

Y Pwyllgor Menter a Busnes

Lleoliad:
Ystafell Bwyllgora 3 – y Senedd

Dyddiad:
Dydd Iau, 3 Hydref 2013

Amser:
13:15

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



I gael rhagor o wybodaeth, cysylltwch â:

Policy: Siân Phipps
Clerc y Pwyllgor
029 2089 8582
Pwllgor.Menter@cymru.gov.uk

Agenda

1 Cyflwyniad, ymddiheuriadau a dirprwyon

2 Ymchwiliad i ddyfodol Masnachfaint Rheilffordd Cymru a'r Gororau: Passenger Focus a Railfuture (sesiwn dystiolaeth panel) (13:15 – 14:00) (Tudalennau 1 - 28)

Tystion:

Passenger Focus:

- Mike Hewitson, Pennaeth Materion Teithwyr
- David Beer, Gweithrediaeth y Teithwyr

RailFuture:

- John Rogers, Cadeirydd, Rheilffyrdd de Cymru
- David Mawdsley, Ysgrifennydd, Rheilffyrdd de Cymru

Dogfennau atodol:

EBC(4)–36–13(p1) – Railfuture

EBC(4)–36–13(p2) – Passenger Focus

3 Ymchwiliad i ddyfodol Masnachfrait Rheilffordd Cymru a'r Gororau: Trenau Arriva Cymru a Chymdeithas y Cwmnïau Gweithredu Trenau (ATOC) (sesiwn dystiolaeth panel) (14:00 – 14:45) (Tudalennau 29 - 44)

Tystion:

Trenau Arriva Cymru:

- Ian Bullock, Rheolwr Gyfarwyddwr, Trenau Arriva Cymru
- Mike Bagshaw, Cyfarwyddwr Masnachol, Trenau Arriva Cymru

ATOC:

- Richard Davies, Pennaeth Polisi a Chynllunio, ATOC

Dogfennau atodol:

EBC(4)–36–13(p3) – Trenau Arriva Cymru

EBC(4)–36–13(p4) – ATOC

4 Papurau i'w nodi (Tudalennau 45 - 46)
Cofnodion y cyfarfod a gynhaliwyd ar 25 Medi

5 Trafod y dystiolaeth (14:45 – 15:00)

Eitem 2

SUBMISSION BY THE SOUTH BRANCH OF RAILFUTURE CYMRU [on behalf of the 3 branches of Railfuture Cymru], part of RAILFUTURE UK.

PART 1

We apologise for the length of this submission – but to answer adequately the comprehensive nature of the questions/subjects posed by the Committee, we feel that it is essential that members have available a full explanation of the major transformation in Welsh rail transport that we advocate.

Turning to the `Consultation: `The future of the Wales and Borders Rail Franchise`

1. “Whether the current franchise meets passenger needs and what lessons should be learnt from it.”

“Current service levels to be maintained.” This was the basis of accepting the franchise, i.e no planned improvements. Astonishing. [See `Railways: passenger franchises` . SN1343 March 2013, House of Commons Library].

And bear in mind that, over the course of the franchise it is estimated that the subsidy paid to ATW will be £1.68 billion, [See **Rail Transport in Wales**, Section 2.5, Part 2], a good proportion of this leaving the industry in the form of dividends to shareholders and remittances to the German owners, to say nothing of the horrendous costs involved in applying for and obtaining a franchise.

2. “How passengers should be involved in the franchise development and delivery.”

Assuming we in Wales successfully set up a government-owned rail company, there will be no franchise. However, passenger/freight customer input will be still be vital - See 3,7 in the document **Rail Transport in Wales**.

3. “The management model to be adopted...” Yes, we advocate a government-owned, arm`s length, not-for-dividend [and vertically integrated] Welsh rail company. See RTW [**Rail Transport in Wales**].
4. As far as the other questions are concerned, we refer you to our comprehensive DEVELOPMENT PLAN FOR WALES which, at the time of writing, should be published by late September and will be available to all AMs thereafter.
5. What follows this brief response is the main document, **Rail Transport in Wales**. It is reproduced with a short introduction as to its genesis and

has been slightly added to since its original publication some 4 years ago – when every AM then received a copy, together with the rail unions and other interested parties. Part 1 [pages 1-4] state what we want and why; part 2, the rest of the document, provides some evidence for the statements in Part 1: the section numbers in Part 2 match the section numbers in Part 1.

6. One of our experts has also researched in some detail many of the legal aspects involved in taking over the rail operations from both the track company and the TOC; this is quite long and not provided here.

What follows is an attempt to envisage a positive, constructive framework within which Welsh Rail can thrive. We did not choose the cumbersome, financially wasteful system imposed on us. What if our Cardiff Bay government could begin again with a blank piece of paper...? While the January 2010 WAG Enterprise & Learning Committee Report contained much to praise, the fact remained that it assumed we try to improve services within the present flawed system with all its constraints.

RAIL TRANSPORT IN WALES

A Railfuture Cymru Plan.

1.1 The importance of rail transport in Wales should be accepted and safeguarded by all political parties and transport interests. There should be acknowledgement of the key role rail can play within the context of the Welsh government`s statutory requirement to promote sustainable development and its carbon reduction obligations. The Welsh government also has the political ability to put more weight on the social, economic and environmental aspects of transport than does the Westminster government.

1.2 There should also be recognition of the role a gradually developed and rebuilt integrated Welsh passenger rail and long-distance bus network can achieve in helping to unite all parts of Wales, north, midlands and south, so redressing somewhat the social, political and commercial north-south divide that developed in the past.

To these ends.....

2.1 We reject the current privatised organisation of the railway business whereby one company is responsible for the infrastructure and pathing rights, others control the carriage of freight and a plethora of private companies

control stock leasing, stations and passenger services. It has become increasingly unacceptable for several reasons:

2.2 It is excessively complicated.

2.3 Acquiring a franchise involves a wastefully expensive bidding process often leading to overly ambitious income forecasts and service commitments merely to ensure success in the bidding.

2.4 The payment by some TOCs of a share of so-called profits back to the Exchequer can lead eventually to undue pressure to cut back on aspects of passenger service.

2.5 Not only are vast sums of money consumed by the bidding for franchises, but also by the fact that private companies have a duty to satisfy shareholders, which entails huge sums of money being lost to potential re-investment in rail transport.

2.6 There is a feeling that as far as there is any vision for rail in the Department of Transport/the Cabinet, it remains anglo-centric, if not London/south-east England centred.

2.7 The principle of competition underlying much of the privatisation political dogma has been proved to be a mirage. British Rail`s synergy has been lost: planning is fragmented; the building of locomotives and rolling stock has been lost to other countries; it is more difficult to achieve integrated transport; the existence of separate passenger companies has led to a more complicated system of fares.

2.8 The principle of competition exists - but it should be recognised as competition between **modes** of transport, **not** between passenger train operating companies as the then Conservative government stated when implementing privatisation: when planning a journey, many people have a choice of transport, between their car, a bus, a plane or a train - just as someone dispatching freight usually has a choice of modes of transport.

2.9 A Welsh government-owned railway, with the day-to-day running handed to an `arm`s length` operating organisation, would be better able to implement plans for transferring more goods to rail and persuading more car-drivers to use rail - by putting in place an attractive level of service that will in itself persuade travellers to resort to rail, rather than belatedly making improvements in the light of over-crowding or responding to long, citizen-led campaigns to re-open lines etc.

2.10 A State-owned railway service would also be better able than private companies to weather the effects of any temporary economic downturn, for example, a temporary reduction in ticket revenue.

3.1 **Therefore**, decisions regarding the nature and level of passenger and goods rail services in Wales should be made by the people of Wales via their elected representatives on appropriate Welsh-based bodies.

3.2 The Welsh Government should have responsibility for financing Welsh rail services but the operation of the passenger services should be carried out by a vertically integrated body (within the context of EU rules) solely responsible to, and wholly owned by, that government.

3.3 Where sections of routes - e.g. the borders line through Hereford, the Wreccsam-Bidston line - run through England, decisions as to service levels and track maintenance etc. would (as now) be subject to liaison and agreement with the appropriate England-based authorities or companies.

3.4 The above would not exclude the running of joint cross-border services (between the Welsh operating company and English-based train operating companies) on, for example, the lines to and from London. However, matters of service and fares would need joint agreement and be subject, as far as possible, to the principles of service specified by the Welsh government.

3.5 The single passenger operating body should be free to run the services in accordance with the principles and guidelines determined by the Welsh government. The general manager/chief executive of the operating body should be appointed by the Welsh government.

3.6 While the Welsh government should continue to do all in its power to promote the transfer of goods from road to rail, rail freight services could either continue to be operated as they are currently, with the freight operating companies paying an appropriate charge for paths, track maintenance etc. to the vertically integrated operating body, or Welsh Rail (or whatever it is called) could operate freight services as did British Rail.

3.7 It would be essential that passengers and freight customers feel they have a clearly laid down, easily accessible, channel whereby they can make known their requests for changes and improvements or their complaints. This could be achieved, for example, either by ensuring that the rail unions, voluntary user-groups and individual passengers have a voice on the existing regional consortia {TAITH, SEWTA etc} or by regular regional meetings of, for example, Passenger Focus Wales, or any future consumer body representing all modes of passenger transport, meetings which could also be attended when

necessary by representatives of the government and train operating organisation.

3.8 The type of passenger rolling stock for each type or length of journey should be appropriate for the end-to-end journey time of passengers. In other words, the level of comfort, provision of tables, refreshments and other on-board services should reflect the distance and type of passenger using such services - for example, short-distance, peak-hour commuter; long-distance tourist or businessman etc. And except perhaps for peak-hour commuter services, each passenger should normally *expect* to get a seat.

4. With greater powers, the Welsh government would also find it easier to encourage Welsh towns and cities to invest in light rail, for example, an extensive tram network for Cardiff, both linking the city centre and the Bay, and also integrated with suburban, heavy rail services.

John D. Rogers
January 2009

Revised March 2010 & Sept. 2012.

BACKGROUND INFO

I hope that by producing this document we can enkindle discussion that can lead to something much better than we have now. All Members of the Welsh parliament received a copy prior to its launch at the 2010 AGM of the south branch. A third section was added in 2011 following exhaustive research by Phil Inskip on the processes of such a changeover. The 4 party leaders then received this revised copy of the Plan.

In a meeting with 3 of the government rail civil servants (Parc Cathays) on March 22, 2011, we were told that if a Welsh government wished to adopt our Plan, possibly to take effect after the ATW franchise runs out, it would need WAG and the DfTr sitting around a table to hammer out an "agreed position". Then it could be implemented, all the easier if there is an NR Wales organisation by then. However, the DfTr COULD block the Plan; what could happen then, I am not sure). JDR

[The numbers below match the numbered points in the document].

2. "The real difficulty is that not everywhere is that same sense of public duty the predominant feeling. Had you asked any of us who we worked for we would all have said, The Railway.

Now ask anyone on the trains or track and they will say: First Group, Virgin, Jarvis, Network Rail, Stagecoach...."
[Peter Rayner, former BR operations & safety manager. `Railwatch` April 2009.]

Unlike Scotland, the rail infrastructure in Wales is maintained by Network Rail that at times appears to have different priorities from those of the regional transport consortia and the Welsh Assembly Government.
[RAILFUTURE Wales southern branch internal document].

In some cases, improved integration and connectivity can improve the competitive position of public transport in the round against the private car. Arguably the greatest distortion in the transport market is the under-pricing of many car trips, which do not pay the full economic and social costs of the congestion and pollution that they create.
[Commission for Integrated Transport, `Competition Issues in Rail Franchising`, September 2006]

2.1 In 1991, the EU issued **EU Directive 91/440** requiring all EU member states to "separate the management of railway and infrastructure from the provision of railway transport services, separation of accounts being compulsory and organisational or institutional separation being optional," the idea being that the track operator would charge the train operator a transparent fee to run its trains over the network, and anyone else could also run trains under the same conditions (open access). **The Directive did not require that the railways be privatised; it was principally an accounting means of ensuring a level playing-field for incumbent train operators and new companies entering the market.**

As of 2004, Ireland and Greece have yet to comply with Directive 91/440 and its successor. And Northern Ireland Railways are still run exactly as was British Rail.

After the 1992 election was won by the Tories, BR strongly advocated privatisation as one entity, a **British Rail plc** so to speak. The Treasury, influenced by the Adam Smith Institute think tank, advocated the creation of 7, later 25, passenger rail franchises as a way of maximising revenue. The Treasury view prevailed. The 1993 Railways Bill broke up BR into more than 100 separate companies. (British Rail was not allowed to bid for any privatised services).

In July 2006, the Conservatives` shadow transport spokesman, Chris Grayling, admitted that the 1996 split of the rail industry into track and train components was a mistake which had increased costs. "We think that the separation has helped push up the cost of running the

railways - and hence fares - and is now slowing decisions about capacity improvements.... the industry lacks clarity about who is in charge and accountable about decisions."

