PR23 final determination:

Supporting document - other income

31 October 2023

About this document

This technical assessment of Network Rail's other income is one of five supporting documents of our final determination for the 2023 periodic review (PR23).

PR23 determines what the infrastructure manager for the national rail network, Network Rail, is expected to deliver with respect to its operation, support, maintenance and renewal (OSMR) of the network during control period 7 (CP7), which will run from 1 April 2024 to 31 March 2029, and how the available funding should be best used to support this.

This strongly influences:

- the service that passengers and freight customers receive and, together with taxpayers, ultimately pay for; and
- the charges that Network Rail's passenger, freight and charter train operator customers pay to access its track and stations during CP7.

Our final determination sets out:

- our decisions on Network Rail's outcome delivery and its planned expenditure to secure the condition and reliability of the network;
- changes to access charges and the incentives framework; and
- relevant policies on the financial framework, managing change and holding to account.

In addition to **this document**, we have also published as part of our final determination:

Document type	Details
Summary of conclusions and overviews	Our decisions on what Network Rail will need to deliver and how funding should be allocated: • Summary of conclusions and overview for England & Wales • Summary of conclusions and settlement for Scotland

Document type	Details
Consolidated decisions	A summary of our final decisions across Great Britain
Introduction	An overview of PR23 and background to our final determination
Settlement documents	Detailed final decisions for the System Operator and each of Network Rail's regions in England & Wales: • Eastern region • North West & Central region • Southern region • Wales & Western region See our summary of conclusions and settlement document for detailed information for Scotland.
Supporting documents	Technical assessments of: • Health and safety • Outcomes • Sustainable and efficient costs • National Functions • **Other income**
Policy positions	How we intend to regulate Network Rail during CP7 in relation to: • Financial framework • Access charges • Schedules 4 and 8 incentives regimes • Managing change • Holding to account With the exceptions of managing change and holding to account, our policy position documents include our assessment of stakeholder views on our proposals. Stakeholder views for managing change and holding to account are published in a separate document.

Document type	Details
Impact assessments	A consolidated set of assessments of the impact of our final policies on access charges and contractual incentives on affected parties

Next steps

We will now implement our final determination. Implementation is the process through which we amend operators' track and station access contracts to give effect to new access charges and incentives (such as Schedule 8 benchmarks and payment rates) determined through the periodic review. We expect to issue our review notices in December 2023 and, subject to Network Rail's acceptance, issue notices of agreement and review implementation notices in time for CP7 to commence from of 1 April 2024.

We expect Network Rail to publish a delivery plan for CP7 that is consistent with our final determination. We have published a notice alongside our final determination which sets out expectations for the scope and timing of the delivery plan.

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Executive summary

This document sets out our assessment of Network Rail's 'other income' for control period 7 (CP7, 2024-29). Other income refers to income that Network Rail receives from sources other than track access charges and network grant. Other income largely comprises income from Network Rail's properties, and from other smaller activities such as stations and depots, leasing stations and facility charges.

It is important for Network Rail to generate an efficient level of other income as this reduces the level of funding that the company requires from track access charges and network grants.

Network Rail is forecasting £4.0 billion of other income in CP7[1] across Great Britain. This represents 9 percent of its total forecast income[2] in CP7. This is £0.6 billion (13 percent) lower than in CP6, due to:

a) Reduced property sales income (£0.6 billion lower than CP63). Network Rail has stated that it faces declining property sales opportunities and reduced resource to develop schemes. As examined below, Network Rail's forecast property sales income has increased by £0.1 billion since its Strategic Business Plan (SBP).

b) Reduced income from open access operators (£0.1 billion lower than CP6). Network Rail receives fixed contractual contributions from some open access operators which fall outside of regulated track access charges. The reduction is due to reduced income from Nexus (Tyne and Wear Metro) and Heathrow Express (where Network Rail has included this income in variable charges, which are not included in other income).

c) Increased property rental income (£0.2 billion higher than CP6). Network Rail receives rental income from its managed station and commercial retail portfolio. Network Rail is forecasting an increase from current levels in station usage as passengers return to stations post-pandemic, which increases station retail income.

