybe it is worth reminding ourselves of what we know already, that is, that the Government is establishing an arms-length body—that is what Edwina Hart announced in committee a few months ago—and our understanding as a committee, I think, is that that body is going to be established quite soon this year, and that the role of that body would be to take over the responsibility of pushing the next franchise forward. That could mean making a bid for the franchise or it could be following a more traditional model. It could also mean, for example, buying rolling stock and so forth. Is that your understanding of where we are in terms of that body being established?

Professor Cole: As I understand it—I haven't spoken to the Minister at all about where they are at present—but I have seen what she's said in committee and also in *Plenary* about what she can do. The transport press says that she is going to do this, and the process that she has in mind, as I understand it, is a two-stage process: the first stage is to establish this group of people who know how to run railways in the way that we've spoken about. They can do one of two things then: they can give advice to the Minister on putting the franchise out to whoever will win that bid through competition, and then other companies will put in a bid for the franchise. She can do that at present—there's no problem with that and, as I understand it, that is what she's starting with. But, if the decision goes in the direction of a state-owned, not-for-dividend company, as I understand it again, the idea is to transfer that group to running the service itself. So, there won't be a franchise—they will just be running the service with a company, more or less as British Rail did.

[114] **Rhun ap Iorwerth:** Rwy'n cyd-fynd

Rhun ap Iorwerth: I agree and it's worth

ac y mae'n werth atgoffa'n hunain mai dyna sydd yn digwydd, ac rydw i ond yn mynd ar sail beth sydd wedi cael ei ddweud yn y pwyllgor yma ac yn *Plenary* hefyd. Gawn ni weld os oes gan y Gweinidog mwy i ddweud wrthym y prynhawn yma.

[115] **Yr Arglwydd Elis-Thomas:** Bore yma.

[116] **Rhun ap Iorwerth:** Y bore yma—mae'n ddrwg gen i. A yw'r sgiliau ar gael, a ydych yn meddwl, am bris rhesymol, ac a ydynt ar gael yng Nghymru, neu o'r tu allan i Gymru, i ddod â'r arbenigedd yna rownd y bwrdd mewn corff hyd-braich o'r Llywodraeth i reoli dyfodol y rheilffyrdd yng Nghymru?

[117] **Yr Athro Cole:** Heb fod yn rhy annheg i'r bobl sydd yn y gwasanaeth sifil ar hyn o bryd, mae'r rhan fwyaf ohonyn nhw yn weision sifil. Mae dau neu dri pherson yna sydd yn gwybod llawer obeutu reilffyrdd, ond rydym yn edrych am bobl uwch i fod yn dîm newydd i redeg un ai'r rhyddfaint neu'r cwmni—beth bynnag; yr un bobl yr ydym yn siarad amdanynt. Mae'r sgiliau hynny ar gael. Y cwestiwn ydy: am faint? Nid ydyn nhw'n tsiêp. Mae'r bobl yma'n cael cyflog ar hyn o bryd lawer dros £150,000, ar y top—llai i'r bobl ar yr ail lefel; rŷm ni'n siarad obeutu £90,000 i £100,000 y flwyddyn. Maen nhw ar gael—eu perswadio nhw i ddod fydd y broblem gyntaf. Efallai, o ran y bobl ar yr ail res, bydd fwy o siawns i'w cael nhw i fynd lan i'r rhes gyntaf. Mae rhai ohonyn nhw ar gael yng Nghymru; mae llawer mwy ohonyn nhw, wrth gwrs, ar gael yn Lloegr a'r Alban, ac efallai y tu allan i'r busnes rheilffyrdd pan wyt ti'n edrych ar sut i redeg rhyddfaint. Ond nid ydyn nhw'n tsiêp; mae eu cyflogau nhw nawr yn dda, ac mi fydden nhw'n edrych am fwy, wrth gwrs, i symud o'u swyddi.

[118] **Rhun ap Iorwerth:** Un peth ydy rhoi tîm at ei gilydd i reoli neu rannu'r rhyddfaint nesaf allan; peth arall ydy rhoi tîm at ei gilydd i redeg rheilffyrdd yng Nghymru. A ydy'n bosib rhoi'r tîm yna at ei gilydd hefyd?

[119] **Yr Athro Cole:** Wel, maen nhw fwy

reminding ourselves that that is what is happening, and I'm only going on the basis of what has been said in this committee and in Plenary as well. We'll see whether the Minister has more to tell us this afternoon.

Lord Elis-Thomas: This morning.

Rhun ap Iorwerth: This morning—I'm sorry. Are the skills available, do you think, and for a reasonable price, and are they available in Wales, or outside Wales, to bring that expertise around the table in an arm's-length body to control the future of the railways in Wales?

Professor Cole: Without being unfair to the people who are in the civil service at present, the majority of them are civil servants. There are two or three people who know a great deal about railways, but we are looking for more senior people to be part of a new team to run, either the franchise or the company—whatever emerges; we're talking about the same people there. Those skills are available, but the question is: how much? They're not cheap. These people receive a salary at present far in excess of £150,000 at the top level—a little bit less for the second tier; we're talking about £90,000 to £100,000 per annum. They are available, but it's about persuading them. That will be the first problem. Perhaps the people in the second tier will be more willing to come in so that they pass into the top tier. Some of those people are available in Wales; far more of them are, of course, available in England and Scotland, and perhaps outside of the railways business when you're looking at running the franchise. But they're not cheap; their salaries are very good at present, and they will be looking for more, of course, to move position.

Rhun ap Iorwerth: It is one thing to put a team together to manage or share the next franchise out; it is another thing to put a team together to run the railways in Wales. Is it possible to put that team together as well?

Professor Cole: Well, they are more or less

neu lai yr un bobl. Bydd llai ohonyn nhw yn rhoi cyngor i'r Llywodraeth am y rhyddfrait, ond *size* y tîm ydyw e. Yn yr Alban, mae rhywbeth fel 60, rwy'n meddwl—nid wyf yn cofio'r rhif nawr—yn yr adran sy'n rhedeg y rhyddfrait. Mae'n rhaid inni edrych am, nid efallai cweit y *size* yna, ond tipyn o griw o bobl—criw o efallai 30 o bobl—i weithio ar y lefelau gwahanol.

[120] **Rhun ap Iorwerth:** Mae yna ewyllys gwleidyddol, rwy'n meddwl, yn y Cynulliad i chwilio am fodel nad yw'n talu difidend o gwbl, ac yn sicr model sy'n gweld llawer mwy o arian rheilffyrdd Cymru yn cael ei ailfuddsoddi yn ôl yn y rheilffyrdd. Os ydy'n profi'n amhosibl mynd am fodel cwbl gyhoeddus, am resymau ymarferol neu ddeddfwriaethol o bosibl, i ba raddau yr ydych chi'n teimlo ei bod yn bosibl rhoi *spec* rhyddfrait at ei gilydd a fyddai'n wirioneddol dynn ac a fyddai'n cyfyngu ar faint o arian sy'n gallu cael ei dynnu allan? Achos, beth nad ydym ei eisïau, wrth gwrs, ydy rhyddfrait debyg i'r hyn yr ydym wedi ei gael yn y gorffennol. A ydy'n bosibl i'r corff newydd yma yng Nghymru roi rhyddfrait at ei gilydd a fyddai'n ateb y dyheadau gwleidyddol, mewn ffordd, sy'n eithaf clir yn y Cynulliad?

