



National Union of Rail, Maritime & Transport Workers

**RMT response to the ORR consultation
on financial issues for Network Rail in
CP5**

1. Introduction

As a trade union representing thousands of Network Rail workers, the National Union of Rail, Maritime & Transport Workers is deeply concerned that the Office for Rail Regulations proposals for dealing with financial issues in CP5 will lead to further cuts being implemented by Network Rail, and ultimately a poorer service provided to customers and the travelling public, and a less safe environment for both the workforce and the travelling public.

2. Executive Summary

- RMT is opposed to using financial risk to incentivise efficiencies in Network Rail. Index linking should be retained in all areas which were index linked during CP4, and including the index linking of renewals.
- RMT believes that the feast or famine approach to renewals, enhancements and projects is one of the greatest sources of inefficiency at Network Rail. Were Network Rail to have a steady profile of renewals, enhancements and projects this would lead to improved delivery, efficiency and costs as well as employment stability for the workforce.
- RMT believes that any increase in financial risk may become material risk for the workforce and the travelling public.
- CP4 saw substantial cuts implemented to Network Rail's budget which impacted directly and significantly on staff numbers and subsequently on safety standards such as patrol frequencies.
- Whilst RMT argues for a fully integrated and publically owned railway network, RMT does not believe that Network Rail, through its finances, should be held accountable for the financial activities of organisations beyond its control such as the British Transport Police and the Rail Safety & Standards Board.
- RMT believes that the planning of the national rail network should, as part of Britain's critical national infrastructure, be long term and accurate. This is one reason why we oppose the introduction of additional fragmentation, through alliancing and the granting of new concessions, within CP5.
- RMT supports the retention of network grants, and believes that the finances of the rail network cannot be left to private companies which will be incentivised to extract profit at the expense of standards.

Risk and uncertainty

Q3.1: What are your views on our proposed approach to indexing Network Rail's allowed revenue and RAB for inflation. In particular, that we are proposing to set an ex-ante assumption for both general inflation and input price inflation in our determination of access charges for CP5?

RMT does not agree with the ORR proposals to reduce the level of inflation risk support in order to incentivise NR to "manage inflation more efficiently".

RMT notes that the ORR acknowledges that they "are aware that changing the way we index Network Rail's allowed revenues in this way will increase Network Rail's financial risk".

RMT believes that any increase to Network Rail's financial risk will lead to a lower quality of service and potential cuts to workforce and subsequently safety standards across the network.

Q3.2: What are your views on our proposal not to provide Network Rail with an in-year risk buffer?

RMT believes that the in-year risk buffer should be retained.

Q3.3: What are your views on our proposal to simplify the mechanism to re-open Network Rail's access charges review by removing some of the specific re-openers?

Whilst the RMT does not object to some risk being transferred to customers and funders (ie. the private rail industry), we believe that there is a significant possibility of this cost being further transferred onto the travelling public, or lead to widespread cuts to service and staff levels across the private rail industry.

RMT therefore believe that a surplus within Network Rail's allowed revenue must be sufficient to compensate it for all possible risk. However, RMT does not object to the introduction of any new re-openers but maintains that the impact of the use of such re-openers should be carefully assessed prior to their use.

Q3.4: What are your views on our proposed treatment of traction electricity, industry costs and rates, e.g. BT police costs?

RMT welcomes the proposal to transfer some of the risks associated with traction electricity costs, over which Network Rail has no control, onto private train operators.

Network Rail is represented by 1 of 13 members of the British Transport Police Board. RMT believes that this level of representation is insufficient to consider NR to have sufficient influence over these costs for them to be treated as support costs.

Network Rail is represented by 1 of 12 members of the Rail Safety Standards Board. RMT believes that this level of representation is insufficient to consider NR to have sufficient influence over these costs for them to be treated as support costs.

RMT believes that while a whole industry approach is desirable, it is not possible to make one part of a fragmented rail industry responsible for other areas over which it has little or no control. A whole industry approach can only work in a fully integrated railway, ie. a railway in which it is possible to deal with as a whole.

