



Department
for Transport

Railways Act 2005 Statement Statement of Funds Available

Presented to Parliament pursuant to the Railways Act 2005

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Introduction

This Railways Act 2005 Statement fulfils the requirements of UK legislation by setting out for the Office of Rail and Road (ORR) the information about the public funds, in respect of England and Wales, that the Government is making available during the review period covering 1 April 2019 to 31 March 2024 (the Statement of Funds Available or SoFA).

This is to support delivery of the Secretary of State's High Level Output Specification (HLOS) provided on 20 July 2017, which is aimed at ensuring that the railway becomes more focused on issues that matter most to its customers.¹

This SoFA replaces the previously provided initial SoFA, following work conducted by Government, in consultation with the ORR, to further assure itself that the volumes and costs of operations and maintenance activity will be reasonable and affordable.

Statement of Funds Available

The funding that the Government provides to the rail industry is directed either to support franchised passenger service operators, or as a direct grant to Network Rail. The Secretary of State anticipates that this arrangement will continue during the review period.

The table below sets out the direct grant that the Government is making available to Network Rail and the level of expenditure that the Secretary of State currently anticipates this grant will support throughout Control Period 6 (CP6: 1 April 2019 to 31 March 2024), once income to Network Rail is accounted for. In doing so, he recognises that it is the role of the ORR to determine the final level of income for Network Rail through the Periodic Review.

In line with the HLOS, the level of expenditure is focused on and provides for the operations, maintenance and renewal of the existing railway over CP6.² The level of expenditure makes some provision for the funding of enhancements. However, the Secretary of State expects decisions regarding specific enhancements to be dealt with separately, building on the principles set out in the 'Memorandum of Understanding between Department for Transport and Network Rail on rail enhancements,'³ and this statement makes no commitments to specific enhancements.

The Secretary of State requires that Network Rail will not take loans or issue bonds from Government or any Third Party to fund the HLOS. In addition, Network Rail must refer to the 'Network Rail Framework Agreement'⁴ before entering into any financial transactions which may be classified as borrowing.

1 In providing this, the Secretary of State notes that the ORR should have appropriate regard to the statutory guidance that he issued to the ORR on 20 July 2017 (available at: <https://www.gov.uk/government/publications/railways-guidance-to-the-office-of-rail-and-road>)

2 The level of expenditure set out does not take account of payments to the British Transport Police, Corporation Tax, Financial Indemnity Mechanism Fee, Cash Collateral obligations, Interest Payments related to either the DfT loan or Third Party Debt, or Repayments related to either the DfT Loan or Third Party Debt. Government has noted the obligations Network Rail has in relation to these and will ensure that adequate funding is provided to meet these obligations, out-with the SoFA.

3 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/509545/mou-dft-network-rail-rail-enhancements.pdf

4 <https://www.gov.uk/government/publications/network-rail-framework-agreement>

The table below sets out the total level of Network Grant being made available, which is final. It represents the maximum funding direct from Government to Network Rail. The Secretary of State expects the remaining expenditure to be funded by income Network Rail receives from its customers (train operators, both passenger and freight) and its commercial activities. Final conclusions on the level of access charges payable to Network Rail by train operators will be determined by the ORR through the Periodic Review.

The Secretary of State has not defined a profile of either the expenditure or the Network Grant across the Control Period. He notes that a profile of operations, maintenance and renewals will be considered by the ORR as part of the Periodic Review,⁵ taking account of Network Rail’s route-based strategic planning. Government will continue to work with the ORR to develop suitable budgetary and oversight arrangements consistent with Network Rail’s status as a public sector body. In this context, Government is considering appropriate budgetary flexibilities to secure value for money.

The SoFA will support the Periodic Review process. The Secretary of State expects the industry and ORR to continue to work together to pursue actual expenditure below that assumed in the SoFA. In doing so he expects them to work together to seek delivery of the maximum possible level of efficiency improvements consistent with achieving the requirements of the HLOS. To achieve this, he is looking to the ORR to ensure a strong and robust challenge on cost and deliverability. An important part of this will be to support an ambitious implementation of route devolution to deliver the benefits of competition and improved understanding of costs through better benchmarking.

Statement of Funds Available	
£billions, cash	CP6
Network Rail Expenditure	47.9
Supported by Network Grant	34.7

⁵ <http://orr.gov.uk/rail/economic-regulation/regulation-of-network-rail/price-controls/periodic-review-2018>

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