[121] **Yr Athro Cole:** I gael gwasanaeth gwell na'r un sydd gyda ni—na; awn ni yn ôl un step. Y gwasanaeth cyntaf oedd gyda ni oedd y rhyddfrait a oedd wedi cael ei pharatoi gan yr Awdurdod Rheilffyrdd Strategol—yr SRA. Trosglwyddwyd hwnnw i'r *Department for Transport* yn Llundain, ac nid oedd *really* wedi newid y rhyddfrait. Aeth hi allan ac roedd yr rhyddfrait yn un nad oedd i dyfu—dim mwy o drenau, dim mwy o gapasiti—ac felly, y syniad oedd y bydd y gwasanaeth jest yn diflannu. Beth ddigwyddodd oedd bod y twf yn rhywbeth fel 8% bob blwyddyn—felly, dyblo bob rhyw wyth i naw mlynedd yn nifer y bobl sy'n teithio ar y trenau. Roedd rhaid felly i'r Llywodraeth fynd allan i gael Arriva i lesio mwy o drenau, a dyna beth sydd wedi digwydd. Felly, mae trenau mwy o *size*. Nawr, nid oes mwy trenau ar gael. So, am y tair blynedd nesaf, ni fydd siawns i newid beth sydd gyda ni, achos nid yw'r trenau ar gael.

the same people. There will be fewer of them giving advice to the Government about the franchise, but it's about the size of the team. In Scotland, they have around 60, I believe—I don't quite remember the figure—in the department running the franchise. We have to look at maybe a department that's not quite the same size, but there has to be quite a group of people—around 30 people—to work on the different levels.

Rhun ap Iorwerth: There is a political will, I think, in the Assembly to look for a model that doesn't pay a dividend at all, or certainly one that sees much more Welsh railway money being reinvested back into the railways. If it proved impossible to go for a completely public model, possibly for practical reasons or legislative reasons, to what extent do you think it's possible to put a franchise spec together that would be really tight and would restrict how much money could be taken out? Because, what we don't want, of course, is a franchise similar to the one we've had in the past. Is it possible for this new body in Wales to put a franchise together that would answer this political will, which is very clear in the Assembly at the moment?

Professor Cole: To have a better service than we currently have—no; let's take one step back. The first service that we had was the franchise that was prepared by the Strategic Rail Authority—the SRA. That was transferred to the Department for Transport in London, and that didn't really change the franchise. It went out and the franchise was one that wasn't to grow—there weren't to be additional trains or capacity—and so, the idea was that this service would just disappear. What happened was that growth has been something like 8% every year—so, it has doubled every eight or nine years in terms of the number of people using the trains. The Government therefore had to go out to get Arriva to lease additional trains, and that's what's happened. So, the trains are larger. Now, there aren't any more trains available. So, for the next three years, there won't be an opportunity to change what we have, because the trains aren't available.

[122] Yn y rhyddfaint newydd, rŷm ni'n edrych am drydanu yn y de hyd at Abertawe, a diesel o fanna i'r gorllewin. Yn y canolbarth ac yn y gogledd, bydd trenau diesel. Mae'n rhaid inni benderfynu pa fath o *demand* yr ydym ni'n edrych arno yn yr amser yna. A ydym ni'n edrych iddo dyfu 10% y flwyddyn? Mwy? Llai? Ac wedyn, prynu trenau neu lesio trenau sy'n ffitio i mewn i'r patrwm *demand* hynny. Felly, rydym yn gallu cael gwell gwasanaeth na'r hyn sydd gennym ar hyn o bryd. Ar hyn o bryd, mae'n costio rhywbeth fel £150 miliwn; byddwn yn meddwl, yn dibynnu ar sut bydd y twf o ran *demand* yn mynd lan, £200 miliwn y flwyddyn, uwchben hynny, talu am y trenau a thalu am drydanu'r rheilffordd. So, efallai byddwn ni lan i £2,050 miliwn y flwyddyn, ond mae siawns i ni wedyn i gael system drafnidiaeth sydd, mwy neu lai, yn newydd a modern. Nid yw hynny gyda ni ar hyn o bryd.

[123] **Rhun ap Iorwerth:** Ond beth am, er enghraifft, capio elw er mwyn sicrhau bod llwyddiant yn y fasnachfaint yn dod â'r elw yn ôl i'r rhydwraith, yn galluogi ailfuddsoddi ac ati?

[124] **Yr Athro Cole:** Wel, mae'r elw ar hyn o bryd rhywbeth fel 5% i 7% o'r *turnover*. Felly, wrth siarad am gwmni fel Arriva, rhywbeth fel £20 miliwn byddai hi. Dyna beth mae'r wasg trafndiaeth yn dweud. Dyna beth mae'r cwmnïau yn ei ddweud. Mae'n dipyn o arian. Mae £20 miliwn yn werth ei chael bob blwyddyn, os ydym yn edrych ar wario hynny i wella gorsafoedd, er enghraifft. Nid oes llwyth o elw ar gael, ond mae bob ceiniog y dyddiau yma yn werth ei chael.

[125] Mae rhai cwmnïau—. Rhyw dwy flynedd yn ôl, roedd yn rhaid i First Great Western gael arian o'r *parent company*, First Group, i dalu eu costau nhw. Roeddent i lawr rhyw £10 miliwn, rwy'n meddwl—nid wyf yn cofio'n union nawr, ond rhywbeth fel hynny oedd hi. Roedd y refeniw yn llai na'r costau, felly i wneud y *gap* lan, roedd yn rhaid i First Group dalu arian mewn i'r busnes. Felly, nid yw hi fel yr oedd hi i'r cwmnïau yma. Roedd y cwmnïau bysus yn gwneud 15% o elw ar *turnover* a bob

In the new franchise, we're looking for electrification in the south as far as Swansea, and diesel from there to the west. In mid Wales and north Wales, there will be diesel trains. We have to decide what kind of demand we are looking at in that period. Are we looking for growth of 10% every year? More? Less? And then we'll be purchasing or leasing trains that fit into that demand pattern. So, we can have a better service than we have at present. At present, it costs us around £150 million; I would think that, depending on what the growth in demand will be, it will be £200 million per annum, on top of that will be paying for the trains and paying for electrification of the railway. So, perhaps we'll be up to £2,050 million a year, but there is then an opportunity for us to have a transport system that is, more or less, new and modern. We don't have that at present.

Rhun ap Iorwerth: But what about, for example, capping the profits made in order to ensure that success in the franchise brings that profit back to the network, enabling reinvestment, and so forth?

Professor Cole: Well, the profits at present are something like 5% to 7% of the turnover. So, in talking about a company like Arriva, it is something around £20 million. That is what the transport press states. That is what the companies say. That is quite a sum of money. That £20 million is worth having every year, if we are looking at spending that on improving stations, for example. There is not a great deal of profit available, but every penny is worth having these days.

There are some companies—. Some two years ago, First Great Western had to have funding from the parent company, First Group, to pay their costs. They were down some £10 million, I believe—I don't quite remember now, but it was something like that. The revenue was less than the costs, so to make up the deficit, First Group had to pay money into the business. So, it is not as it was for these companies. The bus companies were making around 15% profit on turnover and they were doing well every year. That is

blwyddyn roeddent yn gwneud yn dda. Nid yw hynny'n digwydd nawr. Maen nhw'n gwneud rhywbeth fel 5% nawr. Nid yw hi fel yr oedd hi, ond nid yw hynny'n meddwl na allwn ni gael pobl mewn i redeg y busnes yn y ffordd fwyaf *efficient* posibl. Ond, pan rwyti'n edrych ar y ffordd—. Rwy'n gwybod bod lot o bobl yn conan obeutu Arriva; rwy'n conan obeutu Arriva, ond, rhyw ffordd, maen nhw'n gallu rhedeg trenau sy'n 40 mlwydd oed *just about* bob dydd; mae eu peirianwyr nhw yn gorfod bod yn *pretty smart* i wneud hynny.

not happening now. They are making around about 5% profit now. It's not as it was, but that is not to say that we can't attract people in to run the business in the most efficient way possible. However, when you look at the way—. I know that a lot of people complain about Arriva; I complain about Arriva, but, somehow, they can run trains that are 40 years of age, almost every day, just about; their engineers are pretty smart to be able to do that.

