



PR18: Station long term charge – Final impact assessment on the methodology at managed stations

June 2017

This impact assessment supports conclusions from our December 2016 consultation ['Improving incentives on Network Rail and train operators: A consultation on changes to charges and contractual incentives'](#). We have reviewed all comments in response to this policy area. As responses did not significantly alter our assessment of these options we did not make any changes to this impact assessment.

Policy	Charges Station long term charge (LTC)
Policy area	Station LTC – Methodology at managed stations
Background	<p>The managed station LTC is calculated separately for each managed station. It is based on the annual average of long run efficient maintenance, repair and renewal (MRR) expenditure projected over 100 years. The rationale for using 100 years in the calculation of the LTC at managed stations, instead of the 35 years used in the franchised station LTC calculation, is to avoid volatile charges at some major stations where there tends to be large peaks in expenditure.</p> <p>To calculate the LTC for managed stations total MRR spend at each station is estimated for the next control period using bottom-up estimates and then based on asset policies it is extrapolated for the subsequent 19 control periods. The average expenditure in a control period for each station over the 100 years is then divided by 5 to give an annual pre-efficient LTC for each managed station.</p>
Which of the PR18 outcomes does this charge/incentive deliver against?	<p>Outcome: The network is efficient</p> <p>Description of outcome:</p> <ul style="list-style-type: none">• The network is being operated, maintained and renewed at the lowest cost, given the level of use and performance

Problem under consideration with the current charge/incentive

The current model to calculate the LTC at managed stations does not account for all MRR work expected at a station over the 100 years covered by the forecast. This means that managed station long term charges are likely to be understated.

Specifically, when projecting MRR costs over the next 100 years, the model does not consider any MRR work undertaken in previous control periods. Instead the model uses work expected to be delivered in the next control period as the basis to forecast efficient MRR expenditure over the next 100 years. If no MRR work for a certain expenditure category is expected in the next control period then costs for that cost category will be set at zero for the 100 year period.

Network Rail states that this is an issue relating to the model used to forecast long-run costs (i.e. over 100 years) for the purposes of managed stations LTC. It is not an issue with how they plan or carry out works at managed stations.

This issue with the current methodology reduces the cost reflectivity of the charge.

What is the scale of the issue & who is impacted?

At this stage it is not clear what level of MRR costs the current methodology inaccurately accounts for. We are supporting Network Rail's work to review the methodology and identify ways it could more accurately estimate all MRR costs expected at managed stations over 100 years.

Options to be considered

Option 0: Do nothing	<ul style="list-style-type: none">Continue to use the current methodology to calculate the LTC at managed stations.
Option 1: Improve the methodology for the LTC calculation at managed stations	<ul style="list-style-type: none">Amend the managed station LTC methodology to consider MRR work undertaken in previous control periods. The current methodology means that current charges under-recover costs.Note: Network Rail's work on this issue is at an early stage. An alternative methodology has not yet been developed.

Assessment of options

Assessment of option 1 (Improve the methodology for the LTC calculation at managed stations)	<ul style="list-style-type: none">Improving the methodology to more accurately estimate MRR costs at managed stations over 100 years would improve the cost reflectivity of the LTC at managed stations.It is expected that this option is likely to lead to an increase in the LTC for operators at each managed station. This is because additional costs will be captured by the model.At this stage Network Rail is not in position to estimate the size of any changes in operators' LTC. This will depend on the scale of works that were not included in the CP5 methodology. However, any increase in LTC would tend to reduce charges elsewhere.
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Recommendation	<ul style="list-style-type: none"> • We support Network Rail’s work to improve the methodology to calculate the LTC at managed stations.
Next Steps	<ul style="list-style-type: none"> • We will continue to support Network Rail’s work to establish the scale of the issue and develop an alternative methodology. • Network Rail states they will keep stakeholders informed as their modelling work progresses and they have more information regarding the likely extent of changes to the charge at managed stations.



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