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Wales Fiscal
Analysis

Railway Infrastructure in Wales

Written evidence submission to the Welsh Affairs Committee

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Introduction

This written evidence submission to the Welsh Affairs Select Committee's *Railway Infrastructure in Wales* inquiry reflects analysis undertaken by the Wales Fiscal Analysis team at Cardiff University's Wales Governance Centre. Our submission deals sequentially with several of the questions raised in the committee's call for evidence, however, given our expertise, we place particular emphasis on issues of devolution and funding rather than on the delivery of services.

Our main findings are:

- For Wales, there is a strong financial case for the full devolution of rail infrastructure, along the lines of the Scottish model.
- Analysis of Network Rail enhancement spending between 2011-12 and 2019-20 indicates that Wales would have benefitted from an additional £514 million of spending under a devolved system over this period.
- While the Barnett formula provided some funding as a result of HS2 spending during the previous spending review period, Wales' recently reduced 'comparability factor' in HM Treasury's latest *Statement of Funding Policy* will decrease consequentials from Department for Transport spending (for both devolved and reserved programmes) over the remaining lifespan of the HS2 project. The inclusion of Network Rail spending in Barnett calculations will reduce Wales' future consequentials from any increases to other programmes *actually devolved to Wales*.
- Under a reasonable alternative method of calculating comparability factors, we estimate that the Welsh budget would benefit from £500 million in additional funding between 2021-22 and 2025-26.
- Recent changes to comparability factors will limit the Welsh Government's ability to financially support (otherwise non-devolved) rail infrastructure spending in Wales, which it has previously provided to support the reopening of the Ebbw valley line and the Vale of Glamorgan line, enhancements between Wrexham and Chester, and the replacement and double tracking of the Loughor Bridge.

Where does responsibility lie for rail infrastructure in Wales?

While the devolved settlement over rail has changed immeasurably since the beginning of devolution in 1999, it remains the case that rail infrastructure is not devolved to Wales. Legislative competence for

railway services (in this case including passenger and freight services, and network services covering infrastructure) is reserved by the UK government in the Government of Wales Act 2006 (as amended by the Wales Act 2017), and are further subject to the Railways Act 2005.

However, the relevant reservation contains an exception that permits the Welsh Government to provide financial assistance to railway services, and this flexibility includes rail infrastructure. This competence was originally conferred on the then-Welsh Assembly Government in 2007 pursuant to the Railways Act 2005. The Welsh Government's ability to provide financial assistance for rail infrastructure projects (despite railways not being devolved) therefore predates the guiding reservation in the Government of Wales Act 2006 and Wales Act 2017.

In practice, the Welsh Government's ability to provide additional funding for rail schemes has meant funds have been redirected from budgets intended for devolved policy areas such as health and education. Between 2011-16, the Wales Audit Office calculated that £226m was spent by the Welsh Government on infrastructure enhancements, over and above Network Rail's spending of £1.4 billion, most of which was on maintenance and renewals rather than enhancements. The Welsh Government itself estimates that spent and committed funding for rail infrastructure projects from its own budget will amount to approximately £1 billion between 2001 and 2029.

Looking at the system as a whole, responsibility for the railways partly lies with Welsh Government through the Wales and Borders passenger franchise, and recent devolved responsibility for Core Valley Lines (CVL) infrastructure, including electrification, maintenance, and the management and delivery of the South Wales Metro. Infrastructure outside of the Core Valley Lines remains the responsibility of the UK Government's Department for Transport as managed through Network Rail.

With the devolution of responsibility for the Wales and Borders rail passenger franchise, the Welsh Government also gained functions as the backstop operator in case of franchise failure, known as the Operator of Last Resort. The implications of the Coronavirus pandemic on passenger journeys and revenues prompted the Welsh Government to transfer the franchise to a publicly-owned operator, Transport for Wales Rail Ltd, effective 7 February 2021. With the devolved government's role as the Operator of Last Resort, the misalignment between devolved responsibility for rail operations and more convoluted arrangements for rail infrastructure becomes a more pressing concern, particularly given the direct implications of current arrangements on funding for rail projects in Wales.

Should responsibility for railway infrastructure in Wales be fully devolved?