[126] **William Graham:** We're just about at the end of our time now. Jeff, do you have a question on the last point?

[127] **Jeff Cuthbert:** Yes, it was on the point of the skills gap—just quickly. We do have a bit of time before some of these changes could come in. Are the skills that are missing absolute and require new people to be brought in, or is it a CPD issue, where existing staff could be trained in the time available to fulfil those roles?

[128] **Professor Cole:** You need new skills. You need new capabilities—I understand that is the new word. You need people who are able to do the particular jobs involved. They will need to have experience in franchising; they will need experience in train operation, in dealing with Network Rail and dealing with train companies. The Welsh Government has never had that responsibility, therefore, its only requirement has been to manage the franchise, but it hasn't been their prime job; that was the job of the Department for Transport. So, even on that basis, there would need to be new staff or at least the retraining of current staff. One of the problems that I certainly find, and I'm sure many other people find, with the civil service is not one of the people, but of the process. They have a churn process, where, every three or four years, people get shifted around, so they become generalists. So, this week they're in health, next week they're in education, and they have to pick up the issues. Now, when that was just Government, I guess it worked, but now they're being asked to do very specific, detailed pieces of work on, in this case, franchising a railway.

10:45

[129] They need to know what people like Marriott hotels and McDonald's know. They need to know how to manage a franchise and manage it really tightly. The deal needs to be set in stone right at the beginning of that franchise negotiation, because later on, as we've seen, it will cost more per unit to operate a train service if you put additions in, compared with what you negotiate right at the beginning. When you negotiate at the beginning, you've maybe got five competitors, all of whom are clamouring to please everything that you want. When you come to renegotiating with the existing operator, they clearly have elements in the contract that give them benefits, and of course, they're the only people, probably, with whom you're negotiating. That's the difficulty, and those staff, therefore, need to be—they should've been employed by now, to be frank about it—employed as soon as possible so the Minister has the best advice, whether she goes for a conventional franchise, or whether she goes for a state-owned, not-for-dividend one. Whichever one she goes for, she needs those people in and needs them in now.

[130] **William Graham:** Thank you. On that warning and advice, I'm going to bring this part of our session to a close. I thank Professor Cole for the depth of his answers and for this extremely interesting discussion with the committee. Thank you very much for your

attendance today.

[131] **Professor Cole:** Thank you very much, chairman—my pleasure. Diolch yn fawr.

[132] **William Graham:** We'll break for 15 minutes.

*Gohiriwyd y cyfarfod rhwng 10:46 a 10:58.
The meeting adjourned between 10:46 and 10:58.*

Masnachfaint Rheilffordd Cymru a'r Gororau—Craffu Dilynol Wales and Borders Rail Franchise—Follow-up Scrutiny

[133] **William Graham:** Once again we're looking at the Wales and borders rail franchise. I'm very grateful to the Minister and the director-general for coming to give us an evidence session today. Could I ask you just to give your names and titles for the record?

[134] **The Minister for Economy, Science and Transport (Edwina Hart):** Thank you, Chair. Edwina Hart, Minister for Economy, Science and Transport.

[135] **Mr Price:** James Price, director, economy, science and transport.

[136] **William Graham:** Thank you very much. I suggest we go straight to questions, and our first question—Dafydd Elis-Thomas.

[137] **Lord Elis-Thomas:** Just to pick up where we left off when you were last at this committee, do you think you have achieved, or will achieve soon, sufficient powers to achieve your objectives in relation to the rail franchise?

[138] **Edwina Hart:** We have obviously got an agreement on powers, because in 2017, early January, we'll be having some powers given to us. However, we don't have powers over Network Rail, which I believe are required in the long term to be able to direct Network Rail and decide what we want for the network in Wales. I've got a holistic approach to rail. I want to see Wales covered by railways all the way round and integrated into a proper public transport system. I think that that is very important.

[139] We would very much like the powers that the Scots will have—what's been recommended by the Smith commission. The Scots obviously don't have powers on everything, because they don't have any powers with the rail regulator, do they? Those powers are still being kept centrally. So, I think we've got sufficient powers to start the process.

11:00

[140] In terms of the not-for-profit and not-for-dividend model, there is a model we will be able to look at under our existing powers, but we might need more powers if we were to go a stage further on that. So, I think that we need to continue to press on Silk, and we need to continue to press on what the Smith commission has done to actually get what we require. I don't think we should be any different to the Scots in terms of the powers that are given to us.

[141] **Lord Elis-Thomas:** Thank you for that. I'm looking at the transport section of the command paper, 'Scotland in the United Kingdom: An enduring settlement', where reference is made to making section 25 of the Railways Act 1993 not apply in relation to Scottish franchise agreements. Do you think you're going to get that from the Secretary of State for Wales in his command paper, when it's published?

[142] **Edwina Hart:** I'm not sure what we will get. I'm working on the basis of what I know I'm going to have, and I shall work from there. In the future, I would like to have what has been suggested in terms of Scottish powers, but obviously I can't gaze into what the future may hold in terms of general elections, who'll be ruling in the UK, and I can give no guarantee that any Government will give me the powers that I want. I can only say that I would wish to ask for the same powers as Scotland. I think that's a fair analysis at this current time.

[143] **William Graham:** Thank you very much. Joyce.

[144] **Joyce Watson:** Good morning, Minister. I'd like to ask whether it is your intention that the not-for-dividend subsidiary currently being established will directly operate Welsh rail services.

[145] **Edwina Hart:** We are not allowed to operate directly rail services. This is obviously why we're looking to establish an arm's-length body that would then be able to undertake and operate services. We can look at various models for the operation of the services in the model we've had. We can look at a Merseyside rail model. We can look at the London transport model that currently exists, where the risk is effectively with the operator but we own rolling stock and do everything. That's what we envisage currently, looking at those areas, which are tried and tested, that give us halfway to a model. I think that that'd be quite successful. Do you want to add anything, James, in terms of the model?

[146] **Mr Price:** Yeah, I could do, Minister. The legislation currently is quite restrictive in terms of what can and cannot be done. There's a whole list. If you look in the Railways Act, there's a whole list of bodies that are not allowed to run train services. It says 'public sector', then it lists bodies of the public sector, and then it lists bodies that don't even exist that might exist that aren't allowed to run them either. 'Running' is quite a prescribed and detailed term. Literally, that does mean the employment of staff and running around trains in an operational sense. You'll find it quite difficult to find anywhere in the Europe where the government is actually doing that. So, within the confines of the legislation, you could imagine that you could have a not-for-dividend vehicle, like we've talked about, which would then let a series of operational contracts below it, which would both have elements therefore of not-for-dividend in that vehicle, but also standard profit contracts below that. So, we could do something within the existing legislation, even though it is very prescriptive.

[147] **Edwina Hart:** I've got the list in front of me as part of our background papers: a Minister of the Crown, a Government department, any other emanation of the Crown, any local authority, the Greater London Authority, Transport for London. The list is endless. The interesting thing is, when the Scots did explore this, they were able to explore it under the legislation that was applicable to them at the time, but they didn't actually find any takers for it. It wasn't that they didn't look for it; nobody actually took it up commercially.

