PR18: Qualifying expenditure (QX)– Draft impact assessment on QX transparency

December 2016

This document has been published alongside 'Improving incentives on Network Rail and train operators: A consultation on changes to charges and contractual incentives'.

Policy	Charges - Station Qualifying Expenditure (QX)
Policy area	Station QX – Transparency of QX
Background	Qualifying Expenditure (QX) is applicable to both franchised and managed stations. It is designed to recover day-to-day running and operation costs of stations and is made up of two parts: • Fixed QX – this forms the majority of the charge and covers direct operations costs, such as station cleaning, refuse collection and disposal; and • Management fee – Station Facility Owners (SFOs) are also entitled to recover indirect central costs and overheads that arise as a result of operating stations, as well as a profit element. The management fee is levied as a proportion of the fixed QX charge. The QX charge is negotiated at each station between the SFO and the train operators that use the station. Only the management fee element at managed stations (i.e. where Network Rail is the SFO) of the QX charge is regulated by ORR.
Which of the PR18 outcomes does this charge/incentive deliver against?	Outcome: The network is efficient Description of outcome: • 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 There is currently limited information publicly available as to the level of QX charge at different stations. There is a concern that this lack of information is negatively impacting on QX charge negotiations (as SFOs and operators are constrained in their ability to draw upon comparisons of the QX paid at different stations). Potential impacts arising from this lack of transparency include that it could be difficult for operators to know if the QX charges they pay accurately reflect efficiently incurred costs and that SFOs (including Network Rail), are not fully incentivised to improve the cost efficiency of running the stations under their responsibility. The Rail Delivery Group (RDG) review of charges did look at regulating the QX charge but stopped short of recommending this be pursued, instead noting that increasing the transparency of QX could be explored.	
What is the scale of the issue & who is impacted? This lack of transparency relating to QX charges impacts both the SFO and beneficiaries during the negotiation process. There are concerns that the lack of information upon which to base negotiations reduces the incentives for the charge to be cost reflective and for cost efficiency to be improved. It is not possible to estimate this difference between the current QX charges paid and the efficient level of costs that QX is intended to recover.	
Options to be considered	
Option 0: Do nothing	• Continue to have no transparency of QX charges at different stations.
Option 1: Increase QX transparency	• Publish total QX charges at all managed and franchised stations.
Assessment of options	
Assessment of option 1 (Increase QX transparency)	• Increased transparency will allow operators to compare the QX charge they negotiate with that paid by other operators. This could be used to drive efficiencies in station operating costs and also make QX charges more cost reflective across the network. • There may be advantages to the QX figure at each station being split into the different cost categories. For example, this could help facilitate comparisons between stations. However there are concerns this could have confidentiality issues as it may require commercially sensitive material to be published. • There is the potential for QX figures to be misleading if published with no supporting information (for example, contracts will vary depending on station characteristics and the services under negotiation). How information is presented is therefore something that should be

	fully considered when publishing information.
Recommendation	• Although only one element of the QX charge is regulated (i.e. the 'management fee'), ORR supports the option of increasing the transparency of QX charges at both managed and franchised stations.
Next Steps • Network Rail is in the process of publishing total QX charges at managed stations on the Network Rail website. This is scheduled to be completed before the end of 2016. • ORR to discuss with stakeholders the publication of QX charges at franchised stations.	

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