

Ken Skates AC/AM  
Ysgrifennydd y Cabinet dros yr Economi a Thrafnidiaeth  
Cabinet Secretary for Economy and Transport



Llywodraeth Cymru  
Welsh Government

Eich cyf/Your ref  
Ein cyf/Our ref

Russell George AM  
Chair  
Economy, Infrastructure and Skills Committee

1 June 2018

Dear Russell

I undertook to update you following the completion of discussions with the Secretary of State for Transport on the issue outstanding relating to the franchise financial arrangements.

I am pleased to be able to tell you that the Secretary of State and I have reached an agreement following positive and detailed discussions since September 2017. Our agreement protects both governments' budgetary position in a fair and equitable way, correctly attributes liabilities, and most importantly benefits passengers in Wales and England. Reflecting the cross-border nature of some of our rail services, the agreement also includes a provision from the Department for Transport for England only services.

Dealing specifically with the access charge adjustment issue, the Secretary of State for Transport retains the regulatory risk and opportunity for future changes to access charge payments to Network Rail resulting from regulatory reviews, which means the Wales and Borders rail services contract will be treated in the same way as any other franchise and there will be no negative impact on fares or service levels.

For absolute clarity, following detailed examination of the access charge adjustment issue, our agreement will bring to an end the existing access charge adjustment payment between Arriva Trains Wales and the Department for Transport. In 2017/18 this adjustment payment was £69.85 million, and was forecast to grow with inflation. Members will recall that last year this was reported to lead to a requirement for payments from the Welsh Government to the UK Government totalling over £1 billion over the course of the next 15 year Wales & Borders rail services contract.

With the end to this adjustment payment we have agreed to a new arrangement, similar to the arrangement in place between franchise operators in England and the Department for Transport, which also takes account of the way the Welsh Government is funded.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Through this agreement, future adjustment payments between the Welsh Government and Department for Transport, or between the Department for Transport and the Welsh Government, will be determined by comparing actual access charges paid to Network Rail to the payments assumed in our rail services contract. If the actual access charges match this assumption there will be no need for an adjustment. Due to the complex nature of the way the Welsh Government is funded for rail services provision, there will be a transition period to account for the HM Treasury's Comprehensive Spending Review (2017-2020) assumption that the adjustment payments would continue at the forecast levels. To address this assumption, the Welsh Government will make two payments to the Department for Transport totalling £24.8 million in 2018/19 and £71.8 million in 2019/20. The agreement is also structured to allow us to revisit the hold harmless arrangements should changes be made to the overall structure of access charges, franchisee payments, Control Periods or the structure of the wider GB rail industry.

In terms of funding the South Wales Metro, the Secretary of State for Transport has reconfirmed his commitment to pay £125m (2014 prices) towards the cost, which we will draw down in line with expenditure. The agreement also includes a mechanism for calculating the adjustment following the transfer of the Valley Lines railway infrastructure.

A copy of the agreement is being prepared for publication and I will ensure you are provided with a copy.



**Ken Skates AC/AM**

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