[148] **Mr Price:** Sorry, Minister; I should have explained that. The legislation does not stop us or anyone else, frankly, putting out a contract and saying, 'We are only interested in not-for-dividend vehicles bidding'. The difficulty, of course, is that there aren't any not-for-dividend vehicles to bid. The Government would have to sponsor such a body, which would have to be truly at arm's length, and then Government itself would have to assess that bid against other bids. I think that Scotland's words were 'negligible interest'.

[149] **William Graham:** Jeff, on this point?

[150] **Jeff Cuthbert:** Yes. Just to be clear, when you said earlier about people 'running around' the rail network, are you referring to the functions of the train operating companies?

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

[152] **Jeff Cuthbert:** Oh, right. Okay.

[153] **Joyce Watson:** So, we've established what we can do. Can we, under the 1993 Act, procure not-for-dividend? Is that what you were saying and what you were explaining just now?

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

[155] **Joyce Watson:** If we move on, then, from that, what about the provisions of the EU law providing for direct award of public transport services? Are they under review? Will there be possibilities for you to operate under those rules?

[156] **Edwina Hart:** Right, we understand that there is a review going on in the European Union. It's been going on for some time, hasn't it, James?

[157] **Mr Price:** Yes, it has. Yes.

[158] **Edwina Hart:** They are looking at the ability of EU countries to order direct franchise. We're not certain where this is going. Obviously, the UK Government have an interest, because they've directly awarded franchises, in whether they would want the EU to be involved. I'm sure, of course, that the German Government, and others on the continent that do this, perhaps won't be very keen if there are any European Union restrictions emerging. But, we haven't heard any outcome of that dialogue. It has been a long-term dialogue going on for a few years now. It doesn't seem to have come to anything.

[159] **Joyce Watson:** We have a comment from the director general of the Minister's department on 4 December that there are several workarounds in the Railways Act 1993, and there is a reference to a number of other solutions if that Act cannot be amended. Minister, does that mean that a not-for-dividend approach will comply with the national and the EU competition and procurement obligations, and what is the basis for that view?

[160] **Edwina Hart:** Yes, we are confident that that applies—what you've indicated in your question.

[161] **Joyce Watson:** Okay.

[162] **William Graham:** Thank you very much. Eluned.

[163] **Eluned Parrott:** Thank you. Minister, you mentioned Transport for London as a potential model for a not-for-dividend private company that directly commissions services. That obviously sits outside of the Railways Act, as I understand it, and therefore is not subject to the same kind of restrictions that we might be, should we wish to pursue that model. So, what would you have to achieve, in terms of changes to the Railways Act, to be able to establish a transport for Wales company?

[164] **Mr Price:** When I and the Minister have used Transport for London as an example, I think that it's the commercial relationships and the way that Transport for London works vis-à-vis things like London overground and other service providers, rather than the institutional and legal set-up behind that. I've unsurprisingly, kind of, been having detailed legal advice on the back of the thoughts that we've been having and the models that we've been thinking about. My understanding as of yesterday is that the existing legislation would allow us to mimic a Transport-for-London-type model in its activities and its actions, but not—you're absolutely right—in its legal set-up and status. Because Transport for London is actually a

body created by legislation in and of its own right. You're right, it does operate outside of the Railways Act, but we don't need either of those things to do what we want to do.

[165] **Eluned Parrott:** Can I just confirm? Obviously, the Railways Act requires there to be a competitive bidding process for the awarding of franchises. It seems likely, therefore, that a mechanism that doesn't have a franchise or a competitive bidding process is not likely to comply with that.

[166] **Edwina Hart:** Well, as far as we are aware, we can do what we've indicated to you, from the advice that we've been undertaking. Obviously, we've got to work up further models before we go any further, which I will be sharing, because we have to go delicately through these issues to see what is best for us. I don't think, because we think there might be some hurdles across the way, that should prevent us from taking what I think is the right decision in terms of the model that would be suitable for Wales. I think that we've got to recognise that we are looking through all the legislation that is applicable now and what changes there might need to be made, but I think if we have a model that we think can work and we can recommend, that should be the starting point for these discussions. I don't think that we want to put unnecessary hurdles in our way at this stage.

[167] **Mr Price:** Minister, do you want me to just clarify?

[168] **Edwina Hart:** Yes, please.

[169] **Mr Price:** Just on the back of that, I think you're absolutely right in saying that, under the existing legislation, there does need to be a competition, but the term 'franchise' could mean a whole series of different things. We've talked about this in previous committees.

[170] **Edwina Hart:** Yes, we have.

[171] **Mr Price:** That can mean anything from almost a cost-plus contract for providing drivers who are qualified to run trains, all the way through to an outcome-based contract, where everything is left to the private sector to decide what routes to run. And the model we were talking about is much more along the first example I gave, where the profits that would be able to be made would be very small anyway, because, basically, you're employing a managing agent and an employment contractor and nothing more. That's the kind of London transport model. And you would still have to procure that, and people would bid for it, to run it the cheapest they could. That would be procuring a franchise, but in most people's minds, that's a very different franchise from any franchises we've currently got in the UK.

[172] **Eluned Parrott:** So, what we're looking at, essentially, is a very different form of franchise, but you are of the opinion that a competitive process for bidding for individual contracts to run individual services would satisfy the requirement for a competitive process in the Railways Act.

[173] **Mr Price:** That's the legal advice.

[174] **Eluned Parrott:** And have you had that legal advice confirmed in discussions with the Department for Transport—that they will accept that? Because, clearly, when Scotland have gone down this kind of path to look towards not-for-dividend models, they've had to get an amendment made to the Railways Act that said that public companies were allowed to bid for a franchise. That, in itself, was a considerable hurdle, but it seems to me that you want to actually go quite a long way further than that, and I am nervous that the Department for Transport may not take the same view.

[175] **Edwina Hart:** We think it's a tad too early, because we're still exploring the various different options around this. When we get to the stage where we have a preferred option, I think that will be the opportunity then for dialogue in terms of the DFT. The key for me, I think, on the franchise, is how we run it, isn't it, James—what controls, incentives and penalties are in place, and what the management agreements are to ensure that it works well for the public? So, there is a range of issues there about how it will work. So, we will be, obviously, in the long term—. We want to try and get some position on this in place before we go into recess in the summer, and then have the dialogue then appropriately with DFT at that time. I have to say that I think, in terms of rail now, people are looking for more innovative solutions all across the UK. We've got wonderful opportunities with the development of rail services in the UK, and I think people want to maximise the benefits to the public and look at different structures. I don't think we're the only people thinking like this.

[176] **Eluned Parrott:** Okay. Can I ask in terms of assessment of risks of different models? Clearly, moving away from a traditional franchise model will obviously bring a different risk profile in terms of any potential legal risk, but also in terms of financial risk. Can you tell me what the difference was in your view between going for the model that you've suggested—a not-for-dividend traditional franchise—as opposed to a traditional franchise, in terms of the Welsh Government's financial risk exposure?

[177] **Edwina Hart:** Obviously, I think, since I took over the transport portfolio, I've been looking at issues around transport and the future of the franchise. It's clear to me that the current arrangements are not fit for purpose in any way and that we had to look at different models—hence why I started the discussion. I want to fully explore those, as I've indicated to you, so that we can manage this. There will be a risk in everything that we do. We've only got to look at the way the last franchise has worked; you know, we've had all the new passengers and everything, and what we've had to add to that franchise to make things stack up. We've had the basic franchise; we've had to pay for more additional routes, different services and everything. I think everything is a risk in terms of what you do; it's the management of the risk. And I think if we think these proposals through quite clearly during the summer, and come up with the optimum proposal, then we will know what the element of risk is and how we manage it. I did think long and hard before I made an announcement about where I wanted to go, because I've thought about it almost since day one when I came into the portfolio, when all the letters started pouring in about what people didn't like about the existing franchise and the way it was being run. And, also, in terms of the principles, I think you've got to recognise, from my party's position as well, as a member of a Labour administration, we do feel quite strongly that these are the options that need to be explored in the future for public transport.