The operational and delivery case for full devolution has been summarised by other organisations and experts. The benefits of aligning the devolution boundary on rail infrastructure with the equivalent boundary for roads, active travel and public transport would be potentially significant in terms of the ability to pursue an integrated transport policy, and indeed might be sufficient to justify full devolution regardless of funding. This section however focuses on the strong financial case for devolving railway infrastructure to Wales, by focusing on spending patterns across Wales, England, and Scotland, as well as recent changes to the Statement of Funding Policy.

In the case of Scotland, funding for Operations, Maintenance and Renewals (OMR) for each Control Period is determined by the Barnett formula, which is informed by the previous Control Period settlements and a population share of the change in funding in England and Wales between control periods. The settlement for Control Period 6 (CP6) provided 10.8% of the funding in England and Wales, above Scotland's population share of 9.26%.¹ When rail funding was first devolved to Scotland in 2005, funding was based on the Regulatory Asset Base or RAB (the assessed value of the railway network and its infrastructure) in Scotland, which was higher per person than in England and Wales, and subsequent control periods have used this settlement as a baseline.²

Figures from Network Rail's Regulatory Financial Statements for 2018-19 show the Regulatory Asset Base for Wales route to be £3.8 billion in 2018-19, and it averaged 6.1% of the RAB for England from 2014-15 to 2018-19. This is higher than Wales' population share, of 5.6% over this period. We can compare this share with data on spending on **Operations, Maintenance and Renewals** in Wales, which was made available from 2011-12 to 2018-19. Total spending on OMR during this period for Wales averaged 6.2% of the level in England. This suggests that under a devolved funding settlement, on the lines of the Scottish model, funding for Operations, Maintenance and Renewals over this period would have been close to the actual spending in Wales.

Funding for **rail enhancements** (or improvements to the rail network) in Scotland are calculated by the Barnett formula, separate from the Office of Rail and Road regulatory process. **Figure 1** shows the cumulative spending per person on rail enhancements for Wales, Scotland, and England between 2011-12 and 2019-20, the period for which data for Wales is available. For this type of spending, a share of funding based on Wales' RAB and the Barnett formula would have been substantially better for Wales in financial terms. Despite an uptick in enhancement spending over later years linked to Great Western Electrification, cumulative spending per person for Wales over this period was substantially lower than in both England and Scotland.³ Had Wales received a share of rail enhancement spending based on its RAB – in line with the basis for the devolved settlements in Scotland - **spending would have been £514 million higher over this eight-year period (in 2020-21 prices)**. Had rail spending per person in Wales matched that of Scotland over this period, **spending would have been £577 million higher**.⁴

Given the longer-term nature of rail enhancement projects, it could be argued that it would be more appropriate to analyse funding over a longer time horizon than this eight-year period. Although no long-term comprehensive data is available, the Welsh Government's analysis of spending for each control period between 2001 and 2029 found a funding shortfall of at least £2.9 billion when compared with a

¹'Scottish Government CP6 Rail Settlement', Liz Truss MP, HM Treasury, December 8th 2017, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/666047/Cp6_rail_settlement_CST.pdf

²'Network Rail UK/Scotland Funding', HM Treasury Information Rights Unit, January 30th 2019, https://www.whatdotheyknow.com/request/541536/response/1302604/attach/3/Scan.pdf?cookie_passthrough=1

