

Fixed Charges & Mark-Ups – GBR's Charges Scheme

*Industry Engagement ahead of Funding Period 1
(2029 to 2034)*

Please note, these slides will be published online and will be available, [here](#).

Introduction and purpose

– Caitlin Scarlett

Workshop purpose

- This is the fourth of our workshops exploring options for GBR's future charges scheme: today we will focus on Fixed Charges for devolved passenger operators and Mark-Ups for open access operators (OAOs).
- During the workshop we will provide **an overview of Section 64 (3) in the Railways Bill**, which permits GBR to set mark-ups above costs directly incurred. We will also provide a brief **recap of ORR's current mark-up policy** for completeness.
- Ahead of today's workshop we have circulated a report by Oxera which provides initial advice and options about the future approach to mark-ups under GBR. This report is published online, here: [Independent-Advice-on-GBR-Mark-ups](#). **We ask that stakeholders familiarise themselves with the options presented in this report ahead of the workshop discussion.**
- The main priority for this workshop is to seek stakeholder views on the options presented in this research, as well as to introduce our current thinking on mark-up policy for OAOs under GBR.
- Caveat: all policy options discussed during the workshop carry no legal weight or commitment that they will come into effect. We are seeking industry views to help shape our proposals, ahead of formal consultation.

Legislative context

– *Conor Murrells*

Key legislative principles of the Railways Bill – mark-ups

CLAUSE 64 (3) – PROVISION FOR MARK-UPS

The scheme may provide for a higher amount to be charged in particular circumstances provided that it does not exceed the amount that Great British Railways considers is the amount that an efficient operator would be able to pay in those circumstances.

- The Railways Bill permits GBR to set charges at a higher amount than Costs Directly Incurred, only where GBR considers that an efficient operator could afford to pay the additional ('mark-up') charge.
- This is a material change from the Access and Management Regulations, which directly references that the infrastructure manager *“may levy mark-ups on the basis of efficient, transparent and non-discriminatory principles, whilst guaranteeing optimum competitiveness, in particular in respect of rail market segments”*.
- The priorities for GBR are to replace the ORR’s Market Can Bear test with an Efficient Operator test. We will provide an overview of the research Oxera has undertaken for us, and our initial thinking and key assumptions.
- We acknowledge previous feedback from stakeholders about whether mark-ups can be assessed based on a ‘market’, rather than a specific ‘operator’. We are continuing to test our position with legal experts.

Recap of ORR's current approach to mark-ups

– *Conor Murrells*

PR23: the approach to calculating OAO mark-ups

What is ORR's current policy for open access mark-ups?

ORR sets an Infrastructure Cost Charge (ICC) for specific passenger market segments. It applies only to new OAO services in the interurban and airport markets, where specific passenger entry/exit criteria are reached.

The charge recovers a proportion of Network Rail's fixed costs, based on an assessment of what specific passenger market segments, operated by open access operators, can bear (the Market Can Bear test).

How was the charge set for PR23?

In PR23, ORR's analysis identified three market segments for the purpose of levying mark-ups: interurban open access, airport services, and all other services.

ORR used a net-revenue approach, based on the profitability of operators within each market segment. This required an assessment of operator cost and revenue data – see key links for PR23 research.

The ICC is phased-in over 5 years, increasing from 0% in Years 1 and 2, to 25%, 50% and 100% by Year 5.

CP7 Open Access ICC *2023/24 prices*

£5 per train mile.

Note: the £5 per train mile rate only applies to specific operators, others have a published rate of zero

Key links:

[Annex 4 – Market-can-bear analysis for passenger services – Report by Steer](#)

Summary of Oxera's 2026 research on mark-ups

– *Conor Murrells*

Oxera research

- We commissioned Oxera to provide independent advice on how GBR could levy mark-ups on open access and freight operators under the revised legislative framework set out in the Railways Bill.
- **Scope:** Reviewed ORR's existing market can bear framework; examined European case studies and regulatory precedents; identified approaches and tested them against the Railways Bill and emerging AUP.
- **Output:** Oxera's research identified 5 distinct policy models, ranging from continuity (as far as is possible) to more economically structured approaches (see next slide).
- Crucially, the research does not recommend a preferred option. It provides options to inform GBR's future policy decisions, which we will test with stakeholders today.

OVERARCHING ASSUMPTIONS

1. **There is no ex ante target for how much mark-ups are meant to raise.** This is relevant to a full Ramsey approach and means Government will need to meet any funding gaps through Network Grant.
2. **Mark-ups are to be calculated at the market segment level.** Approaches will not explore setting mark-ups at the level of individual operators.
3. **A mark-up would not exceed a segment's allocated share of infrastructure avoidable fixed costs.** This means GBR will maintain a cost allocation model for this purpose, similar to the model Network Rail uses today.
4. **GBR's approach to mark-ups will be assessed and updated every five years.** Unless there is a material change in circumstances, which is similar to the approach taken today.

Note: these assumptions may be subject to change as the Government fiscal position becomes clearer during the Funding Periodic Review

Understanding what Oxera's options could mean for OAOs

Option 1: Do Minimum

Retain many elements of current approach, updated with light-touch efficient operator test.

Option 2: Ramsey + affordability

Market Segmentation: would reflect elasticity differences across commodity types and operational characteristics.

Ability to pay/ level of mark-up: the mark-up for each segment is inversely proportional to its price elasticity (i.e., where demand is most insensitive to price the segment would bear a relatively higher mark-up). Traditional Ramsey approaches seek to achieve a desired level of revenue using scaling factors.

Affordability check: each segment's 'Ramsey-optimal' mark up would need to be assessed to verify whether a 'average efficient operator' could bear it. This may require consideration of costs, revenue and reasonable rate of profit.

Option 3: Net-revenue approach

Market Segmentation: could be designed to group passenger flows with similar profitability characteristics.

Ability to pay/ level of mark-up: the maximum mark-up would be set at a level that would enable an average efficient operator to achieve a reasonable rate of profit over the assessment period (e.g. five years), considering forecast costs and revenues.

Affordability check: representative cost structures reflecting the economics of different flows for an 'average efficient operator' would need to be developed, as these do not currently exist.

Option 4: Ramsey & Net-Revenue

Market Segmentation: would need to distinguish between groups with different demand and profitability characteristics, avoiding erroneous groupings.

Ability to pay/ level of mark-up: the mark-up for each segment would be calculated using