[178] **Eluned Parrott:** One of the things that we've seen in other franchises, of course, is that even really seriously large international companies have failed to deliver some of the franchises despite their size, despite their ability to procure fuel and rolling stock at much lower cost than a smaller organisation could. But even under those circumstances, the financial risks have been too big for some of them.

11:15

[179] **Edwina Hart:** Can I say I think that's down to the fact that there's been poor modelling in terms of what you've required from the franchise, irrespective of size or who's done it. I think we've been very poor in dealing with the modelling issues and what we required from the franchise. You're talking about—. There are issues about fuel costs; it's something I've raised myself with the Arriva parent company, and they negotiate what they want. But we must remember also that we have interested parties all across Wales who could also start to procure differently, and collectively procure within that arena as well, and that might help us with fuel charges. There's nothing stopping us having an arrangement across

our border with someone else who we might be able to procure with. So, I think we've got to realise that, for me, it's the modelling and the cost basis that haven't been determined properly that I think have caused some of the problems in some of the franchise arrangements. I think if we can get that right, we can actually start to minimise the risk.

[180] **Eluned Parrott:** If the modelling was wrong—it's the Department for Transport, I take it, you're suggesting got the modelling wrong—do you have better capacity in your department currently to undertake that kind of work? How many people do you have working in the train department within your department at the moment?

[181] **Edwina Hart:** In terms of staff, we would say that, at this current moment in time, we do not have the capacity. However, we are now looking to ensure that we enhance our capacity. The fact that we will be looking at establishing an arm's-length body with expertise will help us in terms of capacity. The issue of capacity is very important, because there are actually very few people out there that have the capacity to deliver on these projects. And these people that are out there are exceptionally well paid and zealously guarded by the people that they currently work for; you've got to have a project, really, that is very attractive to come to. And we think that the fact that we're doing something as a Government might make it very attractive for individuals to come to that project.

[182] The only thing I can say to the committee is that if they want to make a plea to the Permanent Secretary about me having more DRCs in terms of staffing, I'd be delighted if that's the recommendation of the committee, for me to get the right people in to help and assist.

[183] **William Graham:** Thank you, Minister. Byron.

[184] **Byron Davies:** Morning. Can I just ask you on this issue of—? You said on 4 December:

[185] 'I do intend to go for a not-for-dividend model in the future...We are likely to establish an arm's-length company...'

[186] I've just heard your comments there about it being sort of politically driven by your party—

[187] **Edwina Hart:** I indicated that, obviously, there was a consideration about what we consider is right. But I have to tell you, and make it absolutely clear, that I, as a member of this Government, want to do what is right for the public in terms of the travelling public, and get the right options. So, please don't twist this into a definitive party political issue, because I think I've got support from other parties around this table for this option as well.

[188] **Byron Davies:** Good; thank you for the clarification. I was just going on to ask you, then, when the committee considered the franchise specification process, we came up with recommendations that were accepted by the Welsh Government, which were the need to passengers at the heart of the franchise and the need for a major public consultation; how does that stand?

[189] **Edwina Hart:** Actually, in fact, we met some rail user groups on Monday. They've decided they would like to help and assist us in every way possible, looking at what passengers actually want in future of the franchise. We will be organising a meeting with them later in the year, in the summer, where they're going to outline the key areas that they feel should be looked at in terms of the franchise. And they will be advising us in terms of how we would then take any consultation forward.

[190] Can I say that some of the rail groups that we engage with have been first class already in helping us with surveys that have ensured that we've actually put additional services in? The rail groups I had the pleasure of meeting about the Aberystwyth-Carmarthen line as well, only last week, were saying how they want to help with anything to do with the rail, not just their line. So, we've already started that engagement with the groups. I meet these groups regularly on a range of issues; in fact, I also as well give them finance to enable them to look at certain things that help and assist me. We will continue that very open and transparent process.

[191] I'm also as well aware you're having this discussion now, but I'm sure the Chair of the committee will want to return to these matters when we looking at what we want in terms of the franchise, to have an open dialogue here, perhaps with witnesses and further consultation, which, of course, we'll be delighted to participate in and be part of.

[192] **William Graham:** Thank you, Minister. Mick.

[193] **Mick Antoniw:** The irony of the Scottish franchise, of course, is it did go to a public company, it just happened to be a Dutch public company. So, Scotland is now funding Dutch public services. But it does raise the issue of skills. Now, if we are beginning to move towards the establishment of a not-for-profit company for this process, what is the sort of timescale that you think will be involved in the actual establishment of the company, because, obviously, it needs to be well ahead of the franchise, 2018 itself, but also the particular skills, because what we're talking about here are people who are going to run a company, run a business?

[194] **Edwina Hart:** Yes. It will be a matter of weeks before we make the announcements about the company and who will be on the company's board. We have had significant interest from people who are really key within the rail industry, and we're just finalising arrangements on that. So, we are ahead of the game on that one. There also will be the issue of other skills within the department, which—you're absolutely correct, and others have illustrated—we're actually going to have to get right as well. I wouldn't want to underestimate the task, but the important thing is that we do have time to do it, because, in terms of the franchise, we can look for an extension on the existing franchise, which allows us, of course, to have more time if we wish to do so. So, we think that, in this timescale, it can be managed. But I'd be the first to admit it, if I thought something wasn't right and we weren't getting there. I'd be the first to come forward and say it, because you've got to be transparent about these matters. We can't allow anything to go wrong on this.

[195] **Mick Antoniw:** Well, it follows on, then, really, from the point you made in answer to the last question about the whole funding issue and, of course, setting up the company, the sort of skills—. I mean, we've heard evidence earlier from Professor Cole on the business organisational side, the sort of people and the sort of expertise at a very senior level. Do we have, or do you have, the resources that are necessary to actually proceed with the establishment of that company now, because it'll, obviously, be several years before the funding for it actually comes in? So, we're advance spending, aren't we?

[196] **Edwina Hart:** I think we have the resources currently to establish the company, but we will have to review resource as the work starts, and I think that it'll be quite important that the committee recognises that at this stage. It will probably be helpful, Chair, when I do establish the board and everything, and things have run for a couple of months, for a further one-off discussion, perhaps with the board members, about how they feel it's going in terms of the company and what they're looking for.

[197] **William Graham:** That'd be helpful, thank you.

[198] **Mick Antoniw:** In terms of proceeding and also the recruitment process, because the sort of people we're talking about are going to be investing a significant part of their lives and time in really quite an exciting project and development with transport, is this an area where, certainly in terms of our considerations, a recommendation in respect of funding is vital to making the whole process succeed?

[199] **Edwina Hart:** I think it's always helpful to acknowledge that there are resource implications if you're going to do something like this, yes.

[200] **Mick Antoniw:** Very well put.

[201] **Edwina Hart:** I'm very conscious the finance Minister might be watching this. *[Laughter.]*

[202] **William Graham:** Could we just press you a bit on the funding issue?

[203] **Edwina Hart:** Yes, of course.

[204] **William Graham:** How do you envisage the funding package, in time?

[205] **Edwina Hart:** Well, I think the Scotland thing was about £4 million, wasn't it? But it was associated with procuring a franchise, so that's the type of money they were talking about. But, I think, as this is almost slightly different, it will require more work—we'd have to do more work on it, and we think it might be more. Or less?

[206] **Mr Price:** It could be.

[207] **Edwina Hart:** More or less, you know.