Some observers, including the head of the **Swiss Federal Railways**, still argue that the whole idea of separating track from train operations in this way is fundamentally misconceived, being based on the model of air transport, where the infrastructure, engineering and operational considerations are entirely different. On this view, the rail/wheel interface is an integral entity at the heart of what makes railways function, and hence the worst possible point at which to make a split, especially on an intensively worked but multi-functional network such as Britain`s.

[With acknowledgement to Wikipedia]

Gerald Corbett said: "The railway was ripped apart at privatisation" and the resulting structure was designed to maximise the proceeds to the Treasury, not safety or investment.

[BBC News website, 20/10/2000]

"Bill Bradshaw, a transport academic who for many years had been a senior BR manager, wrote that the proposal to establish a separate track authority contradicted all principles of railway operation and was `likely to result in an outcome which will be unsuitable, expensive and unsafe.`"

[`Off the rails` by Andrew Murray, pub. by Verso 2001]

All this direct command, this vertical integration, this local control of daily events, was crushed by a mass of Byzantine systems in 1994, created by men and women who believed that they were so clever that that they could run anything even when they had never done it before. They remind me of nothing so much as children who decide that the clock on the wall, ticking away and telling the time, would be improved if they cleaned its works. Having dismantled it they find that they are unable to restore it. The outcome will be to take the bits to some skillful old man who has spent his life studying clocks and he will put it back together. Thousands of dedicated railwaymen hope that their industry will be put back together.

[`The Greatest Railway Blunder` by ex-railwayman Adrian Vaughan, published in 2009 by Ian Allan.]

2.2 It (i.e. the government) wants coordination and yet continues to operate a system of fragmentation. Finally the government wants the private sector to invest, take risks and innovate and yet it prioritises price above all of these. There is scant evidence that the current model balances and optimises the benefits from conflicting priorities. It looks more like a muddle that provides

little more than a complex, costly and mediocre means of maintaining the status quo.

[Section 12 of `Passenger Rail Franchising` published by the House of Commons Transport Committee, their 14th Report, on November 5, 2006].

The objectives of the passenger rail franchising system are a self-contradicting muddle, providing no coherent framework or vision for the development of passenger services for future generations. The result is a system that is worth less, and costs more, than the sum of its parts.

[Section 15 - above].

Another example is the cost of industrial action where the Government compensates track access operators for losses incurred. The SRA paid out £15.65 million in 2003 and £7.63 million in 2004. One operator alone, National Express Group, was paid £12.65 million in respect of disputes on its ScotRail franchise.

[Section 18 - as above].

The transfer of risk to the private sector was a core objective of privatisation. But in the present system only a very limited proportion of risks are, in reality, borne by franchise operators. There are also significant inconsistencies about what risks are borne by operators, and which by the Government. The relative lack of risk transfer calls into question the fundamental assumptions and objectives of the franchising system. If risk is not transferred, there is little point in involving the private sector in the running of the railways.

[Section 25 - above].

There is also a view within the industry that the creation of so many privatised entities has exhausted the supply of high-quality managers that the industry needs to be successful.

[SRA Franchising Policy Statement, November 2002]

We are firmly of the view that the current franchising regime is fragmented, financially opaque, poor value for many and provides the train operators with no incentive to commit long-term investment in station upgrades, improvements and enhancements. In short, the current arrangements have failed the travelling public.... passenger franchises should be returned to the public sector.

[RMT Submission to (Westminster) Transport Select Committee Inquiry into Passenger Rail Franchising]

The rail franchise process is expensive, inconsistent and laborious.

[Commission for Integrated Transport, September 2006]

In his editorial in RAIL [Issue 707, Oct. 2012], Nigel Harris reported that the bids for the west coast mainline had to be delivered to the Secretary of State in a lorry, they were so heavy and massive.

Writing about the WCML fiasco in 2012, Christian Wolmar said: “The very fact that the errors were the result of new aspects of the franchising process, adding to its complexity, highlights why the whole structure is unworkable... Nor has the right length for a franchise ever been determined, to enable a satisfactory answer to the Wolmar question: ‘What is franchising for?’”

[RAIL 707, October 2012].

2.3 Passenger Focus was concerned that the trend towards franchises paying premiums would be to the detriment of passengers because operators would cut services in order to meet their premium obligations...

We are concerned that the drive to extract premiums from some parts of the network will result in further above-inflation fare increases and a deterioration in customer service, investment and innovation.

[House of Commons Transport Select Committee, Sections 52 & 58, November 2006].

Although it was accepted that most franchises would require some level of subsidy, the broad principle was that the bidder requiring the least subsidy was regarded as offering best value for money, and therefore won the franchise. While this approach could be said to have the merit of awarding franchises to those with the greatest appetite for business risk, with the benefit of hindsight this has not delivered the outcomes contemplated at the time of privatisation.

[SRA Franchising Policy Statement, November 2002]

As we said three years ago, the current system of rail franchising is a muddle. Within, just three years, two franchise operators have had to abandon a major franchise - both of them on the East Coast Main Line.... we remain convinced that these two high-profile failures are indicative of the underlying problems of the current franchising model.

[Section 7, House of Commons Transport Committee, `Rail fares & Franchises`, 8th Report of Session 2008-9, July 27 2009]

Many more franchises may be struggling to meet their required financial agreements, without our knowledge. Any additional failures in the franchise system, coupled with risk sharing, will inevitably cost the Government considerable sums. We are deeply concerned about the impact this could have on the funding for other transport projects.

[Section 8 - above]

There is no point in involving the private sector if it simply takes the profit in the good times , leaving the tax-payer to pick up the tab in the bad times.

[Section 13 - above]

According to ATOC, the Dept spends £24m a year on consultants to oversee the franchising system.

[Christian Wolmar, RAIL 631 (2009)]

(Also relevant to 1.5 et al) The London-Edinburgh route (east coast National Express franchise) made an operating loss of £23.6m last year, but that was due to £50.9m of exceptional costs related to the looming demise of the contract. Strip out the one-off costs and cancel the franchise payments of £60.1m that were made to the DfT last year, and the franchise made an operating profit of about £90m.

[THE OBSERVER (Business section) 22/11/2009].

2.5 Atkins plc`s rail-related profit for the year to March 31 2009 was £17 million - money that could have remained within the industry, reducing costs, financing improvement...

[RAIL 621]

ARRIVA: 6 months to 30/6/08 Operating profit £14.8 million Interim dividend up by 10%

FIRST GROUP: 6 months to 30/09/08 Operating profit £48.3 million Dividends totalling £55.5 million paid in 2007

Again, money that under a BR-type organisation would have stayed within the industry.

[Memorandum from RMT to House of Commons 2009 Transport Committee Report]

But with some operators entering into very high premium contracts on the basis of very optimistic growth forecasts, it is likely to be a question of time only before the government has to show its mettle... Operators would be able to produce over-optimistic revenue forecasts and bid wild sums to run franchises, safe in the knowledge that the Government would bear the full risk of any failure to meet the forecast revenue figures.

[Section 21 - `PRF` pub. by House of Commons Transport Select Committee 2006]

Between April 2001 and April 2004, the SRA had incurred total costs of £40.7 million on franchise replacements and extension.

[Section 59 - above]

Govia said that it was now common for bidders to pay £2 million in consultancy fees to prepare a franchise bid. Its bid had consisted of 22 lever arch files, all of which had to be submitted to the Department in six copies....

[Section 60 - above]

`Railways Illustrated` [October 2012] reports that Virgin claims to have spent £14 million preparing its bid to retain the WCML; even if FGW spent half of this trying to win it, that`s £21 million which - to passengers - is down the drain. The editor commented: "Will the DfT - and Mr Cameron - finally, once and for all, realize that this broken railway does not work very well and would run better as a nationalised system. It would eliminate the need to waste money every year or so on failed franchise bids, on rebranding, on consultancy and on the extra layers of cost needed as everyone involved wants their cut."

Railfuture North-east believed that the cost of the re-franchising process is a fundamental flaw in the system because it diverts resources from the core objective of running and developing a railway.

We fear the re-franchising process is driven more by consultants and lawyers than by people with an in-depth understanding of the railways and what is required to run good passenger services, now and in the future.

[Section 63, House of Commons Transport Select Committee report on franchising 5/11/06]

RMT believes that the current franchising arrangements have failed to provide value for money for the tax-payer and the fare-payer. Franchise awards are shrouded in commercial confidentiality and the franchising process has cost the public purse over £60 million since 1998.

[RMT June 2006 Submission to Westminster's Transport Select Committee]

The present system is three times more expensive to run than public ownership because of [a] higher private sector borrowing costs; [b] the payment of dividends and the necessary profit margins; [c] fragmentation. Since 2003, ATW has paid £67.9m in dividends. Fares are 30% higher than in Europe.

[Mick Cash of the RMT: government rail conference, Cardiff, October 2012].

Analysis required in providing a bid is hugely complex because of the density of the overlapping bus and rail networks, where each overlap flow (i.e. services already operated by the bidder within the proposed franchise area) is treated as a separate market. In a single franchise area, this may run into the 1000s. This requires enormous investment in legal and economic resources for TOC and the public sector, with resultant costs.

[Commission for Integrated Transport, Competition Issues in Rail Franchising, September 2006]

In 2011-12, ATW received £136.8 million in subsidy, equating to a subsidy of 12 pppkm [pence per passenger-kilometer]; total subsidy over the duration of the franchise was estimated to be £1.68 billion.

[Page 26, 'Railways: Passenger Franchises' SN1343, March 26 2013. House of Commons Library.

2.7 Fares: these are the highest in Europe.

[Passenger Focus]

Rail fares - in a mess and set too high. TOCs - enfeebled, discouraged from investing....

[Jim Steer, director of rail consultant company: RAIL 622]

HOW TO SAVE MONEY: an off-peak return Penzance - Birmingham is priced by CrossCountry at £117-20. Ditto Penzance-Cheltenham, priced by FGW, is £66 and Cheltenham-Birmingham £19-40. So buy the last two (totalling £85-40) and legally save £31-80 provided the train calls at Cheltenham (which they all do).

It's seen as legalised theft, brings the railways into disrepute and happens because some operators are more expensive than others, yet each is told which fares it has to set. Until this is changed, anomalies will get worse with each fares revision.

[Jim Steer, as above]

The May 2006 Transport Select Committee report, 'How fair are the fares?', confirmed the RMT's longstanding view that, ten years after the break-up of passenger services, the franchises operate a fare and ticketing regime that has been "an abject failure" which "is not fit for purpose".

[RMT Submission to Westminster's Transport Select Committee]

"You can't get work carried out - the TOC (train operating company) says it's Network Rail, they say it's Balfour Beatty, who say it's the sub-contractor. You don't know how to get things sorted out..."

[Loco driver quoted by Andrew Murray in 'Off the Rails', pub. Verso, 2001]

2.9 "The simplest way to take any company into state ownership is to issue government bonds to shareholders. This was the method used in 1947. These would be exchanged for shares, and the interest on them could be met out of the profits of the reinvigorated rail industry, spread over a number of years. Under this self-financing form of public ownership there would be next to no cost up front for the government, and no diversion of resources from the NHS or anywhere else."

['Off the rails' by Andrew Murray. Verso 2001]

"I would like to see us go back to nationalisation like it was originally envisaged, but without the bureaucracy and massive shortfalls of cash."

[Train driver quoted by Andrew Murray above].

"In the last decade rail passenger demand on the Valleys lines has been growing at around 10% p.a. - significantly higher than the average for the UK. Recent data analysis suggests that this high rate of demand growth is continuing and will result in significant train capacity problems requiring additional network capacity beyond the platform and train lengthening programme which is currently underway."

[SEWTA document, Jacobs Consultancy, March 2007]

In InterCity`s final year, it recorded 93% of trains on time, which contrasts with 87% for the year just gone for NR`s long-distance classification.

[RAIL 620]

British Rail made many mistakes but at least it provided a world-class research centre at the Derby Railway Technical Centre.

[as above]

The growth in the number of passengers is due to macro-economic reasons, admits the DfTr (and not privatization per se).

[Mick Cash of the RMT; government rail conference, Cardiff, October 2012].

2.10 National Express (East Coast mainline) is running out of cash because the post-credit crunch economy has hammered the business plan,,, NXEC tried to close the gap by hiking car park charges, imposing seat reservation charges and cutting catering. But the gap is too wide... All we can say is that if things don`t change, then NXEC dies in December and the DfT will take over...

[RAIL 622]

Lord Adonis, speaking in the House of Lords, July 1, 2009: "The decision by National Express to break their contract is regrettable and disappointing...It is simply unacceptable to reap the benefits of contracts when times are good, only to walk away from them when times become more challenging."