Q3.5: What are your views on our current thinking that the maximum level of financial indebtedness that Network Rail can incur should at no point exceed a limit set between 70-75% in CP5?

RMT believes that the maximum level of financial indebtedness in CP5 should be no lower than that of CP4.

Cost of capital issues

Q4.1: What are your views on how we could handle an industry reform initiative, e.g. further alliances or a concession?

RMT believes that industry reform which creates further fragmentation of the industry should not take place, as it places a great deal of financial uncertainty on Network Rail in addition to moving infrastructure away from a not-for-dividend status to a private profit making status.

RMT believes that an alternative model would be for Network Rail to have access to funds which would allow for the organisation to gradually take franchises back in house in order to lead to greater integration and ultimately an economy of scale.

Q4.2: What are your views on our proposal to set the FIM fee reflecting a long-run view of the credit enhancement that Network Rail is provided with?

RMT believes that the FIM fee should not increase during CP5.

Q4.4: What are your views on how we are proposing to assess financial sustainability?

RMT believes that the measures to assess financial sustainability for CP5 should be no less robust than those implemented during CP4.

Q5.2: What are your views on our proposal not to index renewals for changes in input prices and how should we take account of the difficulty that we have experienced in CP4 in confirming that renewals underspends have been efficient?

RMT believes that renewals, as a significant part of expenditure should continue to be indexed.

Renewals underspends should be measured in terms of efficiency by whether or not they have been undertaken to the highest of safety standards, and whether the renewal has been successful.

Corporation tax

Q6.1: What are your views on the options we set out for our approach to corporation tax in CP5?

As a not-for-dividend company on which a public service relies, RMT does not believe that it is appropriate that Network Rail is exposed to the net effect of an underspend/overspend in income, support costs, operations costs, BT Police costs, RSSB costs, maintenance costs, financing costs and corporation tax.

On that basis RMT believes that Network Rail should have a 'tax wedge' in relation to corporation tax.

Other financial issues

Q7.1: What are your views on our proposal to allow part of Network Rail's income to be provided directly by the governments through a network grant, which will be set ex-ante for each year of CP5?

RMT is opposed to McNulty's proposal for an end to network grants.

RMT believes that this would place additional risk on Network Rail, and ultimately on the workforce and travelling public by making funding dependent on train operators some of which have consistently been proven to be unreliable.

RMT strongly opposes the proposed method of funding Network Rail being for all of its income to come from franchised train operators and other customers and supports the retention of network grants.

RMT supports the proposal for the automatic increase of track access charges should governments not meet their obligations for network grants.

Q7.2: What are your views on the activities that Network Rail should be allowed to carry out?

RMT believes that the activities that Network Rail should be allowed to carry out within its financial ring-fence should be broadened to include railway operations. However, we do not support the more flexible approach being proposed as we believe it may threaten the not-for-dividend status of some of network rails activities and increasingly allow for Network Rail's assets to be sweated for private profit. Some examples of this would be the proposals to further privatise stations, or the potential buying and selling off of assets such as privatised depots.

RMT will respond more fully to the draft determinations.

Q7.3: What are your views on increasing the strengths of the incentives on Network Rail to materially outperform our determination and to avoid materially failing to deliver our determination and should we consider more heavily incentivising genuine 'game changing' initiatives?

RMT has consistently objected to the entry of private competitors into Network Rail's investment projects. RMT believes that ultimately the risk for such projects will be borne by the taxpayer and as such should continue to be undertaken by Network Rail.

Additionally RMT is opposed to any further fragmentation of Network Rail, including in the disaggregation of accounts.

RMT believes that genuine incentivising can not take place through increasing risk to the overall budget of Network Rail and ultimately the quality of service and the safety of the workforce and travelling public.

Furthermore, when discussing performance it is important to again highlight the fact that the international comparators which Network Rail has been benchmarked against in the past are now widely discredited. This was brought to the attention of the ORR by the RMT following the publication of the Rail Value for Money Scoping Study.