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[1] Network Rail is also forecasting £1.7 billion of 'other operating income' from transactions such as the sale of scrap metal. We have considered these and have not found any issues with the CP7 forecast. It is netted off of Network Rail's cost base, which is part of our overall cost assessment.

[2] Total income less traction electricity.

[3] In CP6 Network Rail received £569 million (2023-24 prices) from the transfer of the Core Valley Lines in South Wales to Transport for Wales. The reduction in property sales between CP6 and CP7 is largely due to the effect of this one-off transaction in CP6.

We published an assessment of Network Rail's other income as part of our draft determination in June 2023[4]. Our assessment was that Network Rail's forecast other income in CP7 was not sufficiently challenging. We challenged Network Rail to increase its property income by £100 million in CP7 (£90 million in England & Wales, and £10 million in Scotland).

Network Rail's latest forecast of other income in CP7 has accepted the additional property income that we challenged the company to achieve. It has included an additional £90 million in its property income forecast for England & Wales. Following our draft determination, Network Rail has informed us that its CP7 property income forecast for Scotland included an additional £19 million, which is higher than our challenge. We consider this is reasonable, so we have accepted it.

Network Rail has informed us, at a very late stage in the process, that there was a £52m overstatement of forecast facilities income in its SBP relating to the North West & Central region. As explained in the franchised station lease income section below, we have decided not to adjust our final determination for this matter as this could introduce a systematic bias in favour of Network Rail. We are also aware that there could be further commercial opportunities available to Network Rail.

Overall, our assessment is that the other income forecast should be £4.1 billion in CP7. This includes the additional £109m of forecast property income, the £52 million of facilities income and the correction of £45 million of Heathrow Express income from variable charges income to open access income.

[4] https://www.orr.gov.uk/sites/default/files/2023-06/17-pr23-draft-determination-supporting-document-other-income-redacted.pdf

1. Introduction

1.1 This supplementary document to our final determination for the 2023 periodic review (PR23) sets out our final determination assessment of Network Rail's 'other income' in control period 7 (CP7), which will run from 1 April 2024 to 31 March 2029.

1.2 This document follows on from our 'supplementary document – other income' which accompanied our draft determination published in June 2023 where we consulted on our initial views around other income in CP7. This document responds to consultation responses and sets out our final views on other income in CP7.

1.3 The assessment in the document relates to the GB-wide network unless otherwise stated. Numbers are also shown in 2023-24 prices.

1.4 Our assessment covers the following items:

- property rental income and revenue generating expenditure;
- property sales;
- investment in joint ventures;
- depots income;
- managed stations qualifying expenditure ('QX') income;
- franchised stations lease income;
- facility / supplemental charge income (including the 'Crossrail Supplemental Access Charge');
- fixed contractual contributions from open access operators such as Heathrow Express; and
- any other income not derived from regulated charges or government network grants (please note this does not include other operating income).

1.5 In our calculation of Network Rail's net revenue requirement for CP7, we subtract forecast other income from Network Rail's gross revenue requirement to determine the net revenue requirement that is recovered through track access charges and network grant.

1.6 It is important that Network Rail maximises the efficient level of its other income. The more income that it receives, the lower the financial contribution from track access charges and government grant. The income that Network Rail receives from its property portfolio is of particular importance as it largely comes from outside the industry.

1.7 As part of Network Rail's Putting Passengers First (PPF) organisational restructure in CP6, responsibilities for managing Network Rail's property estate was largely devolved to each of its five regions. The company's Group Property team has retained limited responsibility for delivering larger sales and development opportunities. It also acts as the professional head for all common property activities within Network Rail.

1.8 Our analysis has been supported by analysis we commissioned from Savills in 2022, which is soon to be published. Savills reviewed Network Rail's property rental and sales forecasts for CP7 and compared them to the wider property market.

Consultation responses

1.9 Apart from Network Rail, whose response we comment on throughout this document, we received 4 other responses to our draft determination relating to Network Rail's other income in CP7. These are available in our PR23 final determination: draft determination consultation responses document. Key points from respondents are summarised below.