[as above]

The rail industry is based on long-term investment, huge fixed assets and a largely constant customer base that requires stability and continuity. It is not a business for fly-by-night operators trying to make a few bucks in the short term, irrespective of the long-term consequences.

The last thing passengers want or need is to have different operators frequently chopping and changing their customer offers, rebranding their trains and messing about with their fare structures. Yet, when it is re-let next year, the East Coast will have seen four different sets of managers within five years, hardly a recipe for an efficient service.

[Christian Wolmar, RAIL 622]

Some risk is borne by the operators but it is a relatively small amount. They have £10 million to £20 million invested in this. If it is making £400 million turnover, that is a hugely small investment and they can walk away from it if necessary. They lose some credibility but they can walk away. The government would have to make sure the train services run...

[Section 17 of `Passenger Rail Franchising` published by the House of Commons Transport Committee, November 5, 2006].

The economic downturn has exposed certain challenges in the franchising system: a significant drop in passenger revenues and reliance on revenue support; instances of franchise failure. This has highlighted: a tendency for bidders to adopt aggressive revenue forecasts to win competitions; an imbalance between the level of control afforded to the franchisee and the level of risk transferred to it. A tipping point can be reached whereby a TOC can `walk away` at a relatively early stage.

[Gary Forde, Ernst & Young; Government rail conference, Cardiff, October 1, 2012].

3.1 Where Wales is able to take the initiative (and find the finance), impressive results can follow. On the anniversary, earlier this year (2009), of the re-opening of the **EBBW VALE** line, it was reported that 573,000 people had used the trains. This compares with the scheme`s projected usage of 150,000 in the first year, and 453,000 after 4 years. So the 4-year target was exceeded by 26% after only one year.

[`Rail Wales`, Spring 2009].

3.2 From our European masters... Directive 2001/12/EC (amending 91.440): Article 6 states: [1] Member states shall take the measures necessary to ensure that separate profit and loss accounts and balance sheets are kept and published, on the one hand, for business relating to the provision of transport services by railway undertakings and, on the other, for business relating to the management of railway infrastructure . Public funds paid to one of these two areas of activity may not be transferred to the other. The accounts for the two areas of activity shall be kept in a way that reflects this prohibition.

[2] Member states may also provide that this separation shall require the organisation of **distinct divisions within a single undertaking** or that the infrastructure shall be managed by a separate entity.

29/7/2009: an Irish Rail spokesman told me that their undertaking is still legally vertically integrated, i.e. one company for train operations & infrastructure, though with separate accounting.

As far as he knows this is not likely to change and there is no legal provision for any rival passenger company to demand running rights within the republic - though, in theory, another company could demand to run an `international` service to and from Belfast.

Merseytravel and NedRailways strongly argued the case in favour of vertical integration at a regional level... Merseytravel estimated they would save £33 million net over the 25-year franchise by integrating track and wheel. They also anticipated other benefits....

[Sections 103-4 of House of Commons Transport Committee Report on Rail Franchising, November 5, 2006].

More than a decade after rail privatisation and the introduction of franchising of passenger services, we remain to be convinced that the system has achieved its objectives or that it is indeed capable of doing so,

[Section 123 - above].

RMT supports vertical integration of the rail network in the public sector.

[RMT Submission to Westminster Transport Select Committee]

In November, 2012, the Cooperative Party published a paper calling for the future Wales & Border franchise to be mutually owned and run by a not-for-profit company called Rail Cymru.

[Railways: Passenger Franchises SN1343, March 26, 2013, House of Commons Library].

3.6 Existing legal lorries are 40 times heavier, 4 times longer, 3 times more likely to be involved in road fatalities, twice as noisy, and thousands of times more damaging to the road surface than cars and produce at least 3 times more carbon dioxide per tonne carried than rail.

[Source: `Railwatch` April 2009]

The Gwaun-cae-gurwen line, recently re-opened to freight traffic, will see 1,300 tonne trains - each one the equivalent of 40 big lorries.

[as above]

Rail is 9 times safer than car travel and about the same as air travel.

[ATOC]

Writes JDR: The Westminster government's 2007 Strategic Freight Network plan almost entirely ignores Wales: Swansea/Port Talbot east is all that appears on the map. No acknowledgement, for example, of the potential for our two cross-Irish Sea routes leading to and from Europe. (Railfreight is responsible for 65% of intercontinental trade to the north of England and beyond arriving by rail from the UK's southern gateway ports).

More people and goods are carried per route-km of railways than on roads.

[`A rail manifesto for the 21st century`, produced by Railfuture 29/11/09].

Rail transport aids social inclusion and regeneration as it provides access to jobs without the need for a car. Reopened routes to towns such as Bathgate have enabled significant falls in unemployment.

[As above].

A recent study for Invensys Group concluded that, pound for pound, investment in modern railway signalling and rolling stock produced more capacity than any other transport investment, including motorway widening.

[as above]

When Eddie Stobart switched transport of Tesco goods between Daventry and Scotland from road to rail it was found that where a round trip by road consumed 11,147 litres of fuel, the same round trip by rail reduced this to 3,185 litres, a saving of over 71%.

[As above].

Industry analysts have estimated that HGVs typically produce 63g of CO₂ for every tonne of freight transported every kilometer, in comparison with 26.4g of CO₂ per tonne per kilometre for rail freight. This represents a reduction of nearly 60% in CO₂ emissions per train journey. [Article by Rhodri Evans in `Western Mail`, October 17, 2012].

3.7 The German Railways supervisory board consists of equal worker/government participation.

[Mick Cash, RMT: government rail conference, Cardiff, October 2012].

4. "The demise of the tram was a serious mistake in post-war transport policy. None of the European countries which kept their trams regret doing so, and trams and light rail vehicles are undergoing a renaissance worldwide."
Andrew Adonis, Sec. State for Transport (Westminster), writing in RAIL 631 (2009).

2012 in Wales

- 936 route miles
- 1,516 track miles
- Trains per day [geographical] 1,340
- Passengers per day (ATW) 71,000
- Stations leased to ATW 244
- Level crossings 1,217
- 26m passenger journeys starting or ending in Wales in 2010 – up 65% since 2000.
- Predicted growth in Wales of 31% by 2019
- Valley lines growth 8% p.a.
[25% of Scotland`s route mileage electrified. Wales in 2012: nil].

{Mark Langman, Route Managing Director, NR Wales at Government rail conference, Cardiff, October 1, 2012.}

Compiled by John D. Rogers, Chairman of the South Branch of RAILFUTURE CYMRU, the campaigning name of the Welsh branches of the Railway Development Society, a non-political group of volunteers. For more details: www.railfuturewales.org.uk

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[National Assembly for Wales](#)
[Enterprise and Business Committee](#)

[Inquiry into the future of the Wales and Borders Rail](#)
Evidence from Passenger Focus – WBF 8 3

Submission to Enterprise and Business Committee Inquiry: Future of the Wales and Borders Rail Franchise

1. Introduction

1.1 Passenger Focus is the statutory watchdog for rail passengers in Great Britain; and for bus, tram and coach passengers in England (outside London). Our mission is to get the best deal for passengers. With a strong emphasis on evidence-based campaigning and research, we ensure that we know what is happening on the ground. We use our knowledge to influence decisions on behalf of passengers and we work with the industry, passenger groups and government to secure journey improvements.

1.2 This submission focuses on the following areas:

- i) Passenger experiences from the existing franchise
- ii) Passenger priorities for development and delivery of future rail services
- iii) Value for money and connectivity for passengers after 2018

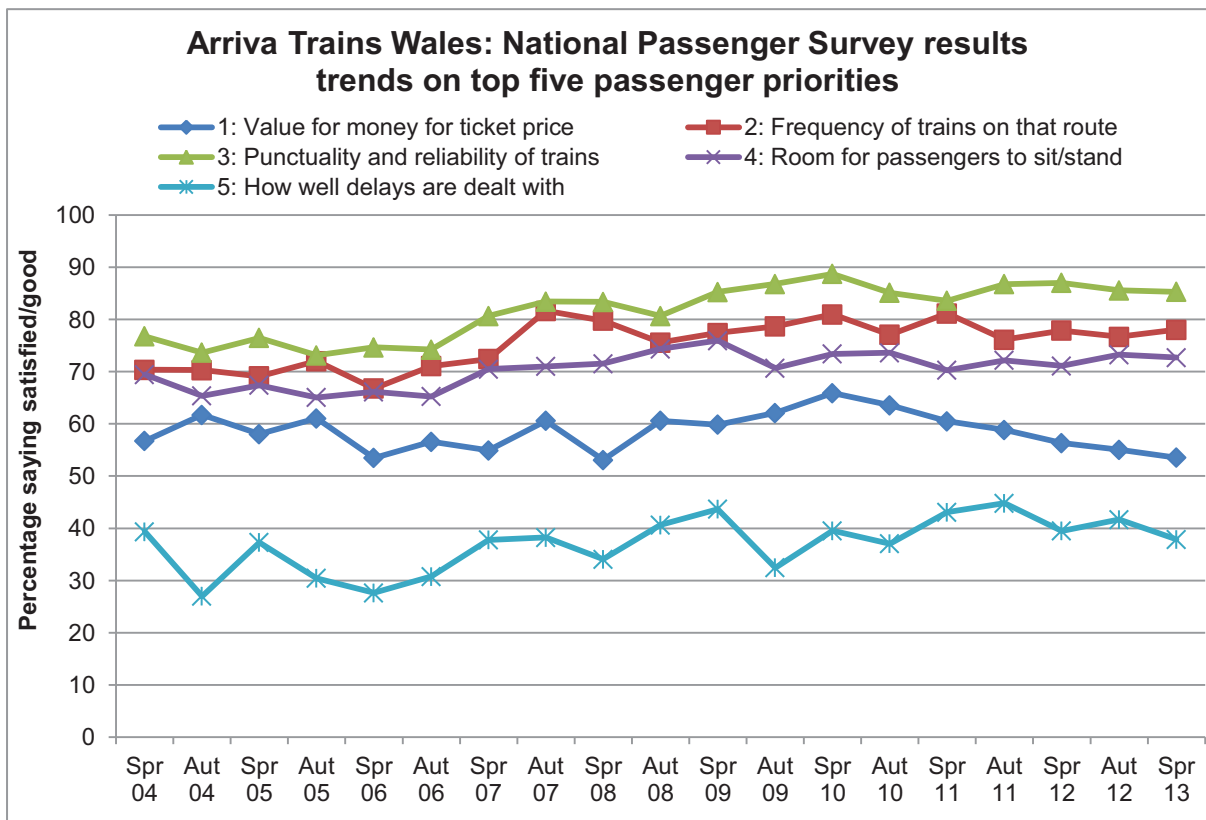
2. Passenger experience

2.1 Passenger Focus conducts the National Passenger Survey (NPS). We consult over 50,000 passengers a year to produce a network-wide picture of passengers' satisfaction with rail travel.

2.2 Our research shows that passengers tend to be focused on the outputs that matter to them – the value for money for their ticket, how frequent and punctual their service is, how many seats are available and whether they are kept informed when there are delays.

2.3 Arriva Trains Wales (ATW) took over the Wales and Borders franchise in the autumn of 2003. NPS data has been tracking passenger satisfaction in two

waves each year and the trends for these key factors over the operating period of this franchise is shown in the table below.



2.4 The overall scores for ATW can also be split into three routes: North Wales, South Wales and the Valley lines. These, plus a comparison with the sector average (i.e. the average for similar operators) can be seen in Appendix A.

2.5 Satisfaction with the upkeep and repair and the cleanliness of stations are noticeably below the sector average, while that for car parking is higher. Satisfaction with the actual train journey tends to be higher than the sector average particularly toilets and staff provision, also for cleanliness, upkeep and on-board security. It is noticeable, however, that satisfaction with punctuality and frequency of services is lower on North Wales services.

2.6 In an era of cost consciousness and efficiency it will be essential that scarce resources are focussed on the things that deliver the biggest passenger 'dividend'. Passenger Focus has a wealth of data on passenger priorities and drivers of satisfaction - summarised briefly in Appendix B. This work continually emphasises the importance of the 'core product' – a punctual, reliable, affordable

railway on which you can get a seat. For us a key part of the passenger test is whether future proposals will result in improvements in these areas.

3. Developing future rail services

3.1 We believe it essential that proposals for future rail development addresses these key points:

Passenger engagement

3.2 Passengers feel detached from the franchise process and many would like opportunity for greater engagement. This agenda should encompass:

- passengers should know when a franchise renewal is coming up and have an opportunity to feed in their views
- when a franchise is let there should be a clear statement setting out what is being purchased for them
- passengers should have a role in monitoring franchise delivery

Passenger accountability

3.3 We believe it is important that the operator and the specifier of a service are accountable to the users of that service. To us this doesn't just mean 'democratic accountability' but also 'passenger accountability'. It will be important that the specifier and the operator set out how they intend to gather the views of passengers on the services being provided. Traditional 'hard' measures on delays, cancellations and crowding are important but so is the quality of service being provided. On the latter our strong preference is for targets based on what passengers think – the best judge of quality being those who have used the services in question.

