



Department
for Transport

From the Permanent Secretary
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Meg Hillier MP
Chair
Public Accounts Committee
House of Commons
London
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19 December 2018

Dear Chair,

I am writing, following my appearance at the hearing on the 10 December 2018, to provide the Committee with further information on some questions raised during the session.

Crossrail loan

Following the announcement of fresh loans to the Greater London Authority for Crossrail, the committee required detail on the interest rate the Government is charging.

The loan to the GLA is offered at a rate of relevant Gilt +80 basis points. A Gilt is a loan security issued by the UK government. A basis point refers to a common unit of measure for interest rates; one basis point is equal to 1/100th of 1% so 80 basis points would equate to 0.8%. Therefore the rate of interest applied to the loan would be gilt (at the time the loan is drawn down) plus 0.8%.

It is not possible at this time to specify what this equates to as it will be determined by Gilt levels in the market at the time the loan is drawn down.

Penalties for operators failing to meet responsibilities to passengers with disabilities

Where there is evidence to suggest that an operator is not meeting its Disabled People's Protection Policy (DPPP) obligations, the Office of Rail and Road (ORR) will first discuss this with the operator concerned, and may decide to carry out more regular monitoring of that operator. This might include requiring additional reporting, carrying out an audit, or using their existing power within the licence to require an operator to conduct a review of its DPPP and report its findings, potentially leading to changes to existing DPPPs or practice.

Ultimately, if an operator does not comply with its licence obligation the ORR would follow their Economic Enforcement Policy¹. The ORR will intervene where it identifies serious or systemic failings, and the maximum penalty that can be imposed is 10% of the licensee's or relevant operator's turnover.

¹ http://orr.gov.uk/__data/assets/pdf_file/0018/4716/economic-enforcement-statement.pdf

Working closely with the rail industry and consumer groups, the Government has played a leading role in supporting the introduction of a new independent Rail Ombudsman, which will cover disputes around the provision of assistance and advertised services and facilities.

The Ombudsman will also cover issues such as train delays and cancellations, and passenger information during disruption. It can order financial compensation to be paid to passengers by operators in certain circumstances where the standard of service falls below expectations, providing a further incentive for operators to treat their customers fairly and respond effectively to their concerns.

Road funding

The committee asked how much money would be available in RIS2 for new projects after funding is allocated to schemes that straddle between RIS1 and 2 and including projects that had originally been planned to be privately financed.

The final make up of RIS2 is currently the subject of an ongoing statutory process, including advice from ORR as the regulator, which ends in Autumn 2019. It is therefore not possible to provide a figure on the funding available for new enhancements at this time.

Virgin Trains East Coast (VTEC) Settlement

In terms of a final settlement being reached on Virgin Trains East Coast, there remains funds in VTEC which allow them to settle their outstanding creditor payments including transitional payments to LNER. Following full creditor settlement, VTEC has agreed in principle to transfer the remaining assets it holds to the Department as part of a settlement agreement.

Furthermore, all payments owed by VTEC to the Department prior to contract termination have now been made. This includes VTEC paying a sum equivalent to the performance bond, as well as Stagecoach paying the Parent Company Support (PCS) in full into the franchise.

Additional services in the North

The committee asked whether commitments given by the VTEC franchise would be delivered by the new operator, particularly additional services to Huddersfield, Sunderland and Middlesbrough, and when these services would be in place.

I can confirm that these commitments remain the same in the Department's Services Agreement with LNER. The Department is working with Network Rail to deliver infrastructure enhancements on the ECML throughout the early 2020s, and with LNER to introduce into service the new fleet of trains through the Intercity Express Programme, planned to be fully rolled out by 2020. It remains our intention to deliver the additional services once these necessary capacity upgrades are in place.

Govia Thameslink Railway (GTR) profit cap

The committee also asked about the level of the profit cap agreed between the Department and GTR. Go-Ahead, GTR's owning group, has stated that it does not expect the franchise

to make a profit this year, and that the margin over the full franchise term is expected to be between 0.75% and 1%. This is a decrease from previous expectations of 0.75-1.5%².

However, like many owning groups Go-Ahead does not routinely publish franchise-level financial information, and details of the profit cap arrangement are subject to standard confidentiality provisions in the Franchise Agreement.

Yours sincerely,

A handwritten signature in black ink that reads "Bernadette Kelly". The signature is written in a cursive style with a large initial 'B' and a long, sweeping tail on the 'y'.

Bernadette Kelly CB
Permanent Secretary

² <https://www.go-ahead.com/en/media/news/2018/GTR-DfT-agreement-2018.html>