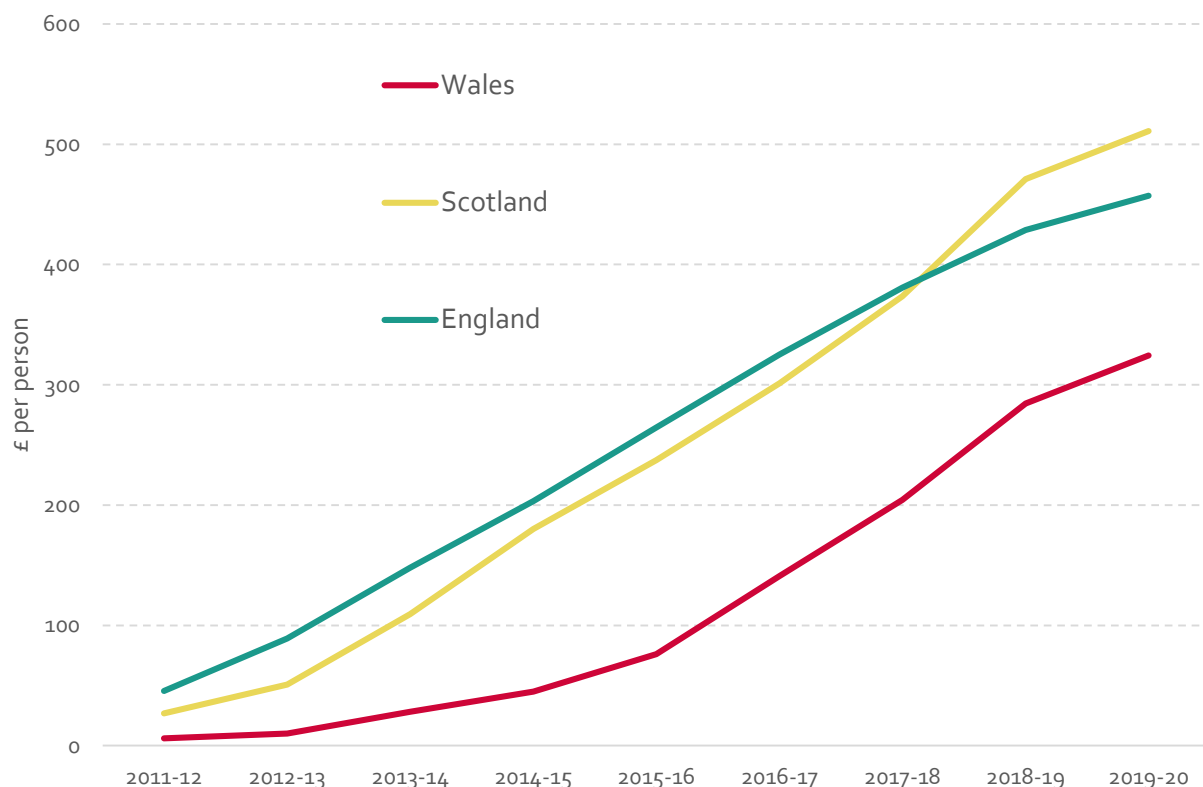
³ The Welsh Government notes that the costs allocated to the Wales route also include all those associated with the electrification of the Severn Tunnel.

⁴ These calculations relate only to Network Rail expenditure, and therefore excludes HS2 spending and funding (discussed below).

population share of England and Wales spending.⁵ From this analysis, the evidence is clear that rail enhancement spending in Wales would have been substantially higher under a fully devolved system.

The financial case for rail infrastructure devolution is also strengthened by recent changes to HM Treasury’s Statement of Funding Policy, which sets out how UK government funding for the Welsh Government is determined. Comparability factors capture the extent to which services delivered by UK government departments correspond to services delivered by devolved governments in Scotland, Wales, and Northern Ireland. These factors determine how much funding is allocated to the Welsh Government through the Barnett formula following a change in a UK government department’s spending at a spending review.

Figure 1
Cumulative spending per person on rail enhancements, 2011-12 to 2019-20 (£ per person, 2020-21 prices)



Source: Network Rail Regulatory Financial Statements for years 2011-12 to 2018-19; Office of Rail and Road (2020) Annual efficiency and finance assessment of Network Rail 2019-20 for 2019-20 figures; Office for National Statistics (2020) Mid-year population estimates; Office for National Statistics (2020) Quarterly National Accounts for GDP deflator; and authors’ calculations.

⁵ ‘Historical investment in rail infrastructure enhancements: Rail enhancement funding in Wales’, Welsh Government, September 19th 2020, <https://gov.wales/sites/default/files/pdf-versions/2021/1/3/1610565368/historical-investment-rail-infrastructure-enhancements.pdf>

In the latest incarnation of the Statement of Funding Policy, the Welsh Government's comparability factor for the Department for Transport (DfT) has fallen sharply, from 80.9% in 2019 (which was based on the 2015 statement) to 36.6% in 2020. This is a result of two factors. First, the HS2 project has again been classified as an 'England and Wales' project and therefore attracts a 0% programme-level comparability factor. From 2015, the annual budget for HS2 has increased from £0.8 billion to over £5 billion, which means the departmental comparability factor – a weighted average of spending over all programmes – has fallen sharply. Second, and for the very first time, Network Rail's spending has been included in the DfT's baseline DEL for Wales (but not for Scotland and Northern Ireland).