Performance

3.4 We recommend that operational focus on 'right-time' arrival at all stops is made a core requirement of the new franchise, together with a requirement for publication of detailed performance information which will inevitably act as a catalyst to improvement:

- Challenging but achievable PPM targets for the franchise as a whole and key service groups
- Disaggregated punctuality, with passengers able to identify performance of individual trains
- Moves towards a 'right-time' railway, with a requirement to report performance of trains arriving at key intermediate stations

Dealing with disruption and provision of information

3.5 'How the train company deals with delays' is, by far and away, the biggest driver of passenger dissatisfaction. Passenger Focus recommends incorporating key objectives:

- Contractual targets to improve NPS satisfaction with the provision of information during the journey and a strategy developed and implemented to improve NPS scores for “how well the train company dealt with delay” and “usefulness of information during a delay.”
- A facility for passenger emails or text alerts, warning of likely disruption, with an associated requirement to achieve a strong level of uptake
- Full adoption of the Association of Train Operating Companies' (ATOC) *Approved Code of Practice: passenger information during disruption* and compliance with the Good Practice Guides on provision of passenger information, together with a programme of audit and mystery shopping to assess delivery on the ground.

4. Value for money and connectivity

Fares and value for money

4.1 Passenger Focus has conducted extensive research with passengers on fares, ticketing and value for money and has identified many issues that remain to be adequately addressed. We would be pleased to explore this topic in further detail.

4.2 Whilst 'smart' technology will enable an enhanced offer of ticketing products and services, there is a wider agenda about fares, retailing and revenue protection that must be considered for the new franchise. However, the revenue protection strategy must provide safeguards for those who make an innocent mistake and whose intention was never to defraud the system.

Connectivity

4.3 Proposals will also need to set out the degree of interaction with the rest of the rail network. Passengers value the concept of a network and a seamless delivery of service. Proposals will need to show that it is still easy to make a journey from one area to another – the seamless journey must not acquire any rough edges.

Network integration

4.4 Passenger Focus conducted joint research with the Association of Train Operating Companies (ATOC) into the perception and reality of integrated transport¹. This study aimed to gain a better understanding of the role played by

¹ Integrated transport: perception and reality. Passenger Focus/ATOC. February 2010

integrated transport in attracting new or infrequent passengers to rail; the problems making end-to-end journeys and priorities for improvement.

4.5 The main barriers we found were:

- the perceived cost of the ticket
- the perceived hassle of going by train
- an assumption that the door-to-door journey (except for long-distance) would be longer
- concerns about punctuality and reliability; particularly if there would be a change of train.

4.6 Other factors which influence the decisions made by passengers on whether to use public transport are the availability of information, travelling comfort, security and assurance that all stages of the journey will link up².

Modal integration at the rail station

4.7 Train stations can, in many instances, become local transport hubs. The development of the Station Travel Plan initiative is a good way of looking at how passengers get to the station and in identifying improvements. Key amongst these are bus links (in particular the timing of connections), cycle routes and secure storage at the station, and safe walking routes.

4.8 We also believe that car parking is an important part of integration plans, especially for long distance travel from main-line stations. As this involves an early departure and/or a late return, good car parking facilities can be even more important than for local journeys.

4.9 Passenger Focus research³ has found that passengers travelling to a railway station from rural, semi-rural and edge of town locations will generally drive and park at the station. If they struggle to find a car parking space at their station they may turn their backs on the railway and drive exclusively. The NPS results show that satisfaction with car parking facilities for cross-border travel is on a par with the sector average but, at only 63%, still leaves plenty of room for improvement.

Passenger Focus	Telephone:	0300 123 0860
Fleetbank House	Website:	www.passengerfocus.org.uk
2-6 Salisbury Square		

² Door to door by public transport – improving integration between National Rail and other public transport services in Britain, June 2009

³ Getting to the station. March 2007

London
EC4Y 8JX

Appendix A – Passenger Satisfaction in Wales

NATIONAL PASSENGER SURVEY RESULTS

Spring 2013

Arriva Trains Wales and Main Service Groupings against Regional Sector average (% saying satisfied/good)	Regional Sector	North Wales	South Wales	Valleys	ATW
Overall satisfaction	84	84	87	90	88
STATION FACTORS					
Overall satisfaction with the station	79	75	78	80	78
Ticket buying facilities	80	77	82	77	78
Provision of information about train times/platforms	86	81	85	83	83
The upkeep/repair of the station buildings/platforms	78	68	72	69	69
Cleanliness	80	72	74	67	70
The facilities and services	51	59	54	44	51
The attitudes and helpfulness of the staff	77	75	77	77	76
Connections with other forms of public transport	74	70	64	64	66
Facilities for car parking	52	60	68	61	62
Overall environment	73	68	70	68	68
Your personal security whilst using	70	73	72	68	70
The availability of staff	66	63	68	65	65
The provision of shelter facilities	72	67	72	71	70
Availability of seating	59	53	62	52	54
How request to station staff was handled	88	93	88	93	92
TRAIN FACTORS					
Overall satisfaction with the train	80	84	85	84	84
The frequency of the trains on that route	79	66	76	85	78
Punctuality/reliability (i.e. the train arriving/departing on time)	81	80	86	88	85
The length of time the journey was scheduled to take (speed)	87	76	87	86	83
Connections with other train services	78	75	86	83	82
The value for money for the price of your ticket	53	54	55	53	54
Cleanliness of the train	73	82	82	75	78
Upkeep and repair of the train	71	84	83	74	79
The provision of information during the journey	71	68	77	62	66
The helpfulness and attitude of staff on train	74	80	87	81	82
The space for luggage	60	61	70	63	63
The toilet facilities	38	54	56	55	55
Sufficient room for all passengers to sit/stand	73	70	76	73	73
The comfort of the seating area	72	79	78	77	78
The ease of being able to get on and off	83	82	84	86	85
Your personal security on board	79	86	84	86	86
The cleanliness of the inside	73	82	80	76	78
The cleanliness of the outside	65	73	73	67	70
The availability of staff	61	68	80	73	73
How well train company deals with delays	35	44	55	30	38

More than 5% points higher than sector average

More than 5% points lower than sector average

Appendix B – Passenger Priorities in Wales

In an era of cost consciousness and efficiency it will be essential that scarce resources are focussed on the things that deliver the biggest passenger ‘dividend’. The closer that national strategy is aligned with passenger priorities the better the potential service for passengers.

1. Rail passengers’ priorities and drivers of satisfaction

- 1.1 As part of its input into the High Level Output Specification (HLOS) process Passenger Focus commissioned research into passenger priorities for improvement. Around 4000 passengers were asked to rank 30 different aspects of rail travel⁴. The work was repeated in 2009⁵.
- 1.2 The table below shows the scores for Wales in 2009 with rankings for Great Britain for comparison. This shows three clear priorities for improvement: value for money, frequency and punctuality. These, coupled with seats/capacity in fourth place, emphasise the importance passengers place on the ‘core product’.
- 1.3 It is also noticeable that passenger security on board trains and connections with other train services are of significantly higher importance in Wales, whilst improved security at stations and good easy connections with other forms of transport also rank higher than Great Britain.

Wales Rank 2009	Great Britain Rank	Attribute
1	1	Price of ticket offers excellent value for money
2	3	Sufficient train services at times I use the train
3	2	At least 19 out of 20 trains on time
4	4	Passengers are always able to get a seat
5	5	Company keeps passengers informed of train delays
6	12	Passengers experience a high level of security on the train
7	18	Connections with other train services are always good
8	8	Trains consistently well maintained / excellent condition
9	6	Information on train times/platforms accurate and available
10	13	Inside of the train cleaned to a high standard
11	9	Seating area of the train is very comfortable
12	14	Personal security improved through CCTV / staff at stations
13	16	All trains have staff available to help passengers
14	15	Good easy connections with other forms of transport
15	17	All train staff helpful/have a positive attitude

⁴ Passengers' priorities for improvements in rail services. July 2007

⁵ Passengers' priorities for improvements in rail services. March 2010

1.4 Well integrated transport needs combined aspects of positive security and good connections in order to be attractive to passengers, as these are key considerations when deciding whether to drive or use public transport.

1.5 Fares

1.5.1 Passenger Focus' research⁶ shows that passengers rate value for money as their top priority for improvement on the railway, and our National Passenger Survey shows that only 58% of cross-border passengers are satisfied that they get value for their money.

1.6 Staff

1.6.1 Sir Roy McNulty's report on value for money in the rail sector (May 2011) contained a number of far-reaching conclusions for the rail industry and for passengers. Central to the report was a need to achieve a 30% reduction in unit cost by 2018-19 – representing a saving of around £1 billion.

1.6.2 The report identified cutting staff costs (which are approaching £4bn a year) as a major priority. Amongst other things it recommended a move towards Driver Only Operation (DOO) and removing regulation on ticket office opening hours – presumably as a precursor to reducing retail staff.

1.6.3 Passenger Focus's research continually emphasises the importance of staff, particularly when it comes to issues of personal security, ticketing and the provision of information.

Personal security:

- Most passengers who have expressed concern about station security attribute this to having witnessed anti-social behaviour by other people at the station and a lack of station staff. It is the same story for concerns about security on-board trains.
- Passengers consistently identify the presence of staff as important to providing reassurance to those travelling on the railway. Passenger Focus research carried out in 2011⁷ found that satisfaction with security at unstaffed stations was 9% lower than the average for staffed stations in Wales. Better lighting and CCTV were seen as key and passengers also placed a high value on being able to access real-time information via

⁶ Passenger priorities for improvements in rail services. Passenger Focus.

⁷ The passenger experience at unstaffed stations, February 2011

Customer Information Screens, particularly at times of disruption when passengers experience delays and cancellations.

- In terms of improving on-train security 75% of passengers believe that staff walking through the train would be effective.

Buying a ticket

- Passenger Focus research in 2008 found that many passengers queuing at ticket office window could have bought their ticket from a ticket vending machine (TVM).
- Further research in 2010 found that even some passengers who were used to buying tickets through a TVM experienced difficulty when asked to find the correct ticket for an unfamiliar journey. TVMs were often unable to provide the precise information or reassurance needed by the passenger.
- The ticket clerk will ask some basic and then offer the passenger a narrowed down range of options, navigating through the decision-making process. With TVMs on the other hand, passengers are left to work things out on their own.

Passenger information

- Staff presence at stations and on trains is considered an extremely important medium for delivering information – especially at times of unplanned disruption. Passengers express a strong desire for staff to be available on station platforms so that they can provide confirmation of the information displayed on screens, before committing to board a train. Staff are often assumed to be aware of the latest available information, and may be sought out by passengers who want updates or reassurance on whether trains are running to schedule.
- There is a very real danger that staff are seen only as a cost without considering the value they are adding. There may be scope for efficiency savings - more multi-functional staff for instance – but the debate must not simply be about cost. A visible staff presence brings real benefits to passengers which any review must also take into account.

[Inquiry into the future of the Wales and Borders Rail](#)

Evidence from Arriva Trains Wales – WBF 65

The Enterprise and Business Committee Inquiry: The future of the Wales and Borders Rail franchise *Submission by Arriva Trains Wales*

Thank you providing Arriva Trains Wales with the opportunity to contribute evidence to this inquiry. Our submission has been guided by your terms of reference and we hope that you will find our viewpoints and comments useful in this process.

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3. What priorities can be identified to ensure that rail passenger services in Wales and the Borders provide the best possible service for passengers from 2018?	5
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1. Introduction and Organisational Overview

Organisational Structure

- 1.1. Arriva Trains Wales/Trenau Arriva Cymru Limited (ATW) is part of the Arriva Group, one of the largest providers of passenger transport in Europe; operating a range of transport modes including trains, buses, trams and taxis, providing more than 1.5 billion passenger journeys a year.
- 1.2. In 2010, Arriva PLC was acquired by Deutsche Bahn AG, one of the world's leading passenger and logistics service providers employing over 300,000 staff. Being within the DB family provides Arriva PLC with the enviable competitive advantage of access to its low cost of capital, global purchasing power and the spread of best practice across its world-wide operations. Other benefits include the ability to draw on management expertise in key areas such as rolling stock procurement, customer service innovation and the drive for environmental excellence.