[208] **Mr Price:** We're trying to do this without using lots and lots of consultants, hence the company's going to employ resource direct. Consultants' on-costs are somewhere between 20% and 40%, so I would hope that we could do more work within the envelope that Scotland had originally.

[209] **Edwina Hart:** Yes, because we have found with consultants, in terms of developing other things with us, consultants' fees are exceptionally high, and, if you can do more work internally, of course, you have the benefit. We have found that on boards, particularly, haven't we?

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

[211] **Edwina Hart:** We're trying to limit consultancy.

[212] **Mick Antoniw:** Chair, there were two points that I had meant to ask, and, apologies, I forgot to. With regard to funding, there are two areas that—I mean, because we are talking now several years ahead—may impact. One is in terms of the Juncker proposals in respect of releasing the enormous amount of borrowing for major capital projects—and, of course, one of the projects that's been put in is, of course, the metro, and I think the figure of £3 billion and so on—and what impact that may have in terms of our capacity to actually proceed. The second point is—just to throw it in now—whether you have any concerns about the potential impact of the transatlantic trade agreement, because that may, in the next year or two, depending on what happens, impact. Do you have any concerns about the way in which that might impact on our ability—

[213] **Edwina Hart:** Well, obviously, the Chancellor—*[Inaudible.]*—the trade agreement.

There have been a lot of concerns expressed directly, of course, about health services and the NHS. We've had nothing raised with us about concerns in this particular agenda, but, as it's been raised, I will obviously, Chair, go back to officials to see if there are any issues on that. And on the other point, James?

[214] **Mr Price:** Which point, sorry?

[215] **Edwina Hart:** The first one.

[216] **Mick Antoniw:** Really, the impact there may be in terms of the Juncker proposals, the €350 billion of borrowing that—

[217] **Mr Price:** Really, I think you could separate those two issues out. So, we, with the settlement that we have with the UK Government now, have enough money to be able to deliver an improved next franchise. The metro proposals talk about a transformational change above and beyond that, really, about investment in track, light rail, tram, mixed-use development. So, we need to be being in a position to let a different next franchise, almost independently of, but linked to, raising more money. So, the two need to come together, but one doesn't—

[218] **Mick Antoniw:** —preclude the other.

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

[220] **Edwina Hart:** But, of course, we do have issues with Network Rail in terms of what we're going to develop—

[221] **Mr Price:** And that's the biggest issue.

[222] **Edwina Hart:** —and that is the big issue for us, the Network Rail issue, because it's quite clear that Wales has not received, percentage-wise, on anything Network Rail's done, its full share of money like it's gone across the rest the UK, and that is a serious consideration for us. Also, there's the way Network Rail's now within the public sector and Network Rail is effectively judge, jury and executioner on a lot of issues. If you wanted to exercise contestability, and we're looking particularly at Valleys lines here, because there're lots of bridges, there're lots of things to be done, and, if we wanted to do them with somebody else, of course, Network Rail have got to approve the work you've done, you know, even though we might be able to do it quite differently. There are some real issues around that and those are issues I'm speaking to the UK Government about, because I don't think I'm alone in my concern about the issues with Network Rail.

[223] Network Rail, in terms of when you discuss with them, the money that they talk about is absolutely mouth-watering, in terms of relatively small projects. The discussions we've had with them about Wrexham-Saltney, and what is the reality of what's going on, and what the money is—how much it is and who said what—doesn't give me much confidence about dealings with Network Rail without some element of, you know, various other things. I've been delighted to accept Claire Perry's invitation to meet with her and the chief executive of Network Rail in London to discuss some of the concerns about Network Rail, because, if we don't get some of this right, we won't be able to get the value we require.

[224] We've only got to look at their history of projects. If I look at the Cardiff signalling issue, they're two years late on it. It's causing absolute chaos. Now, an organisation cannot be allowed to escalate its costs and not be under control by anybody. Now, the Office of Rail Regulation has very little powers within this area and I think there's an issue about, if you're all under control and you're responsible from the start, the middle and the end, who watches

you, you know? And I think there are some big issues here, which I will be exploring with the UK Government, because I think we're on the same side on this, because they're looking at their escalating costs in terms of electrification elsewhere, and Network Rail do need to be dealt with.

[225] **William Graham:** Jeff.

[226] **Jeff Cuthbert:** If I could, just to tidy up one issue on the skills required—. We've got a bit of time before much of it, or the great bulk of it, becomes part of the work. Have you done any analysis of the extent that many of the missing skills could be addressed through the retraining of existing staff and where the clear gaps are that would require new people?

[227] **Mr Price:** 'Yes' is the answer. I mean, our existing team is really very small.

[228] **Edwina Hart:** Tiny.

[229] **Mr Price:** We've got two, maybe three, people who work on rail on a full-time basis—that's within the service. We've got other people who we've brought in, so Mark Barry's been brought in, so that would be an additional person, and then we do have some consultancy support as well. But, in terms of the core team, it's very small. Over the last couple of years, we have encouraged some of that team to go outside of the Welsh Government and outside of Wales to gain more experience.

[230] **Edwina Hart:** Which they have.

11:30

[231] **Mr Price:** One of the better members of the team has done that, and been working with the UK Rail Delivery Group, and is about to come back into Welsh Government, hopefully with an even better skillset to help us to deliver this. But my analysis of this is, given the small number of people we're starting with and given how quick we've got to grow our experience, the majority of this has got to be by buying in expertise. The two areas we need it are in transport planning, and rail transport planning, particularly, and in financial modelling and contracts expertise; probably more on the financial modelling, because we do have people with contracts expertise. I don't think this is masses of people. Just to put it in context, you know, maybe seven or eight really good people is what's required. We are out and about talking to people already, and I don't think we will have difficulty in bringing people in. Of course, the company that we've established will be able to have slightly more flexible terms than the civil service does in terms of attracting people.

[232] **William Graham:** Keith.

[233] **Keith Davies:** Ie. Fe wnaif i ofyn yn y Gymraeg. Weinidog, roeddech chi'n sôn yn gynharach am gwrdd â phobl dros Gymru gyfan, ac am y rheilffordd a fydd yn mynd dros Gymru gyfan. Ond, wrth gwrs, pan wyf i'n cwrdd â phobl sy'n ymwneud â rheilffordd Calon Cymru neu ogledd Sir Benfro, maen nhw'n siarad am drafnidiaeth integredig. So, a fydd y corff newydd hwn, yn eich barn chi, yn mynd i gael mwy o bŵer, nid dim ond gyda'r rheilffordd ond hefyd gyda'r bysiau ac yn y blaen? Achos dyna beth sy'n bwysig i'r bobl sy'n byw yn y

Keith Davies: Yes. I will be asking my question in Welsh. Minister, you mentioned earlier that you met people across Wales, and the railway that will be connecting people across Wales. But, when I meet people who are involved in the Heart of Wales line or in the north of Pembrokeshire, they are talking about integrated transport. So, will this new body, in your opinion, have more powers, not just in terms of the railways but in terms of buses and so on? Because that's what's important for the people who live in rural areas: that things are integrated.

wlad: bod pethau'n clymu at ei gilydd.

[234] **Edwina Hart:** Well, obviously it could do. I think we're taking our first steps on the road, in terms of what we are doing on rail, but I think the long-term aim, if you were to look 15 or 20 years hence, would be total integration of how you are going to deal with services. I think that's very important. The points you make on rural areas are particularly important. We've done actually quite a lot of work with some of the rail groups in rural areas to actually ensure that the buses do now connect to the stations—that they are not going five minutes after the train has left. That's actually quite an important development that has been hard-won in some areas. We are also working with these rail groups now on better car parking. So, people in rural areas drive, leave the car, and it's secure, with better car parks, so they can nip on the train and go about their business, et cetera. So, we are trying that element, and, in the future, this company could develop.