The 0% programme-level comparability factor applied to HS2 in 2015 had a small effect on the Welsh Government's consequentials during that spending review period (2015-16 to 2020-21).⁶ Since increasing HS2 spending was the large driver in the increase in the DfT's budget from 2015 to 2019, the Welsh Government received approximately £755 million in Barnett consequentials over these years, with an annual amount now built into the block grant baseline. These consequentials would only have been £70 million higher had there been a 100% programme-level comparability factor applied to HS2 over this period.

However, when multi-year budgets are set at the next comprehensive spending review, the drop in Wales' comparability factor for Transport will reduce the Welsh Government's consequentials for any increase in the DfT budget (for both devolved and reserved programmes) over the remaining lifespan of the HS2 project. In aggregate, Wales will receive funding far below the £5 billion it would be likely to receive with a 100% HS2 programme-level comparability factor.

Meanwhile, increases to the DfT's total budget over coming years are unlikely to be driven by increases in Network Rail spending. At the Spending Review, Network Rail capital spending was fixed at £5.8 billion to 2023-24 (to the end of CP6), and the enhancement budget for CP6 was reduced by £1 billion to 2024.⁷ The inclusion of Network Rail in the calculation of the DfT's comparability factor will therefore only serve to reduce Wales' consequentials from any increases to other programmes that are already fully devolved to Wales.

An alternative means of calculating comparability factors would give HS2 a 100% comparability factor and would treat Network Rail separately from the DfT budget (as is the case for Scotland). Under this option, we estimated an additional £505 million in funding would be available for the Welsh budget between 2021-22 and 2025-26.⁸

⁶ The departmental-level comparability factor for Wales would have been 88% instead of 81% with a 100% HS2 comparability factor.

⁷ 'Question for Department for Transport - Network Rail: Finance', UK Parliament, November 30th 2020, <https://questions-statements.parliament.uk/written-questions/detail/2020-11-25/120953>

⁸ 'Welsh Budget Outlook 2020', Wales Fiscal Analysis, Wales Governance Centre, December 2020, https://www.cardiff.ac.uk/_data/assets/pdf_file/0010/2481634/welsh_budget_2020_report_formatted.pdf

What share of investment has Wales secured in its rail infrastructure since privatisation came into effect in 1994, and how sufficient is this level of investment?

Published disaggregated data for Wales is only available from 2011 onwards. As outlined above, for the period between 2011-12 and 2019-20, funding for rail enhancements was well below a Welsh population share and Wales' share of the rail network. Although no comprehensive data is available over a longer period, Welsh Government rail investment research analysed spending data for each control period between 2001 and 2029, concluding that total UK government rail enhancement spending in Wales during this period was approximately £1.44 billion.

While Wales' share of maintenance and renewal spending is higher, much of this spending accounts for Wales' railway infrastructure being older and in poorer condition than other routes. A higher share of rail enhancement spending would contribute to reducing journey times, promote economic growth and productivity, and would likely reduce average maintenance costs.

How is funding allocated to rail infrastructure projects across the UK and how are the different infrastructure needs of the regions and nations of the UK assessed?

For England and Wales, the High-Level Output Specification (HLOS) and the Statement of Available Funding set out overall expenditure for rail infrastructure projects prior to each Network Rail Control Period. Meanwhile, allocations to individual projects are considered on a case-by-case basis, according to HM Treasury's Green Book.

Other research and submissions have pointed to how underinvestment in Wales' railways has been built into the scheme prioritisation process and the analytical framework used to determine value for money used by the UK government.⁹ Historic low enhancement spending has led to a higher-subsidy, higher-maintenance network, where new schemes will be more at risk of underestimated passenger demand and other factors which compromise assessments of value for money.

Under rail infrastructure devolution, Wales would continue to follow this arrangement – only the level of government making funding decisions would change. In Scotland's fully devolved rail funding system, Transport Scotland – as the national transport agency – is responsible for rail policy and delivery and communicates all upcoming rail enhancement schemes in the current control period.¹⁰ Network Rail remains a key partner and is the delivery agent of schemes on the ground (and plays a role in the ScotRail franchise).