Current Operations

- 1.3. With around 2,050 employees, ATW is one of the largest private sector employers in Wales with our Head Office in Cardiff. The success of the business has seen the number of employees increase by 300 since the commencement of the franchise.
- 1.4. We run 955 services per week day and approximately 325,000 train services per annum, this is 20% in excess of the Franchise contract obligation level of service and thus is operated at the cost and risk of ATW. To deliver this service we operate 116 trains (240 vehicles) plus the locomotive and coaches for the "Y Gerallt Gymro" service, with an average multiple unit age of 23 years (range of mid 1980s to 2001). Approximately 55% of services operate on the Valley lines with the remainder operating on the main line and branches through the Wales and Borders area. Our understanding is that around 25% of the UK's long distance train journeys (measured as over 4 hours) are operated by ATW although such is not a common perception.
- 1.5. The network is subject to significant seasonal peaks in demand, mainly through the historic tourist destinations of Mid Wales, North Wales coast and local attractions such as Barry Island. In addition, special events such as 6

nation rugby internationals, pop concerts etc. cause significant strain on resources, particularly in the Cardiff area where more than one event may be scheduled by the authorities in the City at the same time. We have significant expertise in respect to management of these major events, and the location of a large capacity stadium so close to a major hub station is unique to Cardiff, making the capital a major attraction for tourists and visitors attending events.

- 1.6. The average fare for individual journeys is low (£3.84 year ending 2012), which helps make the network accessible but consequently, and with the relatively low population density outside of South East Wales, the Government subsidy required to operate the current level of service pattern is high - the second highest in the UK at 12.2p per passenger kilometre (ORR statistics 2012/13).
- 1.7. Growth in passenger numbers has been a significant factor since the Franchise commenced in 2003. In the 7 years leading up to the Franchise, growth was only 29% (ORR Statistics 2012/13). Growth has since risen by nearly twice that rate at around 55%. Last year, some 29 million passenger journeys were made, in comparison with 18 million at the commencement of the contract. In addition to this, we are currently experiencing record levels of customer satisfaction (88% overall satisfaction, Passenger Focus, 'National Passenger Survey').
- 1.8. The Franchise Agreement prescribes the base timetable that we are required and funded to deliver., Through extensive passenger counts and by monitoring growth, we also consider which services require strengthening with additional trains in order to best optimise the allocation of the scarce train capacity available (the 240 vehicles). Accommodating passenger growth mentioned above has become one of the key challenges for our operation.
- 1.9. Significantly improved train service performance (reliability and punctuality) has been another notable success for Arriva since inheriting the Franchise. Performance was poor in the early years with high 70% or low 80% the norm. Indeed, the expectation of the Franchising Authority was that 88.8% (the contractual target) was challenging. However, through concerted management action (particularly through improvements in fleet reliability), ATW is now one of the top 5 performers in the UK (measured against the UK industry standard 0-4.59 secs) with a current moving annual average of circa 94% PPM (see appendix 1). ATW are also either first or second best on the ORR right time measure (arrival within 59 seconds) at around 86% moving annual average. In addition to the overall operational performance, safety performance has improved; with ATW contributing to what is now, as part of UK rail, the safest railway in Europe (ORR data). See some of ATW's safety performance data in appendix 1a).

The Existing Franchise Agreement

- 1.10. The Wales and Borders Franchise was awarded by the Strategic Rail Authority (a predecessor of the current Department for Transport) and commenced in December 2003 for a 15 year term. The Welsh Government became cosignatories to the Franchise Agreement in April 2006. The 15 year term, which has created a long term investment incentive, resulting in £30m of ATW investment, includes five-yearly formal contract reviews (in 2008 and 2013) set against the targets specified in the Franchise. These targets include; performance, customer satisfaction (as measured by the National Passenger Survey), and financial measures. For the two reviews carried out, ATW has exceeded the contractual targets, and we recently received confirmation that following the 2013 review ATW will continue with the contract to its term in October 2018.
- 1.11. It is worth noting that the nature of the Franchise process means that all major assets are owned by 3rd parties; so for example, the diesel trains used in the Wales and Borders contract are leased from two rolling stock companies (Angel Trains and Porterbrook), and the 244 stations and 3 maintenance depots we manage are leased from Network Rail through a landlord/tenant type relationship. This makes any potential future Rail operator in Wales unique in comparison to organisations such as Welsh Water, as there is no major infrastructure asset base against which borrowing can be secured for long term investment. Any long term investment must likely be done either through the Authority, securing of third party funding, or by taking advantage of capital available to the operator through its owning organisation (if it indeed has one).
- 1.12. (See Appendix 2) The chart highlights the declining subsidy profile of the existing franchise. This shows that whilst demand has increased on the limited fleet and resource allocated to the franchise, the overall financial support is declining in real terms. This is a very real indication of the importance of growing revenue and controlling costs to the operator and at the same time improving standards. This behaviour is key to the success of any future operator.
- 1.13. The contract did not envisage the level of passenger growth seen nor did it incorporate capital investment by either the Authority or fund such through ATW. Indeed the only capital investment was for £400,000 to be spent on improving 5 car parks.

- 1.14. In summary, the current contract model is one which transfers the risk and costs of operation from Government to ATW. The contract incentivises ATW to deliver improvements in train service performance, to grow passenger numbers and their satisfaction levels and to contain costs through a mechanism that reduces the level of subsidy paid by Government each year.

2. What lessons can be learned from the current Franchise?

- 2.1. The current Franchise Agreement (FA) can, we believe, be regarded as an effective contract – it has helped move from a low growth, low satisfaction and unreliable operation to deliver a high performing railway in Wales with significant growth in passenger usage (and the consequent support this provides to employment and opportunities for employment), and also importantly to record levels of passenger satisfaction.
- 2.2. Arriva is proud that these achievements have been delivered during our tenure. We have seen an on-going need to develop the business beyond the confines of the contract, this being both a reflection of our transport expertise and desire to make the railways in Wales a success story (see Appendix 3).
- 2.3. It is unlikely that schemes such as Valley Lines Electrification would have been conceivable in 2003 with the then ill-used and unreliable network. However, with the efforts of ATW, Network Rail and others, these levels of investment are now credible and moreover, are now in the process of detailed planning. There is no doubt that, at the end of the Franchise term, the Wales and Borders Franchise will be in a much stronger position than at its inception, with a great position to further grow and succeed.
- 2.4. With the success achieved and the ability to reflect on the Franchise Agreement in hindsight, the following areas would have been worthy of more consideration:

Consideration of growth and how the impact is mitigated

- 2.5. While ATW have sought to mitigate the additional demands of growth through yield management, timetabling efficiency and “sweating” rolling stock usage, nevertheless the possibility of significant passenger growth is ill-considered in the current FA. Increasing patronage is a present and future challenge.
- 2.6. We would note that in the current Agreement there is an absence of a passenger capacity regime such as ‘PIXIE’ (in use with many TOCs). This type of regime would require action by the Authority when over-crowding or passenger standing time reaches a prescribed level. It would to our view be advantageous to have an agreed trigger point and, most importantly, plan from the outset to cater for growth. For example; to allow in the future rolling stock provision for additional units to cater for growth trigger points and to provide for special events.

Capital investment

- 2.7. The contractual investment requirement in the current FA was minimal at only £400,000 over a 15 year period. However this has not stopped ATW investing in the success of the business. The length of the franchise has allowed us to invest over £30m in a range of areas including; a new maintenance depot at Machynlleth, train modifications, enhanced customer service facilities such as station enhancements (e.g. passenger environment, ticket machines, ticket gates) and improvements for staff (e.g. the latest train simulators, staff welfare facilities).
- 2.8. While we believe we have played our full part in developing the business at risk to our capital, it would seem sensible if the investment (or defined outputs) required to meet future Government aspirations for rail in Wales were clearly established at the outset of the next Franchise. This requires a clear statement of what the future rail network should deliver to be articulated, costed (affordability) and timescales set out. In doing this stakeholder expectations will be set but also Government can take a view on the balance between its capital requirement against what it can expect to be funded from the Franchise operator.

Alignment of incentives

- 2.9. The Franchise Agreement was written at the time, it seems to us, somewhat in isolation of the needs and aspirations of Welsh Government and also from those of other key stakeholders such as Network Rail. While current working relationships with Welsh Government and Network Rail are positive and constructive and can, to a degree, mitigate the lack of contractual alignment, there would likely be benefit in a future Franchise to facilitate closer working, particularly where that drives cost efficiency (a benefit to Government and ultimately fare paying passengers). A simple example would be reducing Network Rail maintenance costs which may involve increased costs to the TOC. Closer alignment and joint planning of engineering work will help reduce costs to the industry overall. Unlocking these savings and the ability to share the benefit would be a powerful driver for change.

Stakeholder expectations and long term plan

- 2.10. We would observe that, for a future rail Franchise in Wales, Authorities should be clear as to what outputs it wants delivered (and it can afford to fund) irrespective of the contractual model that is chosen.
- 2.11. The rail system, not just in Wales, is complex and its limitations poorly understood. A simple example being the contradictory requests in general discourse with stakeholder groups for more station stops but also faster journey times and non-stop services. The reality that rail services within Wales are not commercially viable (i.e. revenue from fares does not cover the operational cost), and thus require public subsidy is also not well understood from the correspondence we receive.
- 2.12. We would urge clarity and if possible consensus on the outcomes that are required from the system for the next Franchise and for the longer term, and that these outcomes are well understood by bidders and stakeholders. The governance structures for public transport in Wales will need to be appropriate and support the longer term planning and oversight that this would demand.
- 2.13. Arriva Trains Wales currently commits fully to engagement with all stakeholders in Wales who have an interest in the services we deliver. We fully engage and participate in joint activity and discussion with key organisations such as the Welsh Government, Network Rail, Regional Transport Consortia, Local Authorities and others, and would engage equally closely with any future bodies or representational organisations which may form part of future transport policy in Wales.

Accountability and Commercial independence

- 2.14. Whilst we believe the current relationship provides an acceptable balance in transparency between a responsible franchisee and the regulating authorities, we suggest improvements might be considered to the existing model (or other models the Authority may specify) which provides a franchisee with greater freedom to (re)act, and empowers it to address challenges and opportunities quickly and responsibly. For example reacting to changes in demand and optimisation of timetables.
- 2.15. The present circumstances rely on Authority approval which can in our experience import delay in addressing obvious and logical need. For example, in the implementation of an emergency weather timetable.
- 2.16. The current franchise model itself provides for high levels of scrutiny and accountability between ATW and Government. The day to day working relationship and regular performance reviews provide detailed understanding of business activities to the authority, providing reassurance in terms of compliance with the existing agreements. However, a salient positive factor is also that ATW is afforded a necessary degree of commercial independence (e.g. the development of a yield management system) which is an especially important element in a changing and competitive market, where commercial advantage and revenue could be lost to other train operators or transport modes.
- 2.17. Having a high degree of commercial focus, and being part of a wider transport business, ensures that the market can be closely monitored within the UK. Close partnership working and dialogue between ATW and Government ensures that the day-to-day operation of the train service is well controlled and this, given the right resources, should afford Government the opportunity to concentrate on future transport strategy and policy.

Allocation of Risk and the benefit of Franchisee Buying Power

- 2.18. We would emphasise that the existing Franchise model offers a high level of financial protection and security of service provision for the Authority.
- 2.19. The current contract is of the net cost type where ATW takes the revenue and cost risks i.e. the risks of running the business are transferred from the Authority/Government to the private sector operator. The Operator's "reward" for this risk and its investment is profit. The Government is "insulated" from potential cost perturbations such as, in recent years escalation in the price of diesel fuel. While Arriva is able to hedge costs such as fuel (see example below), ATW has still had to sustain a 244% increase in its annual diesel fuel costs since the start of the contract of £15.5m pa.
- 2.20. ATW has fuel hedges in place until the end of the franchise term and these have proved to be particularly effective in protecting the business against the volatility of the fuel market, albeit prices have still risen. As a Group (Arriva and DB), we have been able to achieve large volumes of hedged fuel at relatively low market prices. These cost savings are passed through to Welsh Government when, for example, service enhancements are introduced such as the re-opening of the Ebbw Valley route, which benefits from hedged fuel prices rather than the higher market rate. These savings also allow us to allocate capital for long term investment

- 2.21. There are other similar examples of contractual and procurement efficiencies which have been realised within the life of the contract to date and, in tandem with sound management of its variable operating costs and the continuous drive to improve train service performance and customer satisfaction, this has resulted in a successful business. In addition it is worth highlighting the DB Groups low cost of capital (and hence low borrowing costs) as a benefit that could be used by Government to help in the development of the Network both now and in the future.
- 2.22. As shown in appendix 4, over 40% of ATW's cost base represents train leasing / regulated costs with a further 1/3rd made up of staff costs (see appendix 4).
- 2.23. Within the Wales and Borders franchise, in addition to employing an additional 300 employees than when the contract started, staff have shared in the success of the business, with employee wages seeing high levels of growth over the last 10 years. We work in partnership with the Rail Unions and we expect that this partnership will continue into the future.
- 2.24. There are also comments made that "super normal" or excessive profits are made by train companies within the current Franchising model. The current Wales and Borders Agreement includes a profit sharing benchmark (or profit cap), whereby should ATW profits exceed this level (circa £20m), the first 30% and then 60% of profit above these marks are returned directly to Government. These levels have not been triggered in the last 10 years. If profit levels are a concern then a future Franchise could look to adjust the level of "cap" downwards, albeit the Government will then need to consider what reaction the reduced return to train operators may cause such as less willingness to invest and risk-taking.
- 2.25. Further, when profit is related to total revenue, the following can be seen in Appendix 5.
- 2.26. The chart demonstrates that for every £1 earned by ATW only £0.06p is retained as profit, this on a business that takes the full cost and revenue risk on a turnover of circa £300m. While this rate of profit is modest, it is still a powerful motivator to the management team to invest, grow revenue and contain/reduce costs.
- 2.27. Without this profit incentive, the transfer of risk to the private sector and the ability to use the economies of scale (such as purchasing efficiencies) of a powerful industry player such as DB, we believe the costs and liabilities to Government of the Franchise would increase.
- 2.28. As such, and placing these matters in context, we consider that the current franchise model, although possible to improve (see above), has been a success, particularly in delivering record levels of customer satisfaction whilst incurring no additional risk to the tax-payer. We are convinced that the cost of operating this Franchise (and hence cost to future Governments), would have been significantly higher had it not been run on a strong commercial basis by a strong commercial enterprise.