Associated Society of Locomotive Engineers and Firemen (Aslef)

1.10 Aslef stated that Network Rail should not be selling assets to generate income at the loss of generating income from those same assets over the long term. Aslef was also concerned that our draft determination was challenging Network Rail to sell off assets at a time when it has limited resource to develop schemes.

1.11 We acknowledge that Network Rail's financial settlement for CP7 is challenging. However, increased property income reduces the financial contribution from track access charges and government grants. Our £100 million challenge to Network Rail can come from a mixture of income sources, not just property disposals. We also consider that there are further commercial opportunities that Network Rail has not identified in its SBP.

Rail Freight Group (RFG)

1.12 RFG stated that Network Rail's freight customers who lease depots have experienced significant rental increases over the last few years and that further increases could be planned by Network Rail. RFG was also concerned that unused freight sites could be disposed of for non-freight purposes without consideration of future use by the freight industry.

1.13 From our review of Network Rail's other income, we understand from Network Rail that it is not unduly increasing its charges to freight companies or their customers in CP7. Connection charges are regulated by the ORR, and Network Rail can only charge its own costs with no mark up for profit. Freight companies also have the right to appeal to the ORR if it deems a charge unfair.

Scottish Association of Public Transport

1.14 The Scottish Association of Public Transport said that 'any disposal of railway land should be subject to thorough investigation of its potential use in future projects' such as an extension of the Edinburgh Tram or the introduction of HS2 trains to Glasgow and Edinburgh.

1.15 We are satisfied that there are adequate controls to address these concerns, Network Rail, when considering a land disposal, should assess future rail usage and only dispose of it if the company considers that there is no reasonable prospect of future usage by the railway. It is likely that it would need to consult Transport Scotland as well. However, if land has no reasonable prospect of being used in the foreseeable future, then it should be considered as an opportunity for disposal.

SE Trains Limited (Southeastern)

1.16 Southeastern enquired whether there would be a wash-up mechanism in CP7 where additional income could offset costs for rail users. As detailed in our PR23 final determination: policy position on the financial framework document, we are maintaining our CP6 mechanism whereby Network Rail can make rebate payments if it financially outperforms.

Changes from our draft determination

1.17 Following our draft determination, Network Rail has updated its CP7 forecast for other income. The main changes are as follows:

(a) property income has increased by £90 million in England & Wales;

(b) property income has increased by £19 million in Scotland. This was previously included in Network Rail's SBP as an efficiency and so does not represent a net increase in funding;

(c) facilities income has reduced by £52 million in the North West & Central region due to the correction of an error in Network Rail's SBP, which included income for a station enhancement contract that has now ended; and

(d) train operating company (TOC) insurance income has reduced by £36 million with a corresponding reduction in Network Rail's costs.

2. Our assessment of Network Rail's other income in CP7

2.1 Network Rail is forecasting £4.0 billion of other income in CP7. This is £0.6 billion (13%) lower than the £4.6 billion of other income that we expect the company to achieve in CP6. This includes £3.7 billion of other income in England & Wales, and £0.3 billion in Scotland.

2.2 The main reasons for the variance between CP6 and CP7 are:

(a) reduced property sales (£0.6 billion lower than CP6); largely due to the one-off disposal of the Core Valley Lines to the Welsh Government in CP6;

(b) reduced open access income (£0.1 billion lower than CP6), due to reduced income from Nexus (Tyne and Wear Metro) and Heathrow Express (where Network Rail has included this income in variable charges); and

(c) increased property rental income (£0.2 billion higher than CP6), largely due to recovery from the impact of the Coronavirus (COVID-19) pandemic in CP6.

2.3 Table 2.1 summarises the other income included in Network Rail's SBP for CP7. Detailed tables for England and Wales, and Scotland are available in Annex A. To note, this does not include the £52 million of income detailed in the franchised station lease income section below, which would need to be added into Network Rail's delivery plan.