⁹ 'Historic investment in rail infrastructure enhancements', Welsh Government, <https://gov.wales/sites/default/files/pdf-versions/2021/1/3/1610565368/historical-investment-rail-infrastructure-enhancements.pdf>

¹⁰ 'Investing in Scotland's Railway', Transport Scotland, <https://www.transport.gov.scot/public-transport/rail/investing-in-scotlands-railway/>

In terms of assessing the infrastructure needs of Scotland, the Scottish Ministers set out the HLOS,¹¹ and a ten-year Rail Enhancements and Capital Investment Strategy.¹² Transport Scotland provides further updates on schemes. Funding for actual rail schemes is then allocated in the Scottish Government budget. As noted in previous sections, the amount of funding available for the Scottish Government to spend on rail infrastructure is determined by previous allocations and the Barnett formula.

As part of a non-devolved England and Wales arrangement, Wales does not have its own HLOS. Network Rail provides a strategic plan for its Wales route, where the Welsh Government and Transport for Wales are 'stakeholders'.¹³ This amounts to less political involvement of Welsh Ministers in rail planning compared to Scotland. The strategic plan points out that "in developing our CP6 plans, the Wales Route must balance the requirements of both devolved and national government".¹⁴

What opportunities are there for Wales as a result of the recently launched Union Connectivity Review?

The Union Connectivity Review will assess links between Wales and the other nations of the union and in that sense might bring forward new rail schemes. The main rail policy context here should be understood to refer to connectivity between north-east Wales and north-west England, although the Welsh Government also has a significant interest in the Welsh Marches Line and connectivity to and from Shrewsbury. The risk in terms of any UK Government review of transport infrastructure is that it will not necessarily align with the devolved responsibility for railway services in Wales, not least the responsibility for cross-border services in north-east Wales and north-west England which are business-critical to Transport for Wales and therefore the Welsh Government.

The importance of cross-border infrastructure and services is evidenced by the decision by successive Welsh administrations to commit resources to fund cross-border schemes, including the £40m Wrexham-Chester redoubling,¹⁵ and the commitment to upgrading the Wrexham North Junction.¹⁶ The Welsh Government has also increased investment in services to and from Liverpool and Chester as part of the current Transport for Wales franchise. While seeking devolved powers over rail, it is also promoting

¹¹ 'The Scottish Ministers' High Level Output Specification for Control Period 6', Transport Scotland, <https://www.transport.gov.scot/media/39496/high-level-output-specification-hlos-for-control-period-6-final.pdf>

¹² 'Rail Enhancements & Capital Investment Strategy', Transport Scotland, <https://www.transport.gov.scot/media/41836/rail-enhancements-and-capital-investment-strategy-15-march-2018.pdf>

¹³ 'Wales Route Strategic Plan', Network Rail, March 2019, <https://cdn.networkrail.co.uk/wp-content/uploads/2019/06/Route-Strategic-Plan-Wales.pdf>

¹⁴ Ibid

¹⁵ 'Final phase of major Wrexham to Chester rail enhancement project to begin', Network Rail Media Centre, March 21st 2017, <https://www.networkrailmediacentre.co.uk/news/final-phase-of-major-wrexham-to-chester-rail-enhancement-project-to-begin>

¹⁶ '£500,000 rail boost welcomed', Wrexham Council News, August 10th 2018, <https://news.wrexham.gov.uk/500000-rail-boost-welcomed>

infrastructure investments which would fit the Union Connectivity agenda, including improvements to the Borderlands line, redoubling the line to Shrewsbury, and upgrading the North Wales Coast Line.¹⁷

Devolved responsibility for infrastructure could allow the Welsh Government and Transport for Wales to commit further to cross-border projects. For example, a package of measures worth £200m has been proposed by the cross-border Growth Track 360,¹⁸ including £60 million for speed improvements for the North Wales mainline, £60 million for Chester station, and £80 million for a connection between Wrexham and Liverpool. A Welsh Government contribution to these measures would fall well within the additional funding that we estimate would flow to the Welsh budget up to 2025 and beyond under full devolution.

The devolution arrangements we are endorsing offer a stable, consistent and accountable method of financing schemes in Wales, with connectivity with the rest of the union being reviewed regularly through a Welsh HLOS and via Transport for Wales' strategic policymaking capacity and its business plans.

¹⁷ 'Mainline railway enhancements', Transport for Wales & Welsh Government joint document, September 2020, <https://gov.wales/sites/default/files/publications/2020-11/mainline-railway-enhancement-requirements.pdf>

¹⁸ '£200m rail upgrade could boost train links from North Wales', Business Post, February 17th 2021, <https://www.business-live.co.uk/economic-development/200m-rail-upgrade-could-boost-19854482>

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