

Cardiff Business Partnership

Response to ORR Consultation August 2011



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The ORR is undertaking a consultation as part of its period review of the rail industry. The Cardiff Business Partnership wishes to offer its views as part of this process.

The Cardiff Business Partnership consists of leading employers in the Capital of Wales. Its mission is to represent leading businesses in the Capital, ensuring that the views of business and enterprise are at the heart of the development of Cardiff as a competitive global location. The Partnership aims to identify key issues facing the capital's economy. Through its members who represent some of the city's largest employers, the Partnership has the unique ability to go beyond advocacy to action.

The Partnership also serves as a resource of expertise and creative thinking for policy makers, media and others concerned with taking forward the Cardiff and Wales economy. The Partnership seeks to influence policy by presenting the views of leading businesses, sponsoring research, and bringing together experts and leaders in city development issues. Its members include:

- Admiral Insurance
- Boomerang
- Freshwater
- GrantThornton
- Hugh James Solicitors
- Legal & General
- Media Wales
- PriceWaterhouseCoopers
- Principality Building Society
- S A Brain & Co.
- Tata
- Tesco.

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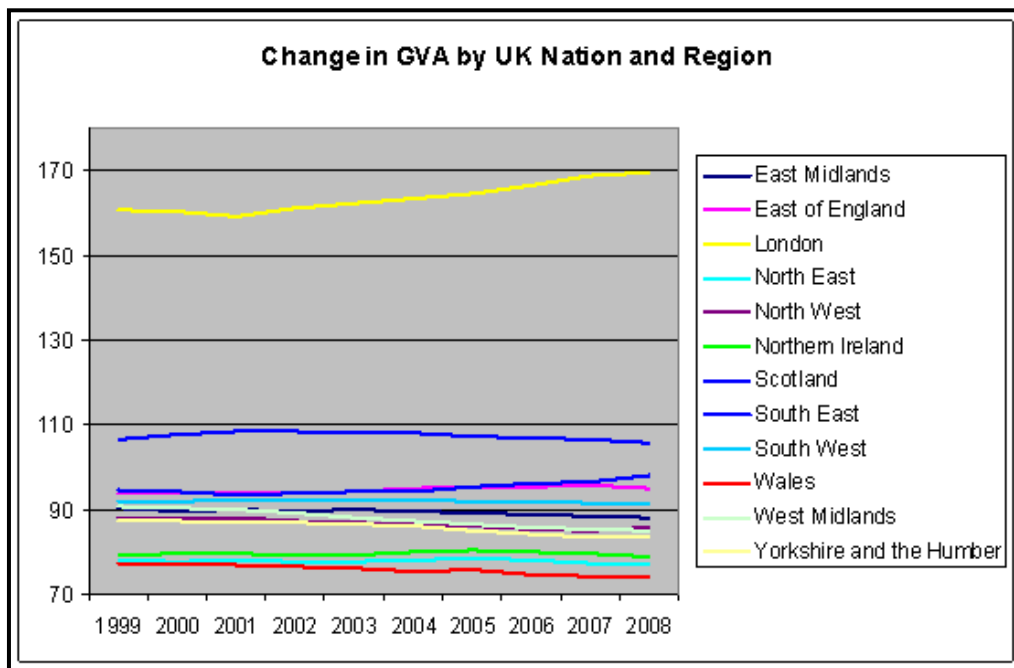
Cardiff Business Partnership Response

The Cardiff Business Partnership would like to make the following comments in respect of the ORR consultation.

Economic Context for Cardiff City Region and Wales

Wales' economic performance, over many years, has fallen behind every other country and region of the UK so that today it has:

- Lowest GVA/Capita – esp. Central Valleys which in 2008 was 58.4% of the UK average¹
- Lowest level of value generating business activities (R&D, exporting, corporate HQ)²
- Lowest levels of M&A activity (VC investment, listed companies, start-ups)³



The position for the Cardiff City Region as a whole (GVA/head 81.45% of the UK average in 2008) reflects a long-term decline in the region since the demise of the coal industry. This is in marked contrast to the City of Cardiff itself, which has GVA/head above the UK average (108% of UK average in 2008).