Table 2.1 Network Rail's current forecast other income in CP7 – Great Britain

£m, 2023-24 prices	2023-24	CP6 total	2024-25	2025-26	2026-27	2027-28	2028-29	CP7 total	CP7 vs CP6
Property rental	234	**1,084**	244	251	258	267	272	**1,293**	+ 19%
Property sales	97	**897**	69	51	51	61	54	**286**	- 68%
Total property income	332	**1,981**	313	302	310	327	326	**1,579**	- 20%
Depots income	161	**750**	154	154	154	154	154	**769**	+ 3%
Managed stations qualifying expenditure ('QX') income	115	**553**	114	113	114	114	114	**568**	+ 3%
Franchised stations income	109	**553**	101	97	96	96	96	**485**	- 12%
Facility / Supplemental charges[5]	101	**501**	101	101	101	101	101	**507**	+ 1%
Other income[6]	16	**94**	11	11	11	11	11	**53**	- 43%
Open access income	32	**133**	5	5	5	5	5	**24**	- 82%
Total	**866**	**4,565**	**800**	**783**	**790**	**807**	**806**	**3,986**	**- 13%**

Source: Network Rail's draft determination response.

[5] Covering supplemental charge income for example the 'Crossrail Supplementary Access Charge' (CSAC).

[6] Including NR High Speed income and insurance premiums. NR High Speed is a subsidiary of Network Rail which manages infrastructure on the high speed railway line between London St Pancras International and the Channel Tunnel on behalf of HS1 Limited.

3. Property income in CP7

3.1 In our draft determination, we set out the following challenges around Network Rail's property forecast for CP7:

(a) property rental income: that Network Rail's forecasts looked conservative compared to recent rail usage and that Network Rail should update its forecasts for the latest rail industry passenger demand forecasts;

(b) property sales: that Network Rail's plan was not sufficiently developed and that further detail would be required for its response to our draft determination. We were also aware that there could be further commercial opportunities available to Network Rail in CP7; and

(c) revenue generating expenditure: that Network Rail had not sufficiently justified why investing in such schemes should be a priority in CP7.

3.2 For the reasons identified above, we considered that Network Rail's property income in CP7 should be higher and challenged Network Rail to include an additional £0.1 billion of property income over CP7 for Great Britain (£90 million for England & Wales and £10 million for Scotland). We considered that this was a challenging yet realistic assumption.

3.3 The following section explores these areas in more detail.

Property rental income

3.4 Network Rail receives rental income from its property portfolio, including its managed stations, commercial estate and advertising boards. Network Rail's current forecast is £1.3 billion over CP7 which is a £0.2 billion (19%) increase on CP6, largely due to the recovery from the impact of the pandemic on retail at stations.

Table 3.1 Property rental income in CP6 and CP7

£ million, 2023-24 prices	CP6 total	CP7 total	Variance	%
Retail income	521	667	+ 146	+ 28%
Other property income	50	36	- 14	- 28%
Advertising income	140	209	+ 69	+ 50%
Total managed stations income (a)	**710**	**912**	**+ 202**	**+ 28%**
Commercial income (b)	345	344	- 1	- 0%
Roadside advertising (c)	28	37	+ 9	+ 31%
Total rental income (a + b + c)	**1,083**	**1,293**	**+ 209**	**+ 19%**

Managed station income

3.5 Managed stations income comprises retail, other property and advertising income at the major railway stations that are operated by Network Rail. Network Rail's current forecast managed stations income is forecast to be £912 million, an increase of £202 million (28%) above CP6 levels (£710 million).

3.6 Retail and advertising income at Network Rail's managed stations is forecast to grow by 1.5% per year in CP7. A significant proportion of managed stations income is dependent on passenger numbers. However, we note that some stations have retail units such as food outlets and restaurants that serve local communities and not just railway passengers. This type of station demand is not accounted for in the rail passenger forecasts.

3.7 The passenger demand assumptions, which underpin the managed stations income, are based on the DfT's passenger demand forecasts, these are shown in Table 3.2 below. The forecast has declined since the SBP, by approximately 4-6 percentage points. Current footfall in stations is 79% (as at period 5 2023-24) so achieving 84% in the first year of CP7 appears challenging.

