



Research Briefing Rail Franchising in Wales

Author: **Joseph Champion**
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Contact Us

Research Service
National Assembly for Wales
Tŷ Hywel
Cardiff Bay
Cardiff
CF99 1NA

 : 0300 200 7390

 : Joseph.Champion@Assembly.Wales

 : Assembly.Wales/InBrief

 : [@SeneddResearch](https://twitter.com/SeneddResearch)

 : Assembly.Wales/Research

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Research Briefing

Rail Franchising in Wales

From 2017 the Welsh Government will have the power to specify the terms and conditions of the Welsh rail franchise. It will also be responsible for procuring the next operator for the franchise when the current franchise expires in 2018.

This overview covers the history of franchising arrangements in Wales, what the current arrangements are and what changes are planned. It reviews what actions have been taken so far to prepare for the franchise procurement process. It also looks at what issues are still to be resolved in advance of awarding the next franchise.

These include:

- the specific terms and conditions of the next franchise specification;
 - the extent of the next franchise, since English services currently in the franchise will be reviewed and may be removed from the Welsh rail franchise;
 - the quality of the rolling stock in Wales, including the fact that there are accessibility rules that come into force in 2020 which the vast majority of rolling stock in Wales would currently contravene; and
 - the development of 'Transport for Wales'.
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1. Background to Rail Franchising in Wales

The provision of passenger rail services in the Britain was privatised following the passage of the **Railways Act 1993**. Passenger services were divided into a number of franchises and awarded to private **Train Operating Companies** (TOCs).

There are four franchises, operated by different TOCs, which have routes in Wales:

- the Wales and Borders franchise operated by **Arriva Trains Wales**;
- services from south Wales to London and the south coast of England operated by **Great Western Railway**;
- services from Holyhead to Birmingham or London operated by **Virgin Trains**; and
- services from Cardiff to the English Midlands operated by **CrossCountry Trains**.

Franchise arrangements have changed several times since the *Railway Act 1993*. Franchises were initially awarded under the direction of the Secretary of State for Transport by the Office of Passenger Rail Franchising, with the **Strategic Rail Authority** taking responsibility from 2001. Currently franchises in England and Wales are awarded by the **Department for Transport (DfT)**.

The most recent change to the system came with the **Railways Act 2005** which abolished the Strategic Rail Authority from 2006 and transferred its powers, in relation to Welsh and English franchises, to the DfT.

The Act also set out the role of the Welsh Government in rail franchising, establishing the principle that the Welsh Government must be a joint party or co-signatory to the franchise agreement for any franchise with a **Wales-only service** (a service which is entirely based within Wales). The Secretary of State for Transport must also consult the Welsh Government when awarding any franchise which includes a Welsh service (a service which begins, ends or makes at least one scheduled call in Wales). The Act also gave the Welsh Government the power to provide financial support to operators to develop Welsh services.

Now the responsibility for specification and procurement of the next Wales rail franchise is due to be transferred to the Welsh Government from 2017.

The **latest Office for Rail and Road statistical release** (PDF 1.7MB) highlighted that there were **29.3 million passenger journeys to, from or within Wales**, across all franchises in 2014-2015. This is 9.4 million more journeys than in 2004-5. Rail use in Wales is projected to increase in the coming years. Network Rail, in its **Welsh Route Study**, predicts that rail travel from Wales to destinations in England is projected to increase by 27-34% by 2023. The study also predicts a 68% increase in commuter traffic into the Cardiff City Region by 2023.

2. The Current Wales and Borders Rail Franchise

At present the majority of rail services in Wales are provided under **the Wales and Borders franchise** (PDF 316KB) operated by Arriva Trains Wales (ATW). The contract was awarded in 2003 and is expected to end in 2018. A **franchise agreement** sets out the obligations of both ATW and the UK Government as franchising authority. The diesel rolling stock used in the franchise is leased from two rolling stock companies (Angel Trains and Porterbrook), and ATW is also responsible for managing 244 stations and two maintenance depots leased from Network Rail.

The Welsh Government and the Secretary of State for Transport entered into a Joint Parties' Agreement (JPA) with effect from 1 April 2006. The JPA set out the division of responsibility for the management of the Wales and Borders franchise between the two Governments.

Broadly speaking the Welsh Government was given the responsibility for:

- management of the franchise, including day to day relationships, communication and performance management;
- making payments, and receiving any funds, relating to Wales-only services and Welsh services; and
- regulating certain “regulated fares” on Wales-only and Welsh services.

The DfT retained the power to set specifications for, and to award, franchises in Wales. When the Welsh Government became responsible for the management of the current franchise, additional funds were provided by the UK Government through the Welsh Block Grant.

The franchise agreement required ATW to invest £400,000 over the 15-year period. Prof Stuart Cole, in **evidence to the Fourth Assembly's Enterprise and Business Committee**, suggested that the reason ATW were required to invest such a relatively small amount in the franchise was because:

‘in 2003 when the franchise was let to Arriva Group it had a low level specification with no allowance for growth in passenger numbers [and] no extra train capacity.’

Despite this limited obligation, **ATW has said that it has invested £30m in the franchise**. In relation to its management of the Wales and Borders franchise, the previous Welsh Government has said that it **spends around £170 million** per year. This includes funding additional rail services over and above those in the original franchise agreement, such as **extra services to Fishguard** and **between Cardiff and Holyhead**.

Arriva Trains Wales' total income from the Wales and Borders franchise, in 2014-15, was £258m. Of the £258m, £119m was passenger income, £93m was franchise receipts from Government and £46m was classed as 'other' income.

