Policy paper - https://www.gov.uk/government/publications/railways-bill/railways-bill-how-the-government-plans-to-fund-gbr

Railways Bill factsheet: how the government plans to fund GBR

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Today's railways are run by many different organisations, each with their own unique funding arrangements. This fragmentation adds complexity and bureaucracy to a system which is already overly complex. The creation of Great British Railways (GBR) through the Railways Bill will bring many of these different organisations together and provides the opportunity to create a new funding framework that reflects the new, rationalised sector.

A glossary of terms can be found in this document.

How is the railway funded today?

In today's model, Network Rail (NR), which operates, renews and maintains railway infrastructure (for example, track and signals), is funded through a 5-yearly Periodic Review (PR) process. The process is led by the Office of Rail and Road (ORR), the independent rail regulator, which ultimately decides how much money the government should pay to NR. This type of funding is intentionally hard to change, providing certainty for industry and resulting in value for money overall due to the greater efficiencies from being able to confidently plan spending over longer periods of time. Government support to NR for day-to-day operational costs, or operations, maintenance and renewals (OMR), was around £8 billion in 2023 to 2024.

Network Rail also receives money from charging anyone who wants to use the railway network (train operators who want to run trains on NR's track – this is called an 'access charge'). They also have other smaller forms of commercial income. The framework for access charges is currently set by the ORR but will be set by GBR in the future.

Passenger services (train services) run by government contracted train operating companies, such as Thameslink, are funded differently to NR. The overall money available for passenger services is set at the Spending Review and then allocated via an annual business planning and funding process. Train operating companies also receive money from other sources, such as ticket fares. The train operating companies set out what they intend to deliver in annual business plans, then they seek approval from government. When approved, the contents of these plans are reflected in service agreements with the government. Overall, government support to passenger operators (including help to pay for the passenger operators access charge) was around £4 billion in 2023 to 2024.

Enhancements, such as new stations and track, are allocated an overall amount of funding at the Spending Review but individual projects are funded and approved through the Rail Network Enhancements Pipeline. This is a process run by DfT that decides which potential projects are delivered based on each project's contribution to government objectives. The costs of enhancements vary depending on which projects are approved, but to provide context, in the 5-year period from 2019-20 to 2023-24, around £2 billion per year was spent on enhancements (excluding HS2). There is a similar process in Scotland called the Rail Enhancements and Capital Investment Strategy.

What needs to change?

When we bring together the different organisations to create GBR, some of the different ways in which money moves around the system will no longer apply. The biggest difference is that access charges will no longer exist inside GBR. This is because the 'passenger train services' – currently run by train operating companies – and the 'track' – currently run by Network Rail – will be run by the same company (GBR), so there is no longer the need for access charges as previously existed between Network Rail and train operating companies. This results in a big change to how funding works from a legislative perspective too, where access charges were previously linked to the funding provided.

How do we plan to fund GBR?

GBR will be funded via a mix of different types of financial assistance (for example, grants, payments and guarantees) dependent on what is most appropriate for the relevant activity. This leaves the government with flexibility to adjust GBR's financial terms as necessary, allowing for an evolution of arrangements over time. GBR will also receive money in other ways from private companies or individuals. Some examples are from rail ticket fares, 'access charges' from anyone other than GBR who wants to use the tracks (such as a freight operator) and renting out space in train stations.

The main change made by the bill is to update and renew the Periodic Review. This new process will be known as the Funding Period Review (FPR) and will fund GBR for its operations, maintenance and renewals (OMR) spending – or in other words, for its infrastructure funding for track, signals, stations, etc – much as the Periodic Review does for Network Rail now.

The FPR will be conducted every 5 years, with funding committed for 5 years based on an integrated business plan produced by GBR in response to the strategic objectives of GBR's main funders, the Secretary of State for Transport and Scottish ministers. The FPR intends to retain the robust and detailed approach to determining funding that the previous Network Rail PR provided. This would also help provide certainty for industry over the 5-year 'funded period' following an FPR's conclusion.

