



2018 periodic review draft determination

**Supplementary document –
Other Single Till Income
June 2018**

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1. Other single till income

Introduction

- 1.1 In this supporting document, we set out our assessment of Network Rail's forecasts of other single till income (OSTI) in CP6. We have carried out separate assessments for England & Wales and for Scotland. All values referred to in this document are in 2017-18 prices and some numbers in the tables may not cast due to rounding.
- 1.2 Under the decision set out in chapter 3 of our draft determination for the PR18 financial framework, only the following items will be classified as OSTI in CP6:
- property rental;
 - property sales;
 - finance charge, facility charge income and the Crossrail supplemental access charge;
 - qualifying expenditure recharges for managed stations;
 - lease income for stations owned by Network Rail but operated by train operators;
 - fixed contractual contributions from open access operators such as Heathrow Express;
 - depots charges; and
 - any other income not derived from regulated charges.
- 1.3 When we calculate Network Rail's net revenue requirement, we subtract forecast OSTI from Network Rail's gross revenue requirement to determine the net revenue requirement that is recovered through:
- franchised train operator track access charges;
 - freight operator and charter access charges;
 - open access operator charges;
 - long-term charges for managed stations;
 - long-term charges for stations repaired and renewed by Network Rail, but operated by train operators; and
 - direct network grants from the governments.

Summary of OSTI in Network Rail's SBPs

1.4 Table 1.1 shows a summary of the forecast OSTI Network Rail included in its strategic business plans (SBPs).

Table 1.1: Network Rail's SBP forecast other single till income in Great Britain¹

£m 2017-18 prices	2018- 19	CP5 Total	2019- 20	2020- 21	2021- 22	2022- 23	2023- 24	CP6 Total
Property rental	258	1,412	230	233	233	238	241	1,175
Property sales ²	43	274	26	29	20	22	28	125
Finance charge income ³	76	168	-	-	-	-	-	-
Facility charges	59	285	56	55	54	54	54	272
Managed stations qualifying expenditure	68	319	68	68	68	68	68	339
Franchised stations lease income	47	235	47	47	47	47	47	235
Open access fixed contractual contributions	19	97	18	18	18	18	18	89
Depots income	82	390	82	82	82	82	82	412
Other income	9	41	8	8	8	8	8	40
Total	660	3,222	535	541	530	537	546	2,689⁴

Our assessment of Network Rail's OSTI forecasts

Introduction

1.5 Most of Network Rail's OSTI income either comes from property related items such as property rental or property sales, or some charges or contracts that are already in

¹ With the exception of property sales, which is net of the costs of selling assets, all the numbers in this table are shown gross of the expenditure incurred to generate the income, e.g. the actual expenditure on managed stations qualifying expenditure.

² The property sales in this table exclude the strategic sales Network Rail is undertaking in CP5 as a result of the Hendy review.

³ Network Rail receives charges for financing the construction of rail infrastructure on behalf of third parties. The amounts shown in the table are for Crossrail. Network Rail has assumed it will receive no funding from finance charges in its SBPs, as it no longer provides finance for third parties for these projects.

⁴ Network Rail omitted the Crossrail supplemental access charge income (this replaces the Crossrail finance charge) it will receive in CP6 and in CP5 (for periods 10 to 13 of 2018-19) from its England & Wales SBP. It has since forecast this income to be between £250m and £300m over CP6.

place. This income is sometimes unregulated, e.g. franchised station lease income. We commissioned the commercial property consultants Cushman & Wakefield (C&W) to assess Network Rail's property income forecasts.

Property income

Property rental income

1.6 Network Rail receives rental income from a range of properties, including its commercial estate and managed stations. Network Rail is currently in the market for the potential disposal of its commercial estate in England & Wales and has assumed there is a sale by the end of CP5. It has assumed in its SBP that it will receive £1,175m over CP6 in property rental income as shown in Table 1.2. This represents a material reduction compared to CP5, largely due to the sale of commercial property in England and Wales.

1.7 Network Rail also incurs renewals costs to assist in generating property rental income. These costs are covered in the Review of Network Rail's proposed costs supplementary document.

Table 1.2: Network Rail's SBP - Property rental income in Great Britain

£m, 2017-18 prices	CP5						CP6					
	2014-15	2015-16	2016-17	2017-18	2018-19	Total CP5	2019-20	2020-21	2021-22	2022-23	2023-24	Total CP6
Property rental	263	286	300	306	258	1,412	230	233	233	238	241	1,175

Property sales income

1.8 Network Rail receives property sales income when it disposes of surplus property not needed by the railway. In CP6, Network Rail has assumed it will generate £125m by disposing of surplus property. This is a considerable reduction from CP5 as shown in Table 1.3. This is partly because in 2015-16 there was a significant disposal of its interest in the shopping centre above Birmingham New Street station. Also, the potential sale of the commercial estate as a strategic sale has reduced the opportunities for business as usual sales.

