Go-Ahead Group

RAILWAY SAFETY LEVY CONSULTATION

Thank you for the opportunity to respond on the ORR's proposed standard format 'proforma' for the submission of financial data for levy apportionment purposes.

This response represents the views of the three Govia-owned Train Operating Companies (TOCs); Southeastern, GTR and London Midland, as well as Go-Ahead Group plc and has been developed in collaboration with subject matter experts from each business.

Govia is one of the leading rail operators in the UK and is a joint venture between the Go-Ahead Group (65%) and Keolis (35%). Govia has extensive experience running complex and challenging rail operations. Govia currently runs three major rail franchises: Govia Thameslink Railway (GTR), Southeastern and London Midland. Govia is the UK's busiest rail operator, currently providing around 35% of all passenger journeys. As a key provider of rail services, we welcome the opportunity to respond to your review.

Our responses to the specific consultation questions set out by the ORR are answered below:

Question 1: Are there other items which you think should be included in or excluded from 'relevant turnover'? Why do you think this?

It is not clear whether the Profit Share mechanism and Government Subsidy are included or excluded under the proposed definition of relevant turnover. Govia believes both these items should be taken into account in the interest of fair and consistent treatment of the Train Operating Companies. Both Southeastern and London Midland lose a significant proportion of their revenue to Government under the Profit Share mechanism. The levy allocation would therefore be disproportionate to the level of revenue the Operators ultimately retain.

Similarly, excluding subsidy payments disproportionately favours Operators who benefit from such Government funding as their levy allocation would only take into account a proportion of their total revenue. Furthermore, franchise subsidy payments are included in the standard definition of "Turnover" in Franchise Agreements and we therefore believe this should be applied consistently here for levy apportionment purposes.

It is not clear how Farebox Income should be reported for GTR, as in this franchise passenger income passes through to Government with nil retained by the Operator. Our view is that Farebox Income on the GTR return should be shown as zero, which reflects the contract for the franchise, the substance of the arrangement with Government, and the way GTR accounts for turnover.

We note that Capital Grant amortisation is included in "relevant turnover", however we believe this may also lead to a levy allocation which is disproportionate to the income retained by the Operator. Capital Grants are usually paid to fund specific projects delivered by the Operator on a cost-neutral basis. These grants can amount to several millions, without the Operator retaining any profit from the project. We therefore believe that the Operator, effectively acting as a delivery agent for a Government funded scheme, should not be penalised financially through the Safety Levy apportionment policy. This approach would also be consistent with the Franchise Agreement definition of "Turnover" which does not include Captial Grant amortisation.

The term "relevant services" is unclear in the proposed definition of relevant turnover. We would like this to be clearly defined, in particular; whether this would include sales to Network Rail, sublease of rolling stock, maintenance income and other such services to industry partners.

Question 2: How much more than usual, if anything, do you think it will cost you to provide an audited proforma statement in 2016-17?

Based on prior experience, it is estimated that auditing of proforma statements for the three operating companies owned by Govia would cost in the region of £7k - £10k per annum in total.

Question 3: Do you have any other comments on the operation of the safety levy?

It is proposed that any changes arising from this consultation would take effect for the 2016-17 levy round, however this would present a challenge as budgets have already been set for this year based on the previous methodology. Furthermore, the proposed timeline states that levy calculation and apportionment would not be complete until November 2016; it would therefore seem more appropriate to introduce the new methodology from the 2017-18 levy round.