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Llywodraeth Cymru
Welsh Government

William Graham AM
Chair
Enterprise and Business Committee

12 November 2015

Dear William

Thank you for your letter of 30 September regarding the funding of rail services in Wales. There is a significant amount of work currently being undertaken in this area as we work towards the transfer of rail functions.

I have attached information relating to funding for the current and next rail franchise in Wales. It is not possible to provide you with figures through to 2018-19 as these are dependent on various factors such as retail price index, average weekly earnings and Arriva Trains Wales' performance, which is subject to a bonus and penalty regime.

Edwina Hart

FUNDING FOR THE CURRENT WALES AND BORDERS RAIL FRANCHISE

- 1. Details of the total annual payments made by the Welsh Government to Arriva Trains Wales for each year from 2006-07 until the end of the franchise in October 2018 (including forecast payments).**

From the periods 2006-07 to 2014-15, we have made total payments of £1.5 billion to Arriva Trains Wales (ATW).

- 2. Details of the element of each annual payment which is provided by the Department for Transport to meet its liabilities for services entirely in England.**

Payments for England only services are made directly to ATW by the Department for Transport (DfT).

- 3. Details of the element of each annual payment which is met by the Welsh Government.**

See point 1 above.

For those payments which are the responsibility of the Welsh Government (bullet point 3 above), we would be grateful if you could also break these down into the following items for each year:

- 4. The element met from the original transfer into the Block Grant which is not index linked.**

In 2006-07, the UK Government transferred circa £141million to the Welsh Government. In 2007-08, the transfer was circa £142.5 million. After this date, this funding was transferred to the Welsh Block and so it is not possible to provide any further detailed information in relation to rail specific funding.

- 5. The element which represents an additional cost to the Welsh Government in meeting its contractual obligations and which results from the failure to index the Block Grant transfer.**

It is not possible to provide accurate figures for the “additional costs” to the Welsh Government resulting from specific elements of the funding arrangements, such as indexation, due to the nature of the transfer agreement and the structure of overall rail funding. The agreement did not fully transfer responsibility for the franchise to the Welsh Government, with the UK Government retaining ‘reserved rights’ with significant financial risk implications.

The 2006 resource transfer followed UK Government protocols for inter-Departmental transfers. The actual costs of the transferring responsibilities were agreed between all relevant parties (the ORR, Network Rail, ATW, the two Governments and HM Treasury) at the point of transfer. In line with those protocols, after two years of transfers through the annual Supply Estimates process, the flat cash amount of the second year costs was transferred from the Department for Transport baseline budget to the Welsh Block. The Welsh Block has since increased or decreased reflecting the on-going budget settlements across comparable UK Departments, including the Department for Transport, as per the operation of the Barnett Formula.

6. The element of the payments which are in addition to franchise contractual obligations (i.e. additional investment to meet Welsh Government priorities).

Additional services provided to meet Welsh Government priorities above those provided in the original franchise from 2006-07 to 2014-15 has been £153.6 million.

FUNDING FOR THE NEXT WELSH RAIL FRANCHISE

7. How this settlement will support the investment necessary to improve the next franchise, given wider pressure on Welsh Government budgets.

The business case for the service option provisions for the next franchise is being developed alongside the consultation with the public and alterations to the franchise to meet the aspirations of the Metro integrated transport principles. It is expected that any future franchise, if powers were transferred, would provide the Welsh Government with overall better value for money.

8. The implications of the remapping exercise referred to in the St David's Day Command Paper for the next franchise, particularly any financial implications and its impact on passengers.

If any remapping does occur, it has been agreed that the Welsh Ministers would be in a no better or no worse financial position as a result. The financial impact and any other consequences, particularly for passengers, of any services being taken into or out of the franchise will be assessed and will be subject to consultation.