3. What priorities can be identified to ensure that rail passenger services in Wales and the Borders provide the best possible service for passengers from 2018?

We believe the following priorities for passenger services post 2018 need to be considered:

Rolling stock

- 3.1. As detailed above, some of the existing diesel rolling stock will be approaching 40 years old by the time the current Franchise ends. In addition, in 2020 new vehicle accessibility rules will apply to the UK market and this will trigger either investment in stock to achieve compliance or the vehicles being withdrawn from service in the UK.
- 3.2. With the Valley Lines Electrification scheme, a decision will need to be taken by Government on whether to replace the existing (approaching 40 years old) diesel vehicles with either new or cascaded electric trains from elsewhere in the UK. The decision on this, as with current rolling stock needs, rests with Government, but we would counsel to consider the whole life costs of such fleet replacement and the length of time cascaded trains will be able to be used before they too need replacing. So for example, if Government needed to replace cascaded stock in 10 years' time, the question may be asked why not get the benefit of new trains from the start of the electrified network? Particularly if the intention is to retain the vehicles within Wales for their operational life. New trains will impact positively on the reliability and punctuality of the service overall. With its collective Arriva Group and DB parent strength, ATW is well-placed to assist in developing procurement and specifications for rolling stock to address future needs.

- 3.3. We are certain that, along with an improved passenger environment, customers wish to see more stock available to allow annual growth to be better managed and importantly for the prestige of Wales, so that the operator is able to better cater for special events, especially for those sell-out occasions at the Millennium stadium.

Stations

- 3.4. While significant investment has been made by Welsh Government, ATW, Network Rail and others in improving the station environment for passengers, there is still more that could and should be done.
- 3.5. We are delighted to have worked closely with Welsh Government, Network Rail, Transport Consortia, Local authorities and others such as Rail Heritage to secure some £41m from the National Stations Improvement Programme ('NSIP') and Welsh European Funding Office ("NSIP+").
- 3.6. This has and is being used to deliver passenger benefits across the whole of our franchise area, with new ticket offices and waiting areas at a number of locations, enhanced CCTV coverage and in achieving a fully fitted network of customer information screens. The latter benefit will have been rolled out to every ATW station by the end of 2013, especially important for passengers at unstaffed locations. In addition, many waiting shelters have been upgraded, CCTV has been fitted to many stations and all ticket counters are now accessible with induction loops.
- 3.7. Further, significant investment (circa £2.5m) has been made by ATW in ticket vending machines, with over 100 machines in and a further 20 to be installed later this year.
- 3.8. Our approach has been to standardise to provide consistency across the network, giving full consideration to energy-efficiency, security and access to facilities for all our customers, including those who may have reduced mobility. Elements of the award-winning design at Chester station (which was fully funded by ATW) have been carried forward into the development at Swansea, opened by Carl Sargent AM. The improvements at Swansea has particularly impressed passengers with the National Passenger Survey (NPS) scores for the station rising from 50% to now 93%. See appendix 6.
- 3.9. However, while an improving trend in stations with some areas of best practice, this is still an area where customer perceptions could be improved. To illustrate the current passenger perception the NPS charts for these areas are shown in appendix 7.
- 3.10. Whilst the improving scores and trends are welcome, we would suggest that in a future Franchise a minimum standard of station facility is set by Government and that this forms part of the future expectations and funding requirement of the network.
- 3.11. In addition, the majority of stations in the Wales and Borders area are Victorian in origin and were not designed to modern accessibility standards. Only about half of the 244 stations in Wales are fully accessible and again we would suggest that standards and targets are set to improve this. Some stations have very low footfall so it may not be cost effective or reasonable that all stations are fully accessible, but we would suggest examination of this area as a priority. Important consideration of existing accessibility legislation will need to be considered as part of future franchise specification.

Timetable

- 3.12. It is likely that much of the input for this inquiry will be requests for increases in levels of service post 2018. We would reiterate our earlier comments about the non-commercial nature of rail within Wales, the complexity of the network and hence the lack of easy, quick or cheap solutions.
- 3.13. As a starting point we would suggest that the current timetable forms the basis of services going forward and that additions are considered carefully in light of likely demand (and any other considerations such as access to employment) and affordability.
- 3.14. We have participated in the current work being undertaken by Mark Barry in respect of the Metro service development for South East Wales. While we have not seen his report at the time of this submission, we consider that this type of visionary work looking at a wide range of factors and going outside of local authority boundaries, may prove a useful template when considering how the rail network could develop, but of course, must be subject to the complexity, demand and affordability considerations.
- 3.15. One further thought the Committee may want to consider within the Wales and Borders framework, is whether different local solutions are possible, such as through greater involvement of local communities in some elements of the network. For example, it may be that costs can be reduced if branch lines are subject to different

arrangements and standards from mainline services. We understand that such deliberations are being made by the Heart of Wales Line forum, and we would encourage such novel approaches.

4. How can service delivery after 2018 deliver connectivity and value for money for passengers while reducing the burden on the tax payer?

- 4.1. There is a clear opportunity to work with ATW to reduce the future cost base of the Franchise post 2018. For example, as detailed above the Arriva Group has wide experience in bringing in different rolling stock, such as for VLE. Making the right decisions now will help reduce the cost base going forward.
- 4.2. In terms of improving connectivity post 2018, immediate considerations are likely to be how other modes (bus, car, cycling, ferries etc.) can better connect in with the rail service - with train timetables taking roughly 18 months to amend (due to the UK train planning system) and light of our earlier suggestion of using the current timetable as a base from which to start,. This involves providing both the physical facilities (such as appropriate bus interchanges at stations, sufficient secure car parking and covered secure cycle facilities), but also through strategic planning, ensuring that others play their part. The strongest example being buses that call at stations to connect with rail rather than just after services have left.
- 4.3. We already work closely with the ports at Holyhead and Fishguard, and arrangements between Stena and our Control Centre ensure we can strengthen services to provide additional capacity when there is unexpected demand. We also get good advice from them for us to pass on to rail passengers when ferry services are affected by poor weather.
- 4.4. We would like to see the importance of cross-border services recognised in a new franchise. The major passenger demand within and to Wales is east-west and vice versa rather than North/South (and vice versa). Also these flows tend to cover more of their operating costs and thus in effect contribute to the running of other services wholly within Wales. Thus protecting these cross-border services within the future Franchise and ensuring a high level of service is maintained will help the affordability of rail into the future.
- 4.5. Again as detailed above, we continue to believe both from our experience not just in Wales but also from the other 15 European countries in which Arriva operates, that best value for money for the future Franchise will be achieved via a 'net cost' type contract with the resultant transfer of risk (from awarding body/Government), than that of other contract types.

5. Conclusion

- 5.1. The Arriva Group has significant experience in managing a large number and variety of transport businesses within its Europe wide portfolio. Within the 15 countries we currently operate, each business operates under a different contract and Authority model. In practice we have found that the best contract model is one based on:
 - i) A clear and agreed set of outputs (based on the strategic goals of the Awarding body).
 - ii) Transfer of risk to the party best placed to manage that risk.
 - iii) Appropriate incentives/rewards where behaviours are aligned.
 - iv) Effective working relationships.
- 5.2. We believe that, with some modifications (as above), the current net cost contract is the model that best fits these elements. The success of the current railway in Wales bears testament to this.

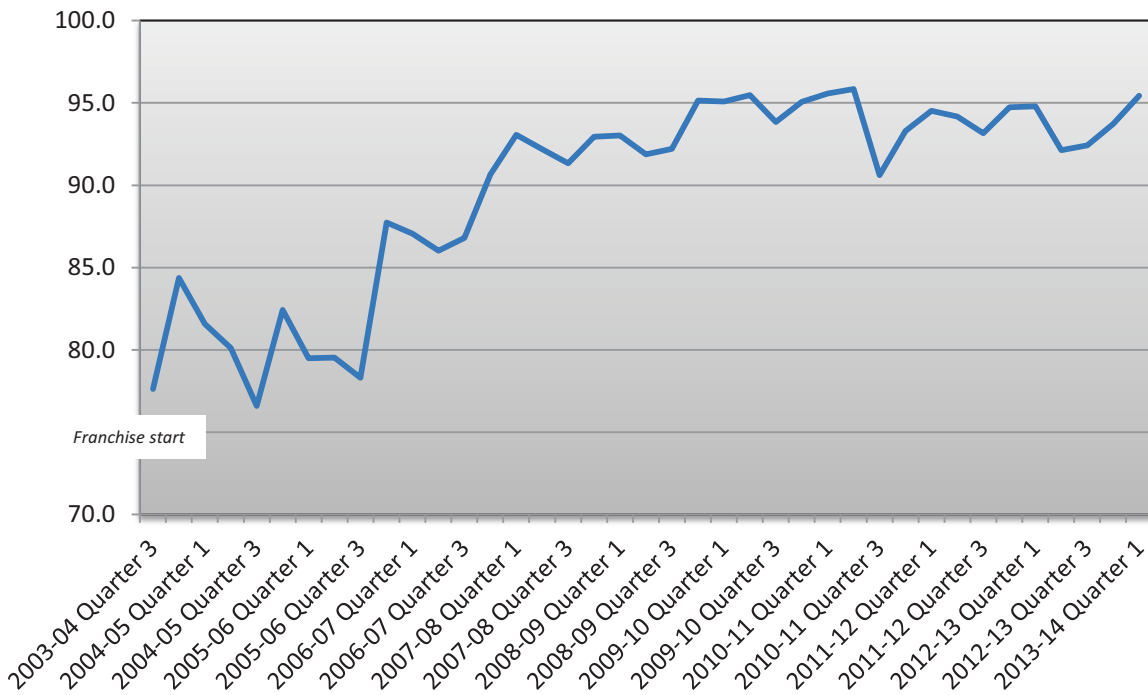
5.3. Finally, whichever future management model is determined by Government for use post 2018, in the interim ATW will continue to focus, build upon and deliver on the core customer expectations of high train service performance, customer satisfaction and comply fully with the contractual benchmarks and targets.

Michael Vaughan
Head of Franchise and Stakeholder Management
Arriva Trains Wales

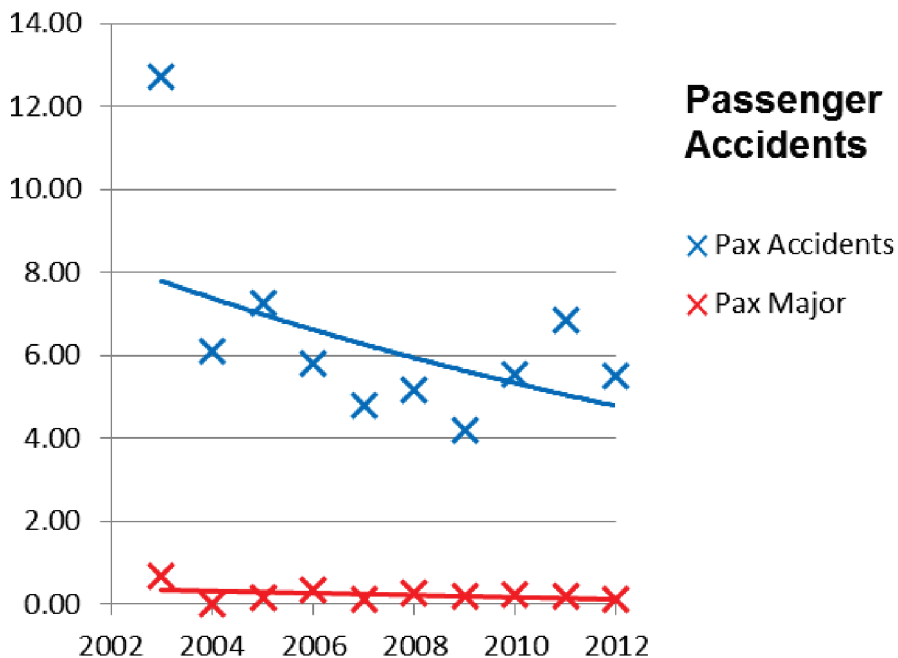
6. Appendices

Appendix 1: Train reliability and punctuality (PPM) since the beginning of the current franchise.