Given the greater uncertainty of passenger services spend and income, due to changes in passenger demand which are difficult to predict, Passenger services will not be included within this commitment at this point. Passenger services and other activities outside of infrastructure operations, maintenance and renewal will be funded using existing powers, which will be updated to account for GBR. As these powers already work well in allowing the government to provide transparent and flexible funding to the railway industry, we have decided to keep them and continue to use the Spending Review for these aspects of GBR funding.

What will the new Funding Period Review do?

Like the periodic review today, the FPR will commit funding for GBR's infrastructure operations maintenance and renewal activity over 5 years.

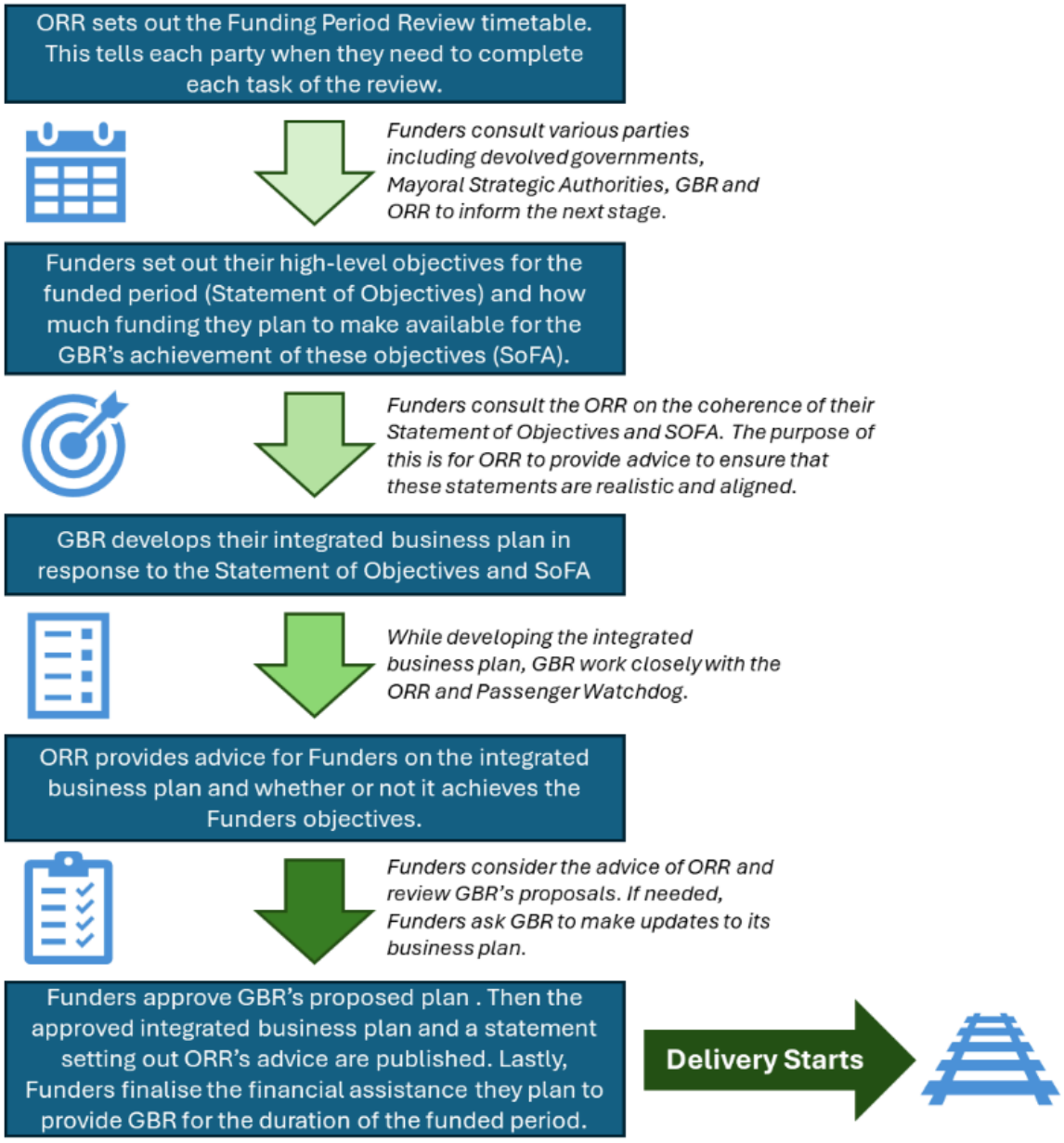
The creation of the FPR aims to achieve 3 key objectives:

- to preserve the benefits of the existing PR process by providing structured and expert third-party scrutiny on the funding to be provided by government and the proposed activity to be undertaken with this funding, as well as 5-year certainty for industry
- to update how OMR is funded so that arrangements work for GBR (i.e. the legislation no longer requires the determination of access charges to determine funding)
- to align the role of the ORR in the process with ORR's adjusted role in the new model, making them an expert and independent advisor to the railway's funders

Many of the steps of the FPR will look similar to the current PR process. The steps of the new process are set out in this document.

What happens if things change during a funded period?

Today, there are mechanisms to ensure that the grant awarded by the Secretary of State for Transport for the day-to-day operation, maintenance and renewal (OMR) of railway infrastructure is 'safeguarded' and cannot be changed too easily or frequently, as that could disrupt services, drive poor value for money and (in the extreme) create safety concerns and undermine the supply chain.



Funding Period Review process

The bill will provide for a new approach which ensures transparency on material reductions made to the infrastructure operations maintenance and renewal funding awarded through the FPR process. Should funders take away funding committed using the new funding powers linked to the FPR, and they think it will have a material impact on GBR's ability to deliver the funded activities, they will be required to make this reduction transparent and tell the ORR about the plans to reduce funding in advance. Alongside this legislative requirement, the government intends to issue guidance setting out how it will determine the circumstances in which the threshold

for a ’material impact’ on GBR’s abiliity to deliver the funded activities will be met. As well as this, the government intends to set out in a change policy any additional steps to be followed if the funding has to be changed and if it is appropriate for there to be an additional process. This change policy will be developed during the FPR and will cover operations, maintenance and renewal funding with the intention of creating a certain environment for GBR and industry.

Retaining flexibility for the future

As this document explains, the FPR process will only set the funding for infrastructure operations maintenance and renewal. However, legislation will provide a route for the 5-year settlement to include any of GBR’s core public interest activity, including passenger services and enhancements, should ministers in the future decide this is appropriate. That being said, the requirement to tell the ORR about plans to materially reduce funding in advance will only apply to infrastructure operations and renewals funding, even if ministers decide to expand the scope of the FPR in the future.

Glossary of terms

Funders

The Secretary of State for Transport and Scottish ministers, the funders of GBR in England and Wales and Scotland, respectively.

Funding Period Review (FPR)

The replacement for the Periodic Review created by this bill, designed for GBR. It will be a statutory process initially dedicated to setting the funding and outputs for the mainline GB railway infrastructure for a 5-year period, taking into account funding GBR will receive from elsewhere, such as third-party access charges and funding from devolved governments.

Integrated business plan (IBP)

This is the plan created by GBR during the FPR process. It will cover all of what GBR plans to do for the next 5 years, such as both track and train activity.

Periodic Review (PR)

The statutory process led by the Office of Rail and Road that is currently used to determine the level of funding for operation, maintenance and renewal of railway infrastructure and what should be delivered in return. A critical component of the process is the determination of charges that passenger, freight and charter train operators pay to access the railway infrastructure.

Rail Network Enhancements Pipeline (RNEP)

The process through which the Department for Transport decides which enhancement projects to fund based on which best deliver the government's objectives.

Spending Review (SR)

The process the government uses to set all departments' budgets for future years. This covers both the services the public uses every day, like the NHS, schools and transport, and how the government will invest in research, energy security and infrastructure to drive economic growth across the country.