From a business perspective transport connectivity is crucial – especially inter and intra regional transport. For example, a leading member of the Cardiff Business Partnership, Admiral Insurance's (one of Wales' leading companies with over 3000 staff and a >£4Bn Mkt Cap) recent statements as regards public transport provide a stark warning:

- Admiral would not locate in Cardiff today with >2hr travel time to London
- Improved connectivity to Heathrow maybe needed to maintain a Cardiff HQ in the long term
- The provision of an effective Cardiff City Region public transit system is essential for the long-term success of its business.

These statements underline the need to invest in transport connectivity to help address Wales' economic problems.

¹ ONS 2009, "Regional, sub regional and local GVA", WG Regional Economic & Labour Market Profile – SE Wales June 2011

² UWIC 2010, "UK Competitiveness Index, UWIC 2010", Huggins & Piers Thompson

³ British Private Equity and Venture Capital Association 2008, "Private Equity and Venture Capital Report on Investment Activity"

Government Policy

Both UK and Welsh Government policy has repeatedly highlighted the importance of transport in addressing the economic challenges faced by Wales and in particular Cardiff and the South Wales Valleys, for example:

➤ **The DfT have stated in its HS2 Consultation Documentation**

“For Britain and its major cities to compete effectively in the 21st century, it is vital that the right infrastructure is in place. Infrastructure helps promote competitiveness – by boosting productivity, reducing costs and increasing efficiency, and expanding business and labour markets.”

➤ **Similarly, the Welsh Spatial plan makes these comments in relation to the Capital(Cardiff) City Region**

“The area will function as a single networked city-region on a scale to realise its international potential, its national role and to reduce inequalities. A fully integrated transport system is necessary to enable this to happen.

➤ **Welsh Government, 2010, “Economic Renewal Strategy”:**

One of the five priorities identified was, “Investing in high quality sustainable infrastructure. Wales needs modern, sustainable infrastructure to underpin economic growth and the wellbeing of our people. Our people, businesses and communities need to be well-connected within and beyond Wales and have access to the right facilities and services where they live and work.”

➤ **The Wales Spatial Plan Update, 2008, made its intent clear as regards transport in the Cardiff City Region**

“South East Wales is Wales’ most populous area. It is characterised by major economic and social disparities. The coastal zone is now the main economic driver, and its competitiveness needs to be sustained to help raise the economic potential of Wales as a nation. The heavy commuting flows between the Valleys and the coast mean that the area functions as an interdependent but unplanned urban network. This gives rise to pressure on the transport infrastructure.”

“To strengthen and reintegrate the existing system of towns and cities within South East Wales so that the area functions as a coherent urban network, and can compete internationally. Integrated transport is crucial to this.”

“The area will function as a single networked city-region on a scale to realise its international potential, its national role and to reduce inequalities. A fully integrated transport system is necessary to enable this to happen. The area will operate in a way that maintains and enhances the facility of international gateways and corridors.”

“A fully integrated high quality transport system is necessary.... Over the 20 year horizon of the Wales Spatial Plan, all the area’s key settlements should be linked to Cardiff or Newport by suitable high capacity public transport”⁴

➤ **The Wales National Transport Plan (NTP) identified the importance of rail for South East Wales, as well as some of the barriers to delivering an enhanced rail network.**

“Continued passenger growth on the rail network in south Wales and on the Valleys Lines is predicted, and the pinch-points on the network need to be addressed to provide sustainable travel options and create opportunities for economic growth and social inclusion.”

⁴ Welsh Government, 2008, “Wales Spatial Plan
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➤ **DfT HSR Consultation Document 2011, “High Speed Rail, Investing in Britain’s future”**

The Government is committed to building a competitive and dynamic economy for the long term. But a 21st century economy needs 21st century infrastructure. That is why we are prioritising the projects that will support economic growth and job creation, while delivering on our climate change targets.

The Government is committed to providing a strong basis for long-term and sustainable economic growth by creating the right environment for private enterprise to flourish and by re-balancing our economy.

For Britain and its major cities to compete effectively in the 21st century, it is vital that the right infrastructure is in place. Infrastructure helps promote competitiveness – by boosting productivity, reducing costs and increasing efficiency, and expanding business and labour markets.

➤ **Network Rail, 2009, “Prioritising investment to Support our Economy”:**

Network Rail argued that wider economic issues and benefits need to be included when making decisions on investment in rail and transport infrastructure. The report contends that a new approach to investment decisions must, “Capture how investments can change the size, location and type of economic activity; Consider how an investment attracts unemployed people into the workforce; Provide a level playing field for closely related sectors in the pursuit of economic objectives, so that transport, regeneration and housing can be compared against each other and combined to maximise economic returns.