[235] **Keith Davies:** Diolch. Thank you.

[236] **William Graham:** Thank you very much. Minister, in general terms, from what you've already announced, and—. At the end of the day, your vision would be to see, what, a completely integrated system across Wales, as far as possible?

[237] **Edwina Hart:** Yes, I would. But, obviously, we've got issues into the borders. That's why it's very important, the discussions we're having across the piece. We've got very good discussions emerging, even with Merseyside, and also discussions across the other side of the Marches line, because we were discussing with people with that route. That's very important for us as well. We also can't miss out on the opportunities of north Wales electrification. We can't miss out on the opportunities on HS2, the communication. So, it's very important that we do have those particular discussions as well because that is very important to us across the piece. And there is a willingness to talk about these infrastructure issues now, more so than ever. We don't have any difficulty engaging with anybody on these issues now, because I think everybody recognises that we've got to change our habits of travel in very real terms, and we've got to have more integration.

[238] **William Graham:** Byron.

[239] **Byron Davies:** I was interested, actually, in how you started off today, when you mentioned this kind of holistic vision that you have. I really, genuinely, would like to know more about that vision really, in terms of, perhaps, the east side of Wales, you know, and the TrawsCymru suggestion, and that sort of thing. I mean, how do you see that in terms of timescale and—[*Inaudible*.]

[240] **Edwina Hart:** I think timescale depends on budget. A lot of this is dependent upon what financial settlements we have, and what we do in terms of the cash and prioritisation. I think what we want to do—. I think the fact that we've been able to agree certain things with the UK Government has been enormously helpful, because I think it's allowed us to look at a different direction of travel. But it's a direction of travel I think we've got take across parties, hopefully, take them with us and, of course, the public with us, in terms of what we want to do. But the main concern I have is that it is absolutely ludicrous, when there are rail services being run and you then can't get a bus; when there are rail services being run and there's nowhere to park the car; when you can't do all these things. So, I think there are some very basic steps that we need to undertake. The work that the bus users' group has been doing has also been very valuable from our point of view. Our feet into the water with the TrawsCymru service has also, I think, proved very valuable. People are so complimentary about the fact that, as a Government, we wanted to be involved with that. And I think that's important. But I also think it's important to recognise that, when people say, 'How are you going to fund it?', some of these services will not break even. We have to acknowledge that in terms of what

we're doing in Wales. We've got to understand that there are wider socioeconomic issues in some parts of Wales about connecting communities, getting people into work, and allowing people to socialise. That is really true. You've got to allow the bit of the network, if you're going to integrate it, that can actually make money, and there are bits that will, and how you can do that in a financial model. This is all for discussion and for looking at. I'm genuinely quite open about this. I welcome any ideas on this particular agenda because there are some things I've got to work through. My first priority will be to be able to report where we think we're going on this particular issue by the summer and then start to put the other building blocks in. I mustn't run before I can walk on some of this.

[241] **William Graham:** Very good, Minister. Rhun.

[242] **Rhun ap Iorwerth:** Just on the theme of integrated transport and, in particular, through ticketing, there's been some talk in the press recently about a decision to seemingly limit GO Wales kind of cards to the south-east metro, rather than go for something Wales wide. Could you tell us where we're at?

[243] **Edwina Hart:** Obviously, there could be ticketing on that. We'll have to have a look, if it was in the press recently.

[244] **Rhun ap Iorwerth:** Yeah, and also some of the Oyster card type for south Wales as well.

[245] **Edwina Hart:** We're certainly very interested in ticketing across the piece, because this is one of the key—. It could be right across Wales. We think this is key that you've got that element of flexibility on it. If it's alright with you, Chair, we'll do a note back on where we are on these proposals, because the director general and I are looking at each other quite—

[246] **Mr Price:** The only thing I could think this is coming from isn't saying that we're focusing on just doing it in south-east Wales; there was a piece of work that was done exploring how we could get it on rail services, particularly on the Valleys lines.

[247] **Edwina Hart:** It might be that.

[248] **Mr Price:** It might be that that's been taken out of context, but I haven't seen anything—

[249] **Rhun ap Iorwerth:** In particular, where—. GO Wales has been around as an idea since the last Government.

[250] **Edwina Hart:** Exactly. We'll certainly do a note on that because it wouldn't be our intention to restrict anything like that, but it might be about that issue, mightn't it?

[251] **William Graham:** Mick, did you have any further questions on skills and things?

[252] **Mick Antoniw:** No.

[253] **William Graham:** Thanks very much. Jeff, could you ask on rolling stock?

[254] **Jeff Cuthbert:** Yes, indeed. Rolling stock is a particular issue of mine, as you know. The Rhymney valley has regular issues about trains being far too short at peak times. I know you'll be announcing soon your rolling stock strategy. I am anticipating, I have to say, receiving quite a few complaints Friday evening after the England v Wales match. I'm going to try and get back to Bargoed on trains.

[255] **Edwina Hart:** After our great victory, yes.

[256] **Jeff Cuthbert:** But, anyway, in terms of the future, could you perhaps comment on the current considerations regarding whether you're thinking of purchasing or leasing and what the pros and cons are there? And, specifically in terms of the start here, by January 2020, you have to be complying with the European access rules.

[257] **Edwina Hart:** Yes, that's a big issue.

[258] **Jeff Cuthbert:** How is that going?

[259] **Edwina Hart:** Well, there's a lot of background to all of this to do with rolling stock. We are looking at whether we will purchase with the new company model, whether we should purchase and own the stock. I think that is where our focus of attention is at the moment. We've also as well engaged with the rolling stock companies to see what they will be able to provide and what they will be able to undertake. There is a lot of interest now with rolling stock companies in the proposals that we've got in Wales. I've met a couple of companies, James has met companies. In fact, we are visiting companies both in the UK and abroad to look at what can be provided in terms of rolling stock. I do not think it's acceptable to cascade stock downwards. I don't think it's right. We think it'd be far better for us to look at the purchase of stock. We've also got issues as well about engines, haven't we? Diesel, and about the fact that there's now massive orders going in for these across the piece. Before, nobody thought anybody would require any because we'd all have gone headlong into electrification. Now, we understand—. How many have been ordered now?

[260] **Mr Price:** Between 500 and 700.

[261] **Edwina Hart:** Between 500 and 700.

[262] **Jeff Cuthbert:** What, mobile diesel units?

[263] **Edwina Hart:** Yes, because—or will be—because they need them actually because of what's going on in terms of the systems. There are a lot of issues stacking up at the moment. But, in terms of rolling stock, we'll be looking at the feasibility of purchasing and owning the stock.

[264] **Jeff Cuthbert:** Right, okay.

[265] **Edwina Hart:** And also as well, you see, the added benefit is, if we do decide to go along that route, is there a benefit to Wales that a company might be interested in placing its business in Wales? So, we could look at whether there's any benefits like that, to actually—never mind importing them from anywhere—where will they be put together, as it were, and that then allows us a workforce to be developed to undertake that type of work. But in terms of rolling stock, I've seen some very interesting rolling stock across the piece from a company in Wales already, which does elements of it. So, there's a lot going on.

[266] **Jeff Cuthbert:** Right. If you purchase rolling stock, of course, then you are responsible for it—that includes its maintenance and servicing.

[267] **Edwina Hart:** The skills agenda.

[268] **Jeff Cuthbert:** The skills agenda, absolutely. So, I assume then, in terms of your rolling stock strategy, these matters and the impact assessments will be considered because otherwise, if you leased, presumably, it would be the responsibility of Porterhouse—not Porterhouse—Porterbrook, which would be dealing with it. So, you feel confident at this

point that the better option would appear to be ownership directly and commissioning rolling stock and trains to specific specifications for wherever they happen to be running in Wales.

