

Rail Delivery Group

Response to

ORR's consultation on the financial framework for PR18

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ORR's consultation on the financial framework for PR18

Organisation: Rail Delivery Group

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Business representative organisation

Introduction: The Rail Delivery Group (RDG) was established in May 2011. It brings together Network Rail and passenger and freight train operating companies to lead and enable improvements in the railway. The purpose of the RDG is to enable Network Rail and passenger and freight train operating companies to succeed by delivering better services for their customers. Ultimately this benefits taxpayers and the economy. We aim to meet the needs of:

- Our Members, by enabling them to deliver better outcomes for customers and the country;
- Government and regulators, by developing strategy, informing policy and confronting difficult decisions on choices, and
- Rail and non-rail users, by improving customer experience and building public trust

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Introduction

1. This document outlines the key points from industry in response to the ORR's consultation on the financial framework for PR18.
2. There has been, and will continue to be, extensive industry engagement and discussion with the ORR about a range of issues through the industry working groups that the RDG has set up for PR18. We envisage that these working groups will continue to operate throughout the rest of the PR18 process as we believe they provide useful forums to work through the detailed issues. We welcome the constructive tone and purpose of the ORR PR18 consultation documents and working papers which are intended to facilitate a more dynamic process of industry engagement to support an iterative approach to developing policy.
3. We confirm that we are content for this response to be published on the ORR website.

Building block approach to assessing Network Rail's revenue requirement in CP6

Paragraph 1.1 to 1.28 of the consultation.

4. We support the proposed use of a building block approach as it facilitates a route-based regulatory framework with separate settlements for each Route and the national system operator. This supports the work on devolution that the industry is already doing including separate scorecards and better engagement between Network Rail and its customers. As noted in our responses to earlier PR18 consultation documents, the RDG supports route devolution with local ownership of plans and better engagement between Network Rail Routes and operators, and better engagement with passengers and freight users.

Enhancement financing/funding in CP6

Paragraph 3.2 to 3.28 of the consultation.

5. We support a framework that allows a flexible approach to funding enhancements such that private funding and financing is encouraged as well as direct government funding.
6. One option to facilitate this could be to include headroom in the loan agreement which could be ring fenced for financing of third party schemes.
7. We are also strongly supportive of retaining ring-fenced funds funded through PR18 in CP6, provided that there is clarity on the funds' objectives and the appropriate fund governance is in place to allow industry decision making on the allocation of the fund, where required. This means of funding is flexible and allows relatively small investments to be made to improve outcomes efficiently as they can be directed through the industry party best able to deliver the benefit. A further benefit is that funds could provide a means of leveraging small scale third party investment into the rail industry, for example through matched funding of private sector investment, that would not otherwise be realised.
8. An RDG working group recently completed a review of the role that private finance and alternative delivery models have in the rail industry. The conclusions are set out in a report by Cambridge Economic Policy Associates¹. The report makes several recommendations to bring more private investment into the industry and so is relevant when considering the financial framework for CP6. For example, the report notes that potential investors are seeking several things to encourage them to invest, including: (1) a pipeline of committed projects, (2) leadership from government and the regulator to provide some certainty on the overall approach, and (3) clarity on the revenue stream

¹ <http://www.raildeliverygroup.com/about-us/publications.html?task=file.download&id=469772167>

that projects could generate.

The importance of a five year control period

Paragraph 3.29 to 3.30 of the consultation.

9. The arrangement for a five year control period is well established and we support the ORR recommendation for its continuation. This is because:
 - a. It provides certainty of funding over a reasonable length of time;
 - b. It better reflects the long term nature of the industry in terms of asset management, and enhancement and renewal planning. Processes should encourage continuity in planning and avoid disconnects that can occur when there is uncertainty on short-term funding;
 - c. It supports stability in access charges;
 - d. It supports the drive for securing innovation and efficiency from suppliers.
10. We note that for enhancements, there should be a longer term view for planning purposes so that a pipeline of potential schemes can be developed and then taken forward to match the availability of funding.

Managing financial risks

Paragraph 5.16 to 5.27 of the consultation.

11. The regulatory settlements should be flexible so that they are able to deal with changing circumstances. The framework should recognise the network is a system, with a single Network Rail, with some activities being managed at a route level and others being more efficiently delivered for the benefit of the whole network.
12. We also think it is important that Network Rail has flexibility to move resources from one Route to another to maximise system wide efficiency and make best use of scarce resources. This might include targeting resources where there is the greatest need, e.g in meeting outputs agreed with customers.
13. An effective change control mechanism, including stakeholder endorsement, can provide a means of supporting the flexibility described in the previous points.

Financial sustainability

Paragraph 5.28 to 5.30 of the consultation.

14. We agree that financial sustainability is a concern and believe PR18 should support an improvement in Network Rail's long-term financial stability. We support a change in the funding arrangements for future enhancements, to avoid the continuing accumulation of debt and the deterioration of Network Rail's balance sheet.
15. Potential solutions include grant funding of the proportion of new enhancements that deliver socioeconomic benefits, and better sharing of the costs of investment between the beneficiaries. At present those projects that have major socioeconomic benefit are mainly financed by Network Rail through increased debt.