Table 3.2 Passenger demand forecasts in CP7 versus 2019 levels

	2024-25	2025-26	2026-27	2027-28	2028-29
As per the SBP	89%	91%	91%	95%	95%
As per latest forecast	84%	85%	87%	89%	90%
Variance (percentage points)	- 4 pp	- 6 pp	- 4 pp	- 6 pp	- 5 pp

3.8 Other managed stations property income includes car parking, retail storage facilities and roadside advertising. This income is forecast to grow by 0.5% per year across CP7. We did not identify any concerns with these assumptions as part of our review.

3.9 Operational railway decisions can affect retail income at Network Rail's managed stations. For example, the Victoria decongestion and Liverpool Street gateline projects, will reduce the number of retail units to improve passenger flows around these stations. These changes are forecast to reduce retail income by around £21 million per year. We recognise that these operational decisions are complex, and that Network Rail is aiming to improve the passenger experience through these projects. However, in our draft determination we questioned whether Network Rail has made the correct trade-offs.

3.10 Network Rail in response to this has said that property considerations are a part of the overall decision process for these type of projects and that mitigations are put into place where possible.

Our final determination conclusions on property rental income in CP7

3.11 Our draft determination included a challenge for Network Rail to increase its property income by £100 million in CP7 compared to Network Rail's SBP (£90 million for England & Wales and £10 million for Scotland). We did not specify where that additional income needed to come from, though we highlighted that its property rental forecast was low given recent rail usage.

3.12 Whilst forecast passenger demand in CP7 has declined slightly since Network Rail's SBP, our view remains that our challenge to deliver an additional £100 million of property income is still achievable. We are also aware that there could be further commercial opportunities available to Network Rail in CP7.

Property sales

3.13 Network Rail's latest forecast includes £0.3 billion of property sales income in CP7. This is a £0.6 billion (68%) decrease from CP6, largely due to the one-off effect of the disposal of the Core Valley Lines to the Welsh Government (£0.6 billion in 2023-24 prices). Excluding the disposal of the Core Valley Lines, Network Rail's forecast is for property sales income to decrease by £43 million (13%) in CP7.

Property sales in CP7

3.14 In our draft determination, we considered that Network Rail's property sales forecast income in CP7 was cautious, and that there were more opportunities which it could consider. [REDACTED]. We also noted that more opportunities may arise if Network Rail revisited its hurdle rates for sales schemes, which is the minimum return required from a property sale.

Limited resources and capital to develop commercial opportunities

3.15 The Putting Passengers First (PPF) reorganisation in CP6 devolved most of Network Rail's property function to its regions. There has also been a reduction in the resourcing of property teams, which Network Rail has stated has affected its ability to develop larger schemes, though other commercial opportunities can address this. In our draft determination, we stated our concern that the reorganisation resulted in a loss of expertise, and that, initially at least, there was a lack of leadership for developing commercial opportunities of Network Rail's estate.

3.16 It is important for Network Rail's group property team to provide clear leadership to the regional teams which are still relatively new and less experienced in developing sales opportunities. This should enable Network Rail to generate more income in CP7.

3.17 We consider that Network Rail's group property team needs to provide clear leadership to the company's regional teams to better identify and deliver property sales.

Our final determination conclusions on property sales in CP7

3.18 Since our draft determination, Network Rail responded by increasing its forecasts in England & Wales by £90m for property income and in Scotland by £19m.

3.19 We are satisfied with Network Rail's response to our draft determination. We note that the wider property market is currently facing challenges, which could mean reduced returns for Network Rail over CP7. However, this can be offset by other commercial opportunities to develop property schemes.

Revenue generating expenditure

3.20 Network Rail undertakes some renewals activities such as renovating retail units which generate income ('revenue generating renewals'), and also enters into joint ventures to develop property schemes on Network Rail land. Network Rail has included £0.3 billion of expenditure for these two areas of investment in its CP7 SBP, a £51 million (15%) reduction on CP6.

3.21 As shown in Table 3.3, 'revenue generating renewals' are forecast to reduce by £91 million (34%), whilst investment in joint ventures is forecast to increase by £40 million (56%) in CP7 compared to CP6.