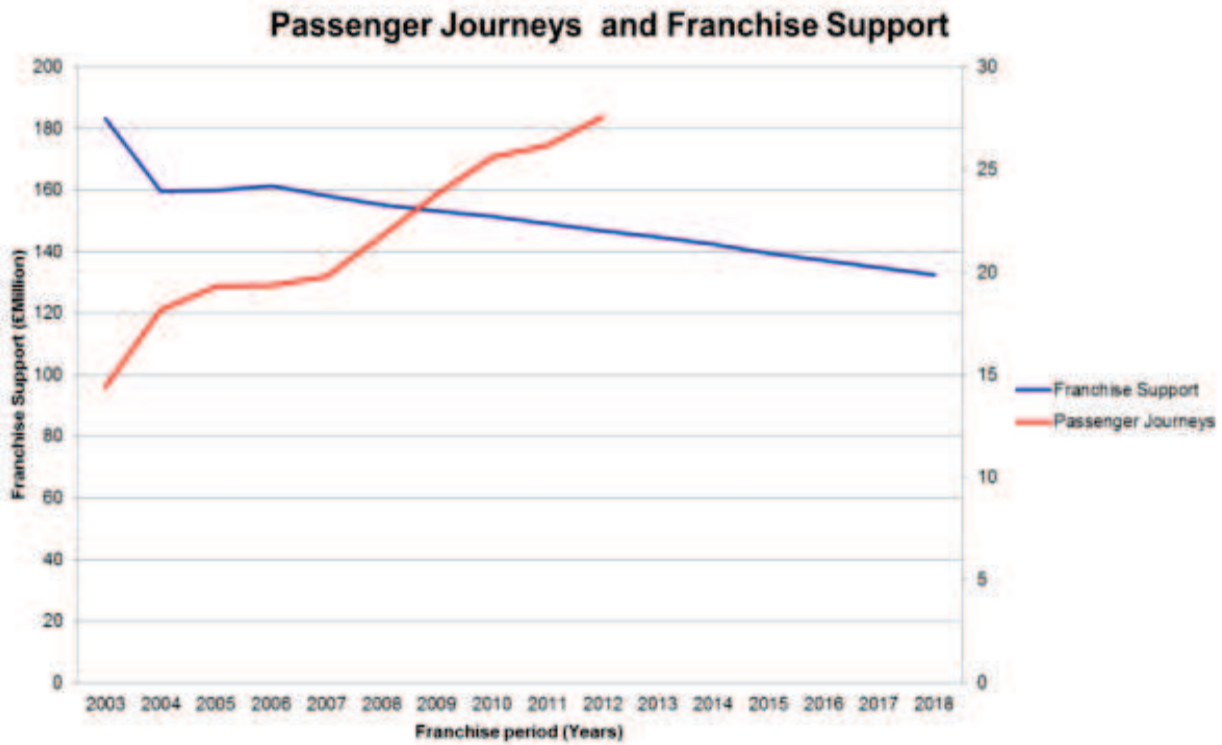
ATW Train Service Performance since Franchise commencement (as measured 0-4.59 seconds arrival)



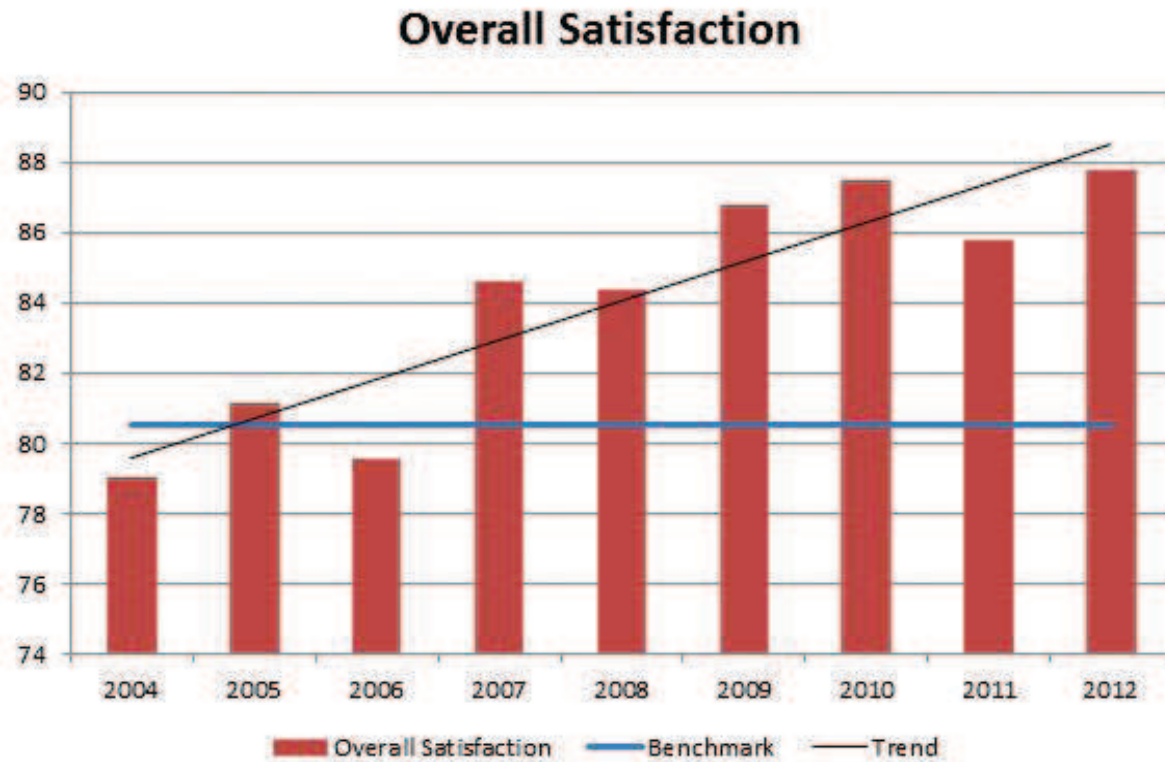
Appendix 1a: Arriva Trains Wales passenger accidents per million passenger journeys since franchise commencement.



Appendix 2: Number of passenger journeys when compared to franchise subsidy profile.

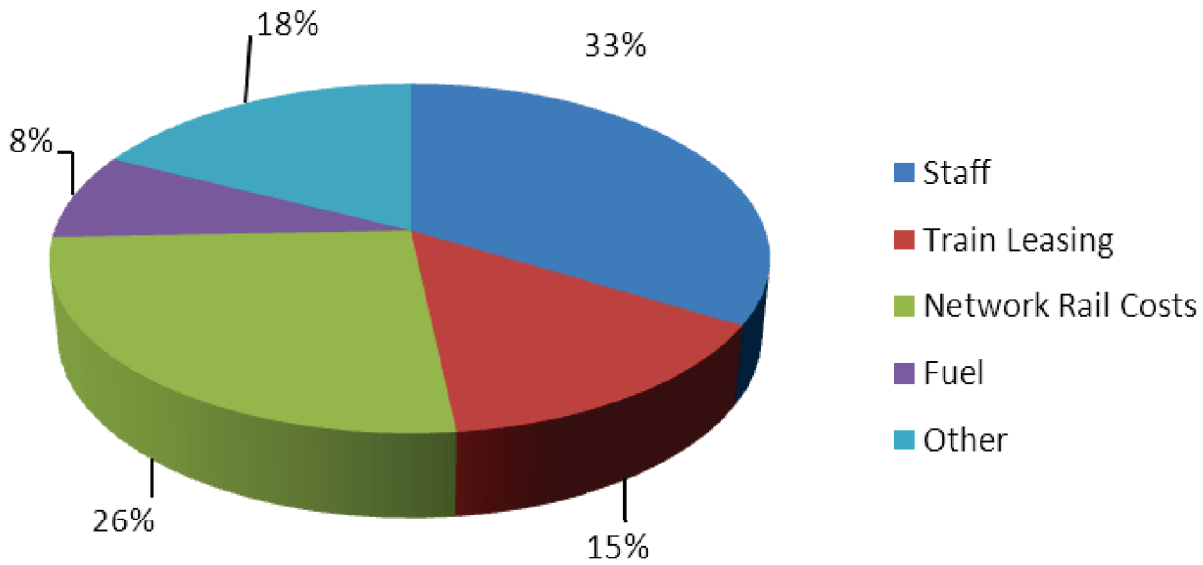


Appendix 3: Overall Customer satisfaction based on the independent Passenger Focus 'National Passenger Survey'.



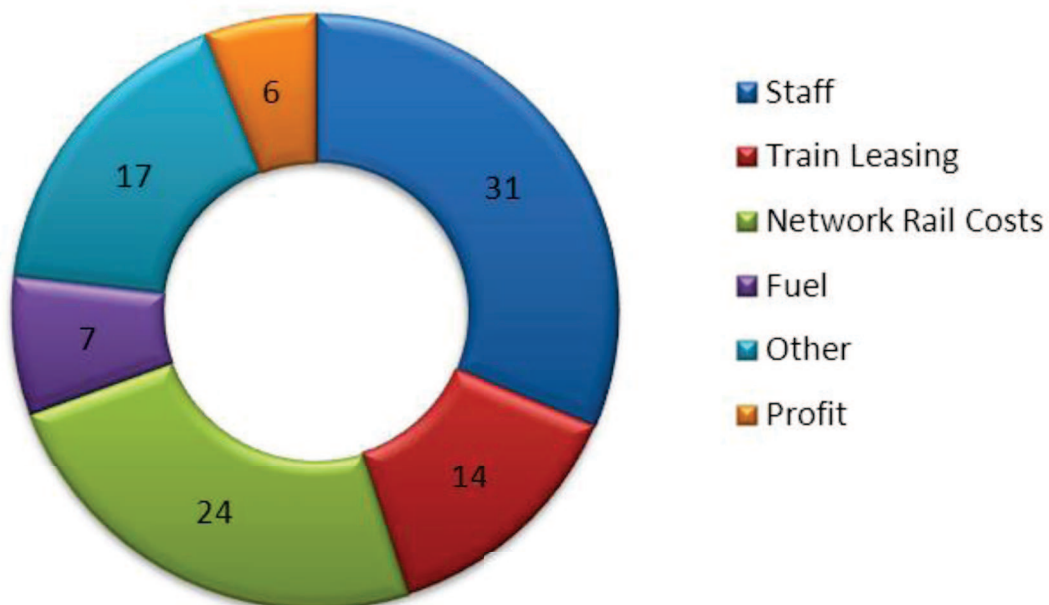
Appendix 4: Total costs to ATW during 2012 as an indication of overall cost base.

ATW Total Cost 2012



Appendix 5: Currently, only 6% of total revenue results in profit. This incentive exists for an organisation with significant revenue and cost risk, and with declining franchise support in real terms.

Cost per £ of Total Revenue 2012

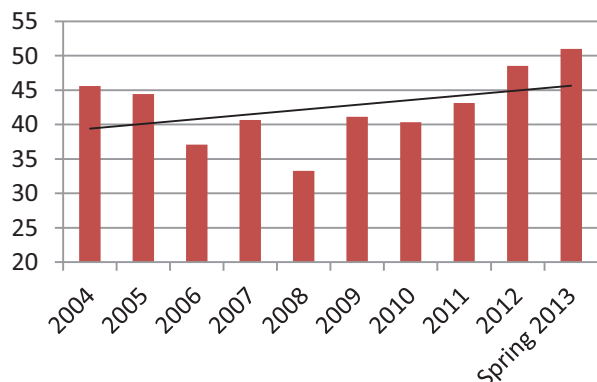


Appendix 6: Images of Swansea Station. The refurbishment project, delivered by ATW, resulted in a leap from 50% to 93% in overall customer satisfaction for the station in the National Passenger Survey. In the 2012 International Stations Awards, was also awarded 'Best Overall Station'.

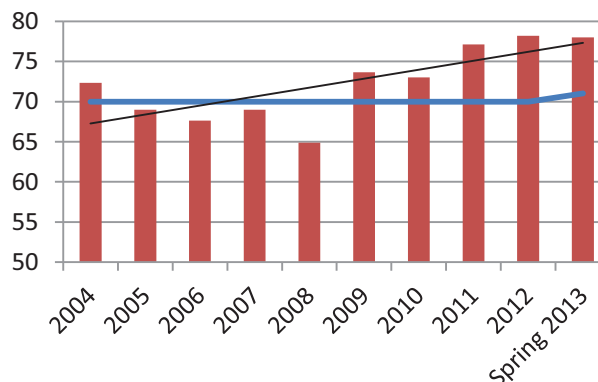


Appendix 7: Whilst we have greatly improved in overall Customer Satisfaction since the start of the franchise, we identify areas for further improvement.

