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Addressee list in Annex B

Dear colleague,

Network Rail managed stations – decision on the approval of the qualifying expenditure (QX) management fee for control period 5 (CP5)¹

Background

1. Paragraph 1.3 of Annex 2 to the Independent Station Access Conditions (ISACs) provides for ORR to approve a “fee in respect of overheads” incurred by Network Rail and “a management fee for operating or procuring the operation of the stations” at which Network Rail is the Station Facility Owner (SFO). This fee is known as the qualifying expenditure (QX) management fee.
2. On 30 September 2014, following consultation with relevant train operators, Network Rail submitted its final proposal to us for the QX management fee for CP5, incorporating the recovery of central overheads and a profit element.
3. After sending us its proposal for the QX management fee, Network Rail informed us that it was in dispute with an operator regarding QX at two of its stations. We therefore asked it to write to us again to confirm which operators had agreed to the QX management fee, and to which stations the agreements applied.
4. On 23 April 2015, Network Rail sent us a letter confirming that all operators at Network Rail managed stations had agreed to the proposal, with the exception of one operator. That operator did not agree with the proposed fee at two stations and the resultant dispute is being handled through the Expert Determination process but it has agreed to the fee at a third station that it serves.
5. In this letter, I set out: our decision; the basis for our decision; how it will be applied in CP5 and the process for approving the QX management fee for the next control period (CP6).

¹ CP5 covers the period from 1 April 2014 to 31 March 2019.

Decision

6. We have reviewed Network Rail's proposal and hereby approve, for the duration of CP5, a QX management fee representing an uplift of 6.54% on the total of the fixed QX at Network Rail's managed stations for CP5.

7. During CP5, the 6.54% QX management fee applies to all QX that Network Rail is entitled to charge.

The basis for our decision

8. The QX management fee of 6.54% is made up of 1.54% to recover central overhead costs and 5.0% to reflect an appropriate level of profit to provide Network Rail with a financial return that compensates it for the financial risks it is taking in managing the stations.

9. The 1.54% central overhead cost uplift is Network Rail's estimate of the appropriate level of recovery of CP5 central overhead costs in respect of its managed stations as of 31 October 2013 (see Annex A) expressed as a percentage of its CP5 fixed QX in respect of the same stations. Network Rail has provided supporting evidence for this estimate of central overhead costs, which we have reviewed and regard as reasonable.

10. To estimate the QX management fee, Network Rail benchmarked the fee against analogous charges levied by train operators, its own property function and other comparators. This work showed that:

- (a) informal discussions with two train operators suggested that the profit element of the management fee that train operators charge is generally around 6%;
- (b) for the two shopping centres Network Rail benchmarked, the management fee (including the profit element) was in the range 5.5% to 6.0%; and
- (c) the Royal Institute of Chartered Surveyors (RICS) guidance gave 10% as an upper limit on a management fee (including a profit element).

11. On the basis of the evidence Network Rail provided, we think it is reasonable to increase the profit element of the management fee from 3.5% to 5.0%.

12. The CP5 QX management fee of 6.54% for CP5 is higher than the 5.7% fee for CP4. This is because of the increase in the profit uplift from 3.5% for CP4 to 5.0% for CP5 (as set out above), offset by a reduction in the CP5 central overhead cost uplift from 2.2% for CP4 to 1.54% for CP5.

Application of the QX management fee in CP5

13. We have not approved the QX management fee until now because we had been waiting for the conclusions of the QX negotiations between Network Rail and train operators. Although we are approving the QX management fee after the beginning of CP5, the fee will still apply for the whole of CP5. If necessary, we expect Network Rail to put in place a reasonable method for recovering any sums due for the period of CP5 that has already passed.

14. Since it submitted its proposal for the QX management fee, Network Rail has subsequently taken over the management of Reading and Bristol Temple Meads stations. At these stations and for any other stations at which Network Rail becomes the SFO in the future, the fee will apply for all the fixed QX that Network Rail is entitled to charge.

Process for approving the QX management fee for the next control period (CP6)

15. For CP6, we would like the process for us approving Network Rail's QX management fee (if it is continued with) in respect of its managed stations to be better aligned with our next periodic review of Network Rail's outputs, charges and funding. In order to do this we would need to receive a proposal for the QX management fee from Network Rail as part of its strategic business plan with evidence regarding the proposal's support from the relevant train operators.

16. If there are any elements within the existing processes, including those in the ISACs and the periodic review process that Network Rail thinks would make it difficult to deliver a proposal within these timescales, we would be happy to discuss this. If Network Rail thinks the wording of the ISACs can be improved, it is welcome to make a proposal under part 2 of the ISACs which outlines the process for proposing modifications to the ISACs.

Yours faithfully,



Carl Hetherington



Annex A – Network Rail’s managed stations as of 31 October 2013

Managed station	Route
Birmingham New Street	LNW
Edinburgh Waverley	Scotland
Glasgow Central	Scotland
Leeds	LNE
Liverpool Lime Street (high level)	LNW
London Bridge	Kent
London Cannon Street	Kent
London Charing Cross	Kent
London Euston	LNW
London Fenchurch Street	Anglia
London King’s Cross	LNE
London Liverpool Street	Anglia
London Paddington	Western
London St Pancras International (low level Thameslink platforms)	East Midlands
London Victoria	Sussex
London Waterloo	Wessex
Manchester Piccadilly	LNW

Annex B – Addressee list

Abellio Greater Anglia Ltd
Abellio ScotRail Ltd
Arriva Trains Wales/Trenau Arriva Cymru Ltd
East Coast Main Line Company Ltd
East Midlands Trains Ltd
First Capital Connect Ltd
First Greater Western Ltd
First ScotRail Limited
First/Keolis Transpennine Ltd
Govia Thameslink Railway Ltd
Grand Central Railway Company Limited
Hull Trains Company Limited
London & Birmingham Railway Ltd
London & South Eastern Railway Ltd
London Overground Rail Operations Ltd
Northern Rail Ltd
NXET Trains Ltd (c2c)
Southern Railway Ltd
Stagecoach South Western Trains Ltd
The Chiltern Railway Company Ltd
West Coast Trains Ltd
XC Trains Ltd