Table 3.3 Revenue generating expenditure in CP6 and CP7

£ million, 2023-24 prices	CP6 total	CP7 total	Variance	%
Revenue generating renewals	268	177	- 91	- 34%
Joint venture working capital	71	111	+ 40	+ 56%
Total revenue generating expenditure	**339**	**288**	**- 51**	**- 15%**

Source: Network Rail

Revenue generating renewals

3.22 Network Rail has included £177 million in its latest forecast for 'revenue generating renewals' which is expenditure to generate additional income, for example, renovating commercial units in its managed stations. This has reduced by £24 million since the SBP due to a reduction in the Southern region's forecast.

3.23 The £177 million covers multiple projects at various stages of development. We received very little detail on these for our draft determination and we questioned whether they were justified given the wider funding constraints at Network Rail, especially as many of the schemes would not generate returns in CP7.

Joint Ventures

3.24 Network Rail enters into joint ventures with property developers to build commercial and residential properties on its land. For example, the Solum joint venture with Kier Property has built 218 housing units under 3 separate schemes.

3.25 Network Rail has included £111 million of expenditure for joint ventures in CP7 an increase of £40 million (56%) from CP6 and we consider that there are further commercial opportunities.

3.26 In our draft determination, we said that Network Rail had not sufficiently justified its forecast of £111 million expenditure on property joint ventures in CP7. We were concerned about the lack of visibility of returns achieved on previous joint ventures, the pipeline of work and expected benefits.

3.27 In general, we consider that Network Rail's response to our draft determination is lacking in sufficient information about property income, in particular around the scope for further commercial opportunities.

Our final determination conclusions on revenue generating schemes in CP7

3.28 Overall Network Rail has responded positively to the property challenge in our draft determination, although we remain concerned about the lack of information around this part of Network Rail's strategic business plan for CP7. Nevertheless, we are not making any further challenge to Network Rail's plans beyond that set out in our draft determination and noted previously (which Network Rail has accepted).

Property forecasts in Scotland

3.29 Network Rail is forecasting £103 million of property income in Scotland in CP7. As shown in Table 3.4, this includes £78 million of property rental income and £25 million from property sales. Property rental income is forecast to increase by £11 million (16%) and property sales are forecast to increase by £12 million (90%) compared to CP6.

3.30 Network Rail Scotland's SBP had a £19 million property sales stretch incorrectly categorised as an efficiency. It has now corrected this, which increases the sales forecast by £19 million compared to the SBP, but also reduces efficiencies by £19 million meaning no overall impact on the CP7 forecast net expenditure. But, we recognise the significant stretch in the efficiency target set in the SBP.

3.31 Network Rail Scotland should consider further opportunities for property sales in CP7, including whether surplus land can be disposed of, or further commercial opportunities such as joint ventures with property developers (no joint ventures are currently included in the forecast). [REDACTED]

Table 3.4 CP7 property income forecasts in Scotland

£ million, 2023-24 prices	CP6 total	CP7 total	Variance	%
Property rentals	67	78	+ 11	+ 16%
Property sales	13	25	+ 12	+ 90%
Total property income	**81**	**103**	**+ 22**	**+ 28%**

Source: Network Rail

3.32 Network Rail Scotland has included circa £1 million in its plan for revenue generating renewals for a small number of projects. Our view of this area of assessment is the same as across the rest of Network Rail, as set out above.

Our final determination conclusions on Scotland property income in CP7

3.33 We challenged Network Rail Scotland to increase its property forecast by £10m in our draft determination. As noted above, the forecast has increased by £19 million, which is £9 million higher than our challenge.

3.34 We are satisfied that this meets our draft determination challenge. We will continue to monitor the property forecast in Scotland as Network Rail develops its CP7 delivery plan.

4. Our views on non-property income

4.1 Network Rail has included £2.4 billion of non-property income in its CP7 SBP. This is a £177 million (7%) decrease from CP6. This category encompasses a range of activities including depots and stations leasing, managed stations recharges ('QX') and Network Rail High Speed 1. These activities are largely not subject to charge controls. These are summarised in Table 4.1.

4.2 The numbers below relate to Great Britain. There are some areas which do not apply to Scotland because Scotland does not generate income in these areas at the moment, for example facility / supplemental charges and open access income. Table A.2 in the Annex sets out the Scotland forecast in more detail.