Station - The facilities and services



Station - Ticket-buying facilities



7. Glossary of terms

'Authority', or 'the authority'	Defined as the regulating or awarding organisation of the franchise, that is Welsh Government, or in part, the Department for Transport
'Sweating rolling stock'	Driving the maximum efficiency in terms of the deployment and allocation of the finite number through intelligent planning, maintenance and timetable solutions.
Government	Read either Welsh Government, Department for Transport, or a share of both.
NPS	National Passenger Survey.
ORR	Office of the Rail regulator.
Performance	Refers specifically to punctuality and reliability of services.
PIXIE	'Passengers in excess of capacity', the regime by which growth in passenger demand triggers investment in additional rolling stock which applies to certain TOCs
PPM	Public Performance Measure – the official UK industry standard by which train performance is measured, defined as the percentage of trains which arrive at their final destination within 4m59s of advertised time and having called at all advertised stops.
TOC	Train Operating Company, i.e. Arriva Trains Wales, First Great Western etc.

Enterprise and Business Committee inquiry

The Future of the Wales and Borders Rail Franchise

Submission from the Association of Train Operating Companies (ATOC)

Introduction

1. ATOC's mission is to work for passenger rail operators in serving customers and supporting a prosperous railway. Set up after privatisation in 1993, we bring together all train companies to preserve and enhance the benefits for passengers of Britain's national rail network. We also run joint industry services, including National Rail Enquiries, the Rail Settlement Plan and the discount Railcard schemes.
2. We welcome the chance to submit evidence to the Committee's inquiry. As the existing franchisee and potential future franchisees are our members, our response concentrates on the benefits to passengers and taxpayers of the railway franchising model and discusses how this model can be used to achieve additional benefits in the future for Wales.

Benefits of franchising model

3. ATOC published a report in July, based on new analysis of rail data by KPMG, which provides powerful evidence that the introduction of competition between train operators to win franchises to run passenger services has been crucial to the success of the railway over the last 20 years.¹

Passenger benefits

4. Train operators have increased passenger satisfaction as measured by Passenger Focus' National Passenger Survey, with overall satisfaction levels in Great Britain rising from 76% in 1999 to 82% in spring 2013. Higher passenger satisfaction levels likely result from a range of improvements.
 - **Improved punctuality** – despite a big drop in performance after the Hatfield accident in 2000, performance has steadily improved and has now overtaken 1997-98 levels. 90.9% of short and long-distance services arrived respectively within five or ten minutes of their scheduled arrival time in 2012-13.²

¹ ATOC, *Growth and prosperity – how franchising helped transform the railway into a British success story*, July 2013

² <http://dataportal.orr.gov.uk/displayreport/report/html/03b66842-b072-4f4a-910e-fc29ae02dd71>

- **More services** – there are now 4,000 more services a day than in the mid-1990s – a 20% increase. The number of intercity trains operating between Cardiff and London each day has increased by 41% - from 22 in 1994 to 31 in 2013.
 - **Better trains** – train companies, working with leasing companies, have underwritten almost £5 billion of investment in new trains, replacing about half of the inherited fleet and refurbishing almost all of the remaining fleet.
 - **Improved safety** – fatalities and injuries have declined to levels that make Britain’s railway the safest major European network.
5. At the same time, the overall average price paid per passenger mile has increased in real terms by just 0.8p - from 19.6p in 1997-98 to 20.4p in 2011-12. Passengers are accessing a wide choice of attractive deals including off-peak airline-style pricing and generous discounts for specific groups through offers and Railcards. More than one million journeys are now made each week using cheaper Advance fares, four times more than in 2005-06.

Passenger growth

6. There has been an unprecedented increase in passenger usage. Passenger journeys rose by 73% between 1997-98 and 2011-12, from 845 million to 1,460 million, significantly outperforming the London Underground and state-owned railways in France, Germany and the Netherlands. Annual passenger growth was 1.73% in the 15 years before 1997-98. This growth has more than doubled to 3.98% a year since 1997-98. *Growth and Prosperity* examines traditional explanations for this growth, including GDP growth, population growth and motoring costs, and concludes that none can fully explain the journey growth experienced since 1997/98.³

Reducing subsidy and sustaining investment

7. Train companies have generated a £3.2 billion increase in annual passenger revenue between 1997-98 and 2011-12, of which 96% has come from journey growth and just 4% from fare changes. As operating costs have been contained and productivity has improved, the annual surplus generated by train companies has increased by £1.4 billion over the same period. An additional £1.3 billion now goes back to Government and the net direct Government subsidy to train companies through franchise agreements has fallen in real terms from £1.4 billion in 2001-02 to just £81 million in 2011-12. Train company profits have remained modest. Operating margins were on average 3.1% of turnover in 2010-11, 15% lower than in 1997-98.⁴

How to maximise the benefits of franchising for Wales

Current franchise

8. The Wales and Borders franchise was let in 2003 for 15 years to a specification set by the former Strategic Rail Authority. The franchise has delivered significant improvements for passengers, including the introduction of a Wales-wide standard pattern timetable and additional capacity. These achievements have been set out in Arriva Trains Wales’s submission to the Committee.

³ ATOC, *Growth and prosperity – how franchising helped transform the railway into a British success story*, July 2013, p.17-20

⁴ *Ibid*, p.10-15

9. The train operator has worked closely with the Welsh Government, local authorities, community rail partnerships and passengers to identify opportunities to improve services and integrate with other operators on the network. Any franchise needs to be flexible to meet changing travel patterns and stakeholder requirements.

Involving passengers, communities and local government / Regional Transport Consortia

10. We consider the design of the consultation process leading up to franchise award to be critical. A wide consultation process that includes passengers, local communities, businesses, local government and other interested parties assists in identifying current and future priorities which can determine what outcomes are required from a franchise.
11. The railway benefits from simple, clear interfaces with government. While we support local engagement and dialogue, there are funding implications and strategic issues that are best addressed at a national level.
12. Bidders should be encouraged to propose how their community and stakeholder engagement will be managed during the life of the franchise – recognising that there is both good business sense in engagement and the opportunity to innovate. Ultimately Government holds the contractual responsibility on behalf of taxpayers and passengers.

Management model

13. Government should set out what it wants the railway to deliver for Wales. The achievements and benefits of the franchising model have delivered affordable and efficient outcomes for passengers and taxpayers in Wales. Given this success, we consider that future procurement of services should recognise this, and secure the best value through a competitive process. This should identify areas of difference such as risk management, financial standing and confidence in deliverability, and allow for a robust and thorough assessment of the options open to government.
14. Provided that the assessment criteria are transparent and available to potential bidders before any competition commences, there is no reason why alternative organisational models could not compete against more conventional franchise bids. Alternative models should demonstrate equally compelling evidence in their ability to drive value for money for the tax payer, deliver high quality sustainable services and outcomes when compared to existing, successful models. Rival bids can be compared to see which provides the maximum value for passengers and taxpayers during the franchise term.

Improving the passenger experience

15. The specification should focus on outcomes for passengers. It must reflect passengers' priorities in terms of service quality, information provision and performance – and should contain appropriate targets that measure delivery. These should be simple, clear and easy to measure, as well as adaptable to changing ways of meeting the requirements through new technology. We strongly support a clear articulation of service provision, expressed in such a way that it is clear to bidders and to government what is required and framed in such a way that the Wales and Borders franchise can deliver its commitments as well as interact with other operators of passenger and freight services on the network.
16. Franchise duration is a matter for government to determine. It should provide sufficient opportunities for the franchisee to invest and to partner with government and stakeholders – as well as stability for staff and passengers, but there is no such thing as a standard industry optimal length as each franchise is different. Any franchise should be designed to encourage innovation and provide all concerned with a stake in delivering the results required,

Routes

17. There are many factors to consider when determining any changes to routes in a franchise, including the provision of drivers, guards and rolling stock, location of depots and maintenance requirements. Cross-border services to England are operated by three train companies and the South Wales and North Wales main lines are integrated into much larger networks. Any changes should be designed to improve the overall efficiency and accountability of the railway.

Rolling stock

18. Passenger growth and electrification, as well as the normal process of fleet refurbishment and renewal, means it is likely that more trains will be needed in Wales over the life of the new franchise. The best approach is to ensure that rolling stock policy is flexible, managed by the franchisee, and takes into account the best value for the operator and taxpayer. ATOC has worked with the rolling stock companies and Network Rail to develop a long-term rolling stock strategy that takes into account likely needs across the network, including Wales. This is regularly updated.

Infrastructure

19. The whole industry developed its Strategic Business Plan for 2014-2019 (published in January 2013), which identifies the immediate and medium-term priorities for the country. It is now developing a long-term planning process to look at requirements to 2043, working with stakeholders including the Welsh Government. New services have been successful across Wales and Great Britain, and it is likely that increasing demand for travel will result in the need for additional capacity on existing routes. The industry works closely with government to develop proposals that meet strategic needs and support wider objectives.

Working with Network Rail

20. There are many opportunities for partnership working between train operators and Network Rail, and our members are working to develop them. These can range from the Deep Alliance model, currently used by NR and South West Trains, through to specific partnerships. We believe that one of the key ways of securing the best from the next franchise is to allow bidders to work with Network Rail to propose options for enhanced relationships, which will both allow distinctive bids and ensure that industry objectives and incentives are aligned.

Y Pwyllgor Menter a Busnes

Lleoliad: Ystafell Bwyllgora 3 – y Senedd

Dyddiad: Dydd Mercher, 25 Medi 2013

Amser: 10:30 – 12:02

Gellir gwyllo'r cyfarfod ar Senedd TV yn:

http://www.senedd.tv/archiveplayer.jsf?v=cy_400000_25_09_2013&t=0&l=cy

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



Cofnodion Cryno:

Aelodau'r Cynulliad:

Nick Ramsay (Cadeirydd)
Mick Antoniw
Byron Davies
Keith Davies
Rhun ap Iorwerth
Alun Ffred Jones
Eluned Parrott
Jenny Rathbone
Joyce Watson

Tystion:

Dave Gilbert, Cyngor Sir Gaerfyrddin
Edwina Hart, Gweinidog yr Economi, Gwyddoniaeth a
Thrafnidiaeth, Minister for Business, Enterprise,
Technology and Science
Dr Elizabeth Haywood, Grŵp Gorchwyl a Gorffen ar y
Dinas-ranbarthau
Yr Athro Kevin Morgan

Staff y Pwyllgor:

Siân Phipps (Clerc)
Olga Lewis (Dirprwy Glerc)
Ben Stokes (Ymchwilydd)

1 Cyflwyniad, ymddiheuriadau a dirprwyon

1.1 Cafwyd ymddiheuriadau gan David Rees AC a Julie James AC. Dirprwyodd Jenny Rathbone AC ar ran Julie James AC.

1.2 Mae Rhun ap Iorwerth AC wedi'i ethol yn Aelod o'r Pwyllgor yn lle Dafydd Elis-Thomas AC, a safodd i lawr. Diolchodd y Cadeirydd i Dafydd Elis-Thomas AC am ei gyfraniad i'r Pwyllgor a chroesawodd Rhun ap Iorwerth AC i'r Pwyllgor.

2 Craffu ar waith Gweinidog yr Economi, Gwyddoniaeth a Thrafnidiaeth

2.1 Cymerodd y Pwyllgor dystiolaeth gan Weinidog yr Economi, Gwyddoniaeth a Thrafnidiaeth, Edwina Hart AC, Dr Elizabeth Haywood, cyn-gadeirydd y grŵp Gorchwyl a Gorffen Rhanbarthau Dinas, yr Athro Kevin Morgan, Athro Llywodraethu a Datblygu yn yr Ysgol Cynllunio Dinesig a Rhanbarthol ym Mhrifysgol Caerdydd, a Dave Gilbert, Cyfarwyddwr a Dirprwy Brif Weithredwr Cyngor Sir Caerfyrddin.

Camau i'w Cymryd:

Cytunodd y Gweinidog i ofyn am eglurhad gan y Gweinidog Cyllid ynghylch a yw Llywodraeth Cymru wedi cael symiau canlyniadol Barnett o ganlyniad i Bolisi 'City Deals' Llywodraeth y DU.

3 Papurau i'w nodi

3.1 Nododd y Pwyllgor y dogfennau ategol canlynol:

EBC(4)-35-13 (p2) – Memorandwm Cydsyniad Deddfwriaethol ar gyfer y Bil Eiddo Deallus