[269] **Mr Price:** If I could come in. The thing that we need to be quite careful of in going into the rolling stock agenda is understanding what services we want to run and where we want to run them. Before we could go to the next stage—not saying, we’d like to buy rolling stock, but saying exactly what that rolling stock is—we need to know what we want it for and where we want it. The more you dig into it, perhaps the more complex it becomes. So, one of the things we were looking at just last week was: if you have an all-electric fleet, one of the reasons an electric fleet tends to be cheaper than a diesel fleet is that the maintenance downtime is a lot less. So, you need fewer trains because they’re more resilient. What then happens, when you have a rugby match or a football match, is that there are no additional units to bring on, and apparently that is something that the UK Government has just accepted—that they can’t flex the service to meet peaks and troughs. Now, that may or may not be something that Welsh Government decides, namely that we need to be able to flex the service, and I suspect that people would want to be able to flex the service. Are you going to run light rail anywhere or heavy rail? All of these answers in terms of the network come into consideration.

[270] The other issue—there are two linked issues—making it quite difficult at the moment is, firstly, the one the Minister talked about, namely this big order for diesel units. The market for trains in the UK, even though it’s privatised, is very heavily controlled by the Department for Transport, in the sense that manufacturers make what they’re told by DFT by and large, and the DFT told the manufacturers that there was no requirement for diesel rolling stock, even though, I think, clearly, there was. So, there was a stop on it, for maybe almost—

[271] **Jeff Cuthbert:** Even hybrid bio-model units.

[272] **Mr Price:** Not on the long-distance stuff, but this is commuter-type stock we’re talking about. No requirement, so everything was switched off. Now, all of a sudden, there’s going to be a massive requirement, and it’ll all be switched back on. The consequence of that will be that the price will go up and the ability for us to negotiate something that might be a bit different for Wales will be reduced. But I think what you can take heart of is that we are engaged in all of this and properly thinking it through, and we’re not going to run off and do something odd. The other thing, in terms of specification, is that all the evidence has shown that if you can buy something that’s been proved by someone else, that’s the thing to do. Even some of the big companies that bought stock—. I think Thameslink is probably a good example; it’s either Thameslink or Heathrow Express. One of those, and I can’t remember which one, is rusting out quite badly because they were poorly specified in the first place because it was kind of done in a rush. We don’t want to specify something for Wales and buy a bad-quality unit. So, all of that’s being considered and, hopefully, within the same timescale that the Minister outlined, namely this summer, we should have a good idea of what we want—

[273] **Jeff Cuthbert:** You will presumably want it to have at least a 30-year to 35-year lifespan or something like that. So, I can take heart now and be assured that not too far into the future, trains in the Rhymney valley will have six cars at peak times and use the stations that we’ve already paid for to elongate.

[274] **Edwina Hart:** Of course, the other issue will be to look at what stations will be required with all of this and what modernisation of stations will be required to make them fit for purpose.

11:45

[275] **William Graham:** Minister, we'll be comforted by your suggestion that there will be diesel trains available, which is contrary to the previous evidence, and that's very helpful to the committee. But how critical is of the timing of the initial specification and the purchase to get it all within an agreed timescale?

[276] **Edwina Hart:** I think it's very critical to decide what we want in terms of specification, isn't it?

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

[278] **Edwina Hart:** I think it's time critical. I think we need to be in a position to do as much work as possible to have certainty to go ahead with that. I don't think we can leave things to the last minute on any of this; I think we've got to have a clearly thought-out policy and know exactly where we're going on it.

[279] **William Graham:** Would you care to hazard a guess about by when you should hope to do it?

[280] **Mr Price:** You've talked about being here by the summer.

[281] **Edwina Hart:** Yeah. I'll be clear in terms of the broad proposals by the summer, but we'll be absolutely clear by Christmas about some of the other elements.

[282] **William Graham:** So, this year you'll be able to—

[283] **Edwina Hart:** This year; I don't think we've got any choice.

[284] **William Graham:** That's very helpful; thank you very much. What else? Are there any other questions from Members? Please, Rhun.

[285] **Rhun ap Iorwerth:** On the timing in particular, there's the point that the current franchise is coming to an end in 2018 and the fact that this is unlikely to be—. It's not going to be practical or useful for anybody to roll this new set out by 2018, so what are your current thoughts on the extension of the current franchise, having an interim franchise, how long that might be and so on?

[286] **Edwina Hart:** Well, we have talked about it and we think we might have to look, but obviously, some of these will be quite commercial and sensitive in terms of wanting to have an open dialogue here.

[287] **William Graham:** Gwenda.

[288] **Gwenda Thomas:** Yes, thank you, Chair. Could I ask if it's possible, or whether you think it might be helpful for the committee to have the details of the technical specifications on interoperability with regard to persons of reduced mobility?

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

[290] **Gwenda Thomas:** I think it would be helpful, and perhaps an opinion on their compliance with the statutory obligations that we have at the moment, such as the Disability Discrimination Act 1995 and the Equality Act 2010.

[291] **Edwina Hart:** We'll certainly be able to do that for the committee.

[292] **William Graham:** Thank you very much. Mick.

[293] **Mick Antoniw:** They're two very short points. First, where the transport plan consultation actually fits within this, and what impact there may be around that because that's obviously an ongoing process. And secondly, the comments you made about Network Rail and the need for powers and so on there, and whether that lack of powers or control impacts in any way on issues such as new lines. I keep raising the Beddau, Pontyclun and Llantrisant line and so on.

[294] **Edwina Hart:** It does because Network Rail have to give their agreement, as it were, for new lines. So, the issue for us is to have the powers to direct Network Rail, and I think that is quite important as part of a devolution settlement.

[295] **William Graham:** Thank you. Eluned.

[296] **Eluned Parrott:** Thank you. I just wanted to look to the timetable then, moving forward with the plans that you're proposing. Clearly, as we've already said, the franchise comes to an end in 2018 and there will need to be an interim measure of some form before we're ready to begin. We need to get around some legal obstacles, potentially some power obstacles, with this or the next Government. We obviously need to make sure that we've got the staff and the skills capacity. Just how long do you anticipate it will be before the not-for-dividend model that you propose is going to be able to take on the management, if you like, of our rail network?

[297] **Edwina Hart:** Well, we'll be having a discussion about this because you could say that it will come on line when you're managing the new franchise. You could say it needs to come on line earlier. What I'll do in my road map, which I'll do for you by the end of the summer, is give some indications on some of this stuff and then more detailed work by Christmas, if that's helpful.

[298] **Eluned Parrott:** Okay. Thank you.

[299] **William Graham:** Minister, we will be coming towards the end of the franchise in the current round of franchises. Are you confident if you're able to place these orders, or at least to work out a specification of what you want by broadly the end of this year, that there will be the capacity to deliver by the suppliers?

[300] **Edwina Hart:** Well, interestingly enough, that's what we're discussing with the suppliers now. Nobody's actually raised any issue about the inability to supply with us with some of the people that we've spoken to. But, on the other hand, when you get down to the devil of discussion and detail, then we might find out that it's not as easy as we first envisaged. But it seems that there is a recognition, I think with all of them, that in order to do business, they've got to be ready and able.

[301] **William Graham:** Right. Are there any other questions from committee? No. Thank you very much, Minister, as ever; it's stimulated a great deal of conversation. Thank you very much for your attendance today.

[302] **Edwina Hart:** Thank you.

[303] **William Graham:** This part of the meeting is now closed; the public part.

*Daeth y cyfarfod i ben am 11:50.
The meeting ended at 11:50.*