Table 4.1 CP7 non property income forecasts

£m, 2023-24 prices	CP6 total	CP7 total	Variance	%
Depots income	750	769	+ 19	+ 3%
Managed stations qualifying expenditure ('QX') income	553	568	+ 15	+ 3%
Franchised stations income	553	485	- 68	- 12%
Facility / Supplemental charges[7]	501	507	+ 6	+ 1%
Other[8]	94	53	- 41	- 43%
Open access income	133	24	- 108	- 82%
Total	**2,584**	**2,407**	**- 177**	**- 7%**

Source: Network Rail draft determination response.

Depots income (£769 million in CP7)

4.3 Network Rail receives income for providing access to train operators to its light maintenance depots. These charges are set through commercial agreements that are not linked to control periods.

[7] Covering supplemental charge income including the 'Crossrail Supplementary Access Charge' or 'CSAC'.

[8] Including NRHS income and insurance premiums.

4.4 Network Rail has forecast it will recover £769 million of depots income in CP7. This is an increase of £19 million (3%) compared with CP6, which Network Rail has noted is due to reduced charges given throughout the pandemic.

4.5 The forecast has not materially changed since the draft determination. We have discussed these forecasts with Network Rail as part of our review. We did not identify any material issues.

Managed station qualifying expenditure (QX) income (£568 million in CP7)

4.6 Managed station qualifying expenditure (QX) gives rise to charges ('QX charge') by Network Rail to train operators to recover the day to day running costs of providing services and amenities (such as cleaning or refuse collection) at the stations it manages. The charge comprises a 'fixed' element, recovering direct costs such as station staff and cleaning costs, and a 'management fee' element which recovers overhead costs and allows for a reasonable profit. Only the management fee is regulated by the ORR, with the remainder of the charge decided through commercial negotiations between Network Rail and train operators. Our assessment of the management fee is covered in our PR23 final determination: policy position on access charges.

4.7 Network Rail has forecast £568 million of managed station QX income in CP7, a £15 million (3%) increase on CP6. Network Rail is currently negotiating the income with train operators and has updated the forecast based on the latest expected rates, overall this has not changed the forecast materially since the SBP. We have not identified any concerns with Network Rail's forecast.

Franchised station lease income (£485 million in CP7)

4.8 Stations lease income covers property rental income from franchised stations such as retail and car park income. This income, which ORR does not regulate, represents a share of income received in 1994-95, and is index-linked to RPI inflation. Compared to CP6 the £485 million is 12% or £68 million lower.

4.9 Network Rail's latest forecast is £52 million lower than the SBP because of an error with the North West & Central forecast, which had included £52 million of station enhancements income, that will no longer be received in CP7 (as the enhancement project has now been paid off in full by the train operator). Whilst we accept that some assumptions can be overstated, and it is helpful that Network Rail told us about this, we are conscious that simply adjusting our determination for issues which benefit Network Rail at a very late stage in the process can introduce a systematic bias in Network Rail's favour, e.g. it is harder to identify issues which would negatively impact Network Rail. We have therefore decided that it is reasonable not to adjust our final determination for this matter, particularly as we are also aware that there could be further commercial opportunities available to Network Rail. We did not identify any other issues with Network Rail's forecast.

Facility and Supplemental charges income (£507 million in CP7)

4.10 Network Rail receives facility charges income to recover the capital expenditure and financing costs for the construction of rail infrastructure assets on behalf of third parties.

4.11 Supplemental access charges are for the recovery of capital expenditure and financing costs for the connection of third party infrastructure to the national railway. A component of the Crossrail supplementary access charge ('CSAC') is based on our determination of Network Rail's cost of debt. This matter is covered in our PR23 final determination: policy position on the financial framework document.

4.12 Network Rail's latest forecast assumes £507 million of facility and supplemental charges income in CP7, which is a small decrease of £6 million compared with CP6. Network Rail will need to reflect our decision on the cost of debt for the CSAC which could change the overall forecast in Network Rail's delivery plan. We did not identify any other concerns with Network Rail's forecast for this income.