3. Procuring the Next Welsh Rail Franchise Operator

From early 2017, the Welsh Government will become a franchising authority with responsibility for awarding the next Welsh rail franchise, due to start in October 2018. This transfer of responsibilities was **announced by the Prime Minister** in November 2014, along with agreement on funding for rail electrification in Wales. In evidence to the Fourth Assembly's **Enterprise and Business Committee on September 2015**, DfT officials set out the financial settlement which accompanied the agreement. These were that:

- there will be no increase to the Welsh Block Grant;
- the Welsh Government would be no better or worse off as a result of any reorganisation of the franchise map to move English services to other franchises (see below);
- “reasonable protection” would be provided against reviews of track and station access charges;
- the DfT will fully fund Great Western electrification, including the section between Cardiff and Bridgend; and
- the DfT will contribute £125m towards the cost of the Cardiff Valley Lines electrification.

However at the same meeting it also became apparent that the process of defining what constitutes an English service is currently unclear. Also unclear was the mechanism for compensating the Welsh Government for any losses arising from remapping the franchise. DfT said that it is hoping to reach a suitable funding agreement by mid-2016.

While there will be no increase in the Welsh Block Grant, at a meeting of the previous Enterprise and Business **committee in February 2016**, a Welsh Government official noted that electrification would bring the overall costs of running the franchise down.

At that meeting the official also said that the Welsh Government ‘wants to go out to procurement for an integrated Wales and borders franchise...in the summer of this year’, in order for it to be awarded in 2017. There is the potential to extend the current franchise for a short period, if the Welsh Government needs additional time to find the next rail operator.

The previous Welsh Government considered whether, as part of **the South Wales Metro**, rail services on the Valley Lines can be managed as a concession by a private company within the rail franchise. It also discussed an approach, whereby the Valleys Lines infrastructure improvements could be specified, and the lines themselves operated, by a concessionaire.

The Metro is the previous Welsh Government’s project to ‘provide faster, more frequent and joined-up [transport] services using trains, buses and light rail.’ Phase 1 of the Metro included a range of road and rail improvements, including: extending the rail line to Ebbw Vale town centre and building a new station; enhancing capacity on the Maesteg rail line; and a new rail station at Pye Corner, Newport.

Phase 1 cost approximately £75 million and, as of 2016, its constituent projects are already complete or in progress. Phase 2 is scheduled for completion by 2023 and is estimated to cost about £500-600 million. Phase 2 includes electrification of the Valleys Lines.

4. Future Direction of the Welsh Rail Franchise

While preparations for procurement of the next franchise are underway, there are still a number of decisions to be taken.

As franchising authority the Welsh Government has to decide on the service expectations and specifications that a potential franchisee will need to meet in order to win the contract. To help them do this, the previous Welsh Government ran a consultation entitled **Setting the Direction for Wales and the Borders Rail**, which closed in early spring 2016.

Franchise length

The length of the next franchise is not yet clear. The Fourth Assembly's Enterprise and Business Committee published its **Future of the Wales and Borders Rail Franchise** report in December 2013, which found that there are mixed views on the right duration for a franchise. It noted that a **UK Government Review**, questioned the benefit of long franchises in incentivising investment and reducing risk. The UK Government Review cautioned against franchises of more than 15 years without break clauses.

However, most respondents to the Enterprise and Business Committee consultation thought that longer franchises would encourage greater investment. The then Minister for Economy, Science and Transport, Edwina Hart, said she 'would favour going for more of a long-term relationship'.

The franchise map

The extent of the next Welsh rail franchise is also unclear at present. The **St David's Day Command Paper** notes:

'In order for the Secretary of State for Transport to ensure proper accountability, it is likely that services primarily serving English markets will be placed into other franchises for which the Secretary of State for Transport is the franchising authority.'

This has caused concern in some quarters primarily because of the potential impact on passengers if direct services are lost. Also, ATW told the Fourth Assembly's Enterprise and Business Committee that some of the English services in the franchise were the most financially sustainable, potentially increasing the requirement for public subsidy if profitable routes are removed from the franchise. However, as discussed above the DfT has said that the Welsh Government would be no worse off as a result of franchise remapping.

Rolling Stock

The rolling stock used in the current franchise is widely considered to be poor, so significant investment is likely to be required. The poor quality of stock has a detrimental effect on passenger experiences. Also, by 1 January 2020 rolling stock in the UK will need to comply with new rules on disability access. As of 2013, 73% of the Wales and Border rolling stock would not reach the required standard.

There are several options to secure better rolling stock, including purchasing new or refurbished stock, upgrading current stock, or leasing stock from private companies. The previous Welsh Government told the Enterprise and Business Committee on 24 February 2016 that it wanted the bidding process for the next franchise to set out a rolling stock strategy.

However, it can take some time to secure rolling stock. For example, **the Porterbrook Leasing Company provided evidence** (PDF 635KB) to the previous Enterprise and Business Committee suggesting that if new rolling stock is required the process should start four years before it is needed. Quick decisions are likely to be required to ensure adequate rolling stock is available.

Transport for Wales

The previous Welsh Government created a not-for-dividend company called Transport for Wales. Not much has been published about Transport for Wales to date. At a committee meeting of the previous Enterprise and Business, the previous Minister for Economy, Science and Transport said it is expected that the company will 'act like **Transport for London**'.

It will be the over-arching strategic body for transport which offers concessions to companies wishing to deliver transport services and infrastructure, including rail, in Wales. As such it is expected to lead on the procurement of the next Welsh rail franchise, the South Wales Metro and the Valley Lines concession.

5. Key Sources

- Network Rail, **Wales Route Study** (2016)
- Welsh Government, **Setting the Direction for Wales and the Borders Rail** (2016)
- UK Government, **Powers for a Purpose: Towards a Lasting Devolution Settlement for Wales** (2015)
- Fourth Assembly Enterprise and Business Committee, **Future of the Wales and Borders Rail Franchise** (2013)