Table 1.3: Network Rail's SBP: Property sales income in Great Britain

£m, 2017-18 prices	CP5						CP6					
	2014-15	2015-16	2016-17	2017-18	2018-19	Total CP5	2019-20	2020-21	2021-22	2022-23	2023-24	Total CP6
Property sales	36	91	64	41	43	274	26	29	20	22	28	125

Note: The property sales in this table exclude the strategic sales Network Rail is undertaking in CP5 as a result of the Hendy review.

- 1.9 C&W felt that Network Rail's property income forecasts were broadly reasonable. However, in their view, Network Rail should be able to generate more property income than it assumed in its SBP, in particular because C&W thought that Network Rail's forecasts of development and sales income were relatively conservative. C&W considered that Network Rail should be able to achieve additional property income in Great Britain (above its plan assumptions) of between £15m and £186m. At this stage, we are using C&W's base estimate of £67m⁵. This is 5% higher than Network Rail's forecast of total property income (property rental and property sales).

Supplemental access charges income

- 1.10 After Network Rail submitted its SBPs to us, it noted that it had omitted the Crossrail supplemental access charge income (this replaces the Crossrail finance charge) it will receive in CP6 and in CP5 (for periods 10 to 13 of 2018-19⁶).
- 1.11 It has since forecast this income to be between £250m and £300m over CP6. In calculating this forecast, Network Rail used its view of the range for its cost of debt (see the financial framework supplementary document).
- 1.12 The Crossrail track access option deed specifies that the cost of debt to be used in the calculation of supplementary access charges will be determined by ORR. We have published a range of values that we could use for Network Rail's cost of debt in our financial framework supplementary document. We will confirm a specific value in our final determination, when we determine a value for this charge.

Facility charges

- 1.13 Facility charges income is received by Network Rail when it finances the construction of rail infrastructure assets for third parties, who repay the capital and associated finance costs of construction, over the life of the asset. Network Rail's forecast of facility charge income is shown in Table 1.4.
- 1.14 Network Rail has assumed that facility charges will reduce slightly in CP6 compared to CP5. This is because charges associated with some schemes are envisaged to end in CP6. Network Rail has assumed that there will be no further investment framework schemes in CP6, reflecting the wider changes in its funding structure, following its reclassification as an arm's length public sector body. Instead, it

⁵ Of the £67m, £2m may be for other operating income, as it relates to managed stations concession income and telecoms income, so would not be included in OSTI.

⁶ The Crossrail track access option deed includes provision for payments by Crossrail, through supplementary access charges (SACs), to allow Network Rail to recover the costs relating to works for Crossrail that took place on its network. The costs will be recovered over the life of the assets concerned, and the SACs include a finance cost component.

anticipates that schemes might be promoted by parties who have access to their own funding, such as local enterprise partnerships.

1.15 We have discussed these forecasts with Network Rail as part of our review. We did not identify any material issues.

Table 1.4: Network Rail’s SBP: Facility charges in Great Britain

	CP5						CP6					
£m, 2017-18 prices	2014 -15	2015 -16	2016 -17	2017 -18	2018 -19	Total CP5	2019 -20	2020 -21	2021 -22	2022 -23	2023 -24	Total CP6
Facility charges	55	54	59	58	59	285	56	55	54	54	54	272

Managed stations qualifying expenditure

1.16 Managed station qualifying expenditure (QX) gives rise to charges 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. With the exception of the qualifying expenditure management fee (which covers central support costs and has a profit element), charge levels are not set by ORR and are instead decided via bilateral negotiation between Network Rail and the train operators using the station.

1.17 Network Rail has assumed it will receive £339m of managed station QX income over CP6 as shown in Table 1.5. We have discussed these forecasts with Network Rail as part of our review. We did not identify any material issues. Network Rail plans to provide an updated forecast of managed stations QX income as part of its response to our draft determination.

1.18 Network Rail has concluded its July 2017 consultation on the managed station qualifying expenditure management fee⁷ and is proposing an increase in the profit element from 5% to 6%. We expect to determine Network Rail’s fee in our final determination.

⁷ This is available at: <https://cdn.networkrail.co.uk/wp-content/uploads/2018/05/Network-Rails-conclusions-on-Variable-Station-charges-in-CP6-May-2018.pdf>

Table 1.5: Network Rail’s SBP: Managed stations Qualifying Expenditure in Great Britain

£m, 2017-18 prices	CP5						CP6					
	2014-15	2015-16	2016-17	2017-18	2018-19	Total CP5	2019-20	2020-21	2021-22	2022-23	2023-24	Total CP6
Managed stations qualifying expenditure	58	61	66	66	68	319	68	68	68	68	68	339

Franchised stations lease income

1.19 Franchised stations lease income covers property rents associated with franchised stations such as retail and car park income. This income is not regulated by ORR, represents a share of income received in 1994-95, and is index-linked to RPI inflation.

