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By email: Joel.Strange@networkrail.co.uk

Dear Joel

First Consultation on the Station Long Term Charge in CP5

Thank you for the opportunity to respond to this consultation. Outlined below are some general observations as well as responses to the specific questions.

Principles

In broad terms, the presumption of Transport Scotland is that all charges will be fit for purpose and transparent, will help strengthen the alignment of incentives and improve efficiency, and will complement broader planning activities.

By any measure the Scottish Ministers are the main funders of rail infrastructure and rail services in Scotland. As such, Transport Scotland requires visibility of Network Rail's costs at a consistent, disaggregated level to ensure that the substantial public investment in Scotland's railways is allocated and spent efficiently. This would allow for the development of more bespoke, local arrangements that could help to strengthen incentives and improve efficiency.

Transport Scotland would also generally note that it is disappointing that there appear to be no new incentives or plans to reduce ongoing costs or to improve environmental sustainability.

Current structure

A number of changes were made to the Long Term Charge (LTC) for CP4, many of which were welcome. It remains the case, however, that the general process is wasteful – presenting a station charge that bears little resemblance to the costs being incurred at the station. Assertions that this may reflect long run costs are spurious. The approach for CP5 needs to better link cost and value, which is vital if better value for money is to be achieved. Further consideration should be given to what drives the demand for separate charge for each station.

Network Rail's proposal

Q1. Do you agree that the established LTC structure should be retained in broadly its current form in CP5?

Transport Scotland broadly supports the retention of the established LTC structure for CP5. The treatment of inflation should be consistent with that within the broader CP5 settlement as determined by the ORR.

Q2. Do you agree that the cost of capital associated with stations should continue to be excluded from the LTC?

This requires further consideration, including whether inclusion in the LTC would help to improve transparency and enable all beneficiaries to contribute to the capital charges.

Q3. Do you agree that SISS costs should be recovered by means of the LTC rather than fixed charges in CP5?

Broadly, yes. This should generally offer more accurate cost allocation and improved transparency.

In terms of the benefits listed at paragraph 17 of the consultation document, the only issue is whether the cost attribution drivers used currently truly reflect the benefits. This may not always be the case, particularly at mixed use Major stations.

Q4. As a general principle, do you agree that the industry should move to a portfolio charging structure for the LTC in CP5?

This requires further discussion given the large number of stations in Scotland. A portfolio charging structure would make it difficult for Transport Scotland to monitor the cost of any one station in Scotland, as we have many franchised stations with one SFO. The current breakdown of LTC per station allows Transport Scotland to make informed financial decisions. However, we are open to suggestions on how best to align our requirements with the need to avoid unnecessary complexity and overly burdensome accountancy requirements.

Q5. Do you agree with the specific approach to portfolio billing described in the preceding paragraphs?

Broadly, yes. However a *de minimus* position may need to be adopted where beneficiaries do not need to contribute below a certain threshold, but with an acceptance that they lose the right to be consulted regarding station change.

Translating expenditure into charges

Q6. Do you agree with the proposed methodology for translating expenditure into charges at franchised stations in CP5?

This requires further consideration. The accuracy of long run costs estimates is uncertain so the accuracy may be low and there is a risk of including substantial embedded costs. Transport Scotland is clear on the need to assess value for money in station expenditure. However, this high level, technically driven process is unlikely to address this. Consequently, there is a risk that this could inflate costs.

Q7. Do you agree with the proposed methodology for translating expenditure into charges at managed stations in CP5?

There does not appear to be any significant drivers to change the process from that adopted in CP4.

Transfer of MRR activities to SFOs

Q8. What are your views about the LTC in light of the transfer of MRR activities to SFOs on same routes?

The residual costs falling on Network Rail will need to be recovered from the TOC who is taking over as “enhanced” SFO otherwise the costs will fall to other industry stakeholders. There is a lot of further consideration required around this. However, there still needs to be a standard template for potential future transfers.

Q9. What are your views about our proposals for industry engagement a part of the process to set LTCs in CP5?

Given accounting separation and the separate funding of Network Rail in Scotland by the Scottish Ministers it is important that there is Scotland specific dialogue to ensure that any specific Scottish issues can be reflected in final arrangements for CP5.

Additional Question

Q10. Do you agree that for Managed Stations SISS maintenance and repair should be brought together as a landlord responsibility, and therefore be included in the LTC for CP5?

Broadly, yes. However, while the default position should be that the total costs fall to the landlord flexibility should be allowed for these to be varied, by agreement, to the tenant.

I hope you find this useful. I can also confirm that Transport Scotland does not require any of this response to remain confidential.

Yours sincerely

STEVEN MCMAHON