Rail Industry in Wales

Given the obvious importance afforded to rail and transport to economic development by government it is surprising that some of the following issues still impede Welsh rail ambitions and restrict the rail industry in Wales. These should be matter of concern for the ORR.

➤ **No economic targets for the rail industry to deliver**

The vast majority of performance criteria set down for NR and the TOCs are directly related to the operation of rail services (Punctuality, capacity, safety etc.). There is no overt link to wider economic performance.

Where, over the longer periods, these operational targets have been delivered and capacity becomes constrained, this has justified further investment in transport infrastructure. It could be argued, that some parts of the network have reached a tipping point in investment where a natural feedback loop has been established: more demand creates a need for more capacity and so more investment creating more demand etc. This is especially true of the SE of England and perhaps the WCML which now needs to be augmented by HS2 after the success of its £9Bn upgrade over the last ten years. However, there are areas of the UK with very serious economic problems that have not received a proportionate share of UK rail investment and so have not reached this “tipping point”. This is certainly true of Wales.

➤ **Rail infrastructure non-devolved**

Welsh rail infrastructure remains the responsibility of the UK government via the DfT. The WG can sponsor its own rail schemes but has to secure funds required out of its block grant so reducing resources available to fully devolved matters (health, education, etc)

There also seem to be a de-facto view that Wales should receive a proportion of UK rail funding relative to number of passenger miles (so <2.5% of UK total). This needs to be challenged and reassessed in relation to the overall funding of the devolved administrations. A Barnett based apportionment would be a more equitable method and one that applies to all

other devolved functions. There is no justification to make rail a special case in terms of apportionment of UK government. So funding for rail in Wales should be brought in lines with current UK Government policy that still supports the application of the Barnett formula for funding the devolved administrations.

- Franchise is devolved - Current franchise established on 2003 on a no growth basis

There is widespread acknowledgment that the original 2003 ATW franchise was not fit for purpose. Its “devolution” to the WG in 2006 pretty much constrained any major enhancements to Welsh rail services for 12 years.

- Confused governance for rail in Wales

Whilst the franchise management is devolved to and overseen by WG, the infrastructure is still the responsibility of the DfT. Locally the roles of the Local Authorities, regional transport consortia and the WG are not clear and lack strategic leadership and direction. Whereas, in England the major PTAs make the case for large schemes across England (Northern Hub, Metro extensions, etc) there is no equivalent function within Wales to advocate strategic rail schemes. So, whilst the DfT are responsible for rail infrastructure in Wales they have been far more able to deal with and progress projects that have been advocated by the major PTAs in England with very limited engagement in terms of strategic schemes within Wales. This situation has severely restricted the development and implementation of a long term and strategic vision for rail in Wales and needs to be addressed as a matter of urgency.

Comments and Recommendations

- Rail/transport are key drivers of economic performance and competitiveness - this fact should be acknowledged and used far more proactively in project appraisals. Specifically, rail investment and performance targets should be tied to delivering improved economic performance. The ORR should explore the establishment of performance targets for the rail industry that are more closely aligned to economic targets and objectives – at a UK level, England/Wales/Scotland level and at regional level.
- Furthermore, there is a need for the transport vision and policies for the Cardiff City Region to be integrated with the economic objectives and aspirations for the region.
- The Cardiff Business Partnership has set out its vision for public transport for the Cardiff City Region in its publication, written by Mark Barry, “A Metro for Wales’ Capital City Region – Connecting Cardiff, Newport and The Valleys.
- The delivery of a strategic transport infrastructure for the Cardiff City Region requires a new approach in terms of governance, funding and delivery. The CBP endorses the consideration of the establishment of a Passenger Transport Authority for the Cardiff City Region with the statutory powers and finance to develop, direct and deliver major transport schemes.
- In due course, the relationship between the DfT and WG in respect of the powers and funding of rail schemes needs to be explored. Ultimately, the CBP wishes to see full control of rail infrastructure devolved to Wales, as is the case in Scotland. As a minimum and in advance of the establishment of the necessary bodies with appropriate skills and expertise, CBP believes Wales as a whole should receive UK Government rail funding proportionate to its population or on the same basis as other devolved functions and that this should be reflected in the DfTs HLOS for CP5 (2014-2019). There also needs to be a recognition that a long period of relative underfunding by the UK government on Welsh rail should be addressed.