1.20 In its SBP, Network Rail is forecasting to recover £235m of franchised stations lease income in CP6 as shown in Table 1.6 below. We have discussed these forecasts with Network Rail as part of our review. We did not identify any material issues.

Table 1.6: Network Rail’s SBP: Franchised stations lease income in Great Britain

£m, 2017-18 prices	CP5						CP6					
	2014-15	2015-16	2016-17	2017-18	2018-19	Total CP5	2019-20	2020-21	2021-22	2022-23	2023-24	Total CP6
Franchised stations lease income	47	47	47	47	47	235	47	47	47	47	47	235

Open access fixed contractual contributions

1.21 Open access fixed contractual contributions are paid by certain open access operators for access to Network Rail’s infrastructure, e.g. Heathrow express and Nexus. These charges do not constitute track access charges and are set outside the regulatory framework.

1.22 In its SBP, Network Rail is forecasting to recover £89m of open access fixed contractual contributions over CP6 as shown in Table 1.7 below. We have discussed these forecasts with Network Rail as part of our review. We did not identify any material issues.

Table 1.7: Network Rail’s SBP: Open access fixed contractual contributions in Great Britain

	CP5						CP6					
£m, 2017-18 prices	2014-15	2015-16	2016-17	2017-18	2018-19	Total CP5	2019-20	2020-21	2021-22	2022-23	2023-24	Total CP6
Open access fixed contractual contributions	20	20	19	19	19	97	18	18	18	18	18	89

Depots income

1.23 Network Rail receives income from operators for access to its light maintenance depots. These charges are set via commercial agreement over periods of time that are not linked to control periods. ORR reviewed the contractual framework for these charges in 2014.

1.24 Network Rail has forecast it will recover £412m of depots income in CP6 as shown in Table 1.8. This is based on an assumption of no growth in the depots portfolio in CP6, nor any material price rises.

1.25 We have discussed these forecasts with Network Rail as part of our review. We did not identify any material issues.

Table 1.8: Network Rail’s SBP: Depots income in Great Britain

	CP5						CP6					
£m, 2017-18 prices	2014-15	2015-16	2016-17	2017-18	2018-19	Total CP5	2019-20	2020-21	2021-22	2022-23	2023-24	Total CP6
Depots income	68	69	81 ⁸	89	82	390	82	82	82	82	82	412

Other income

1.26 Network Rail recovers other income not derived from regulated charges from a range of sources. This includes £40m of income from the provision of insurance to passenger train operators and the recovery of operating costs relating to third-party connections maintained by Network Rail⁹, as shown in Table 1.9 below.

1.27 We have discussed these forecasts with Network Rail as part of our review. We did not identify any material issues.

⁸ 2016-17 included some favourable one-off income for the resolution of some contractual issues. After these issues were resolved, around £10m was added to the yearly on-going depots income.

⁹ These are for physical connections from facilities such as terminals, ports, sidings and depots to the main network.

Table 1.9: Network Rail's SBP: Other income in Great Britain

£m, 2017-18 prices	CP5						CP6					
	2014-15	2015-16	2016-17	2017-18	2018-19	Total CP5	2019-20	2020-21	2021-22	2022-23	2023-24	Total CP6
Other income	7	8	8	9	9	21	8	8	8	8	8	40

Scotland

1.28 Similar to the position across Great Britain, most of Network Rail's OSTI income either comes from property related items such as:

- property rental or property sales; or
- income related to charges or contracts that are already in place - in some cases this is unregulated income.

1.29 Network Rail's OSTI assumptions in CP6 (in total £176m in 2017-18 prices) are similar to the levels in CP5.

1.30 Most of the comments made about other single till income in the Great Britain section also apply to Scotland. The two main differences are:

- supplemental access charges income, which does not apply to Scotland as Crossrail income only relates to England & Wales; and
- property income, due to the proposed sale of the commercial estate in England & Wales, and the different development/sales environment in Scotland.

1.31 In Scotland, Network Rail is not planning to sell its commercial estate in 2018-19, so, it does not have a decline in property rental income in CP6.

1.32 C&W considered that Network Rail's property income forecasts for Scotland were based on assumptions that are broadly reasonable, but Network Rail should be able to generate more income than it assumed in its SBP. C&W's range for additional income in Scotland (in 2017-18 prices), was a lower limit of £0.9m and an upper limit of £3.2m. For the purposes of our draft determination, we have used Cushman & Wakefield's base estimate, which is £3.1m (3%) higher than Network Rail's SBP.



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