Other miscellaneous income (£53 million in CP7)

4.13 Other miscellaneous income is largely comprised of net income that Network Rail High Speed (NRHS) receives for HS1 activities. Network Rail has forecast that it will receive £38 million of income from NRHS, which is a reduction of £4 million compared with CP6 totals, largely due to reduced forecast profit on its contract with HS1.

4.14 Network Rail has forecast that it will no longer receive insurance premiums from TOCs because of the changing way in which insurance is managed in the rail industry. At the SBP, Network Rail was forecasting £36 million of income. The reduction has been offset by a reduction associated costs, so there is no overall impact on the plan.

Open access income (£24 million in CP7)

4.15 Open access fixed contractual contributions are paid by certain open access train operators for access to Network Rail's infrastructure, for example Nexus (Tyne and Wear Metro). These charges fall outside the standard track access regime and are set outside of the periodic review framework.

4.16 Network Rail's latest forecast includes £24 million of open access income in CP7. This is £108 million (82%) lower than in CP6 due to:

(a) reduced facilities income from Nexus (Tyne and Wear Metro). Nexus have completed payments to Network Rail for past capital investment undertaken by Network Rail (£31 million); and

(b) a misclassification of Heathrow Express income in variable charges instead of open access income (£45 million). We have taken account of this in our determination.

4.17 Network Rail's SBP did not include any open access income from Heathrow Express, as it and Heathrow Express intended to exit the bespoke access contract and transfer Heathrow Express to a standard track access contract. This change is no longer being pursued. However, Network Rail's response to our draft determination included this income in variable charges. We have taken account of this in our determination. Overall, this reclassification has no net impact on Network Rail's income in CP7.

Annex A: E&W and Scotland forecasts

Table A.1 Network Rail's CP7 forecast other income – England & Wales

£ million 2023-24 prices	2023-24	CP6 total	2024-25	2025-26	2026-27	2027-28	2028-29	CP7 total	CP7 vs CP6
Property rental	219	**1,016**	229	236	243	251	256	**1,215**	+ 20%
Property sales	94	**884**	67	48	49	49	48	**261**	- 70%
Total property income	313	**1,900**	295	284	292	300	304	**1,476**	- 22%
Depots income	142	**673**	137	137	137	137	137	**687**	+ 2%
Managed stations qualifying expenditure ('QX') income	106	**509**	105	104	104	104	104	**522**	+ 3%
Franchised stations income	106	**537**	98	94	93	93	93	**470**	- 12%
Facility / Supplemental charges[9]	102	**502**	101	101	101	101	101	**507**	+ 1%
Other income[10]	16	**91**	10	10	10	10	10	**49**	- 46%
Open access income	32	**133**	5	5	5	5	5	**24**	- 82%
Total	**816**	**4,345**	**752**	**736**	**743**	**750**	**755**	**3,736**	**- 14%**

[9] Covering supplemental charge income for example the 'Crossrail Supplementary Access Charge' or 'CSAC'.

[10] Including NRHS income and insurance premiums.

Table A.2 Network Rail's CP7 forecast other income – Scotland

£ million 2023-24 prices	2023-24	CP6 total	2024-25	2025-26	2026-27	2027-28	2028-29	CP7 total	CP7 vs CP6
Property rental	15	**67**	16	16	16	16	16	**78**	+ 16%
Property sales	4	**13**	2	2	2	12	6	**25**	+ 90%
Total property income	19	**81**	18	18	18	28	22	**103**	+ 28%
Depots income	19	**77**	16	16	16	16	16	**82**	+ 6%
Managed stations qualifying expenditure ('QX') income	9	**44**	9	9	9	9	9	**46**	+ 3%
Franchised stations income	3	**16**	3	3	3	3	3	**15**	- 8%
Facility / Supplemental charges	-1	**-1**	0	0	0	0	0	**0**	n/a
Other income[11]	1	**3**	1	1	1	1	1	**4**	+ 34%
Open access income	0	**0**	0	0	0	0	0	**0**	n/a
Total	**50**	**220**	**47**	**47**	**47**	**57**	**51**	**250**	**+ 13%**

[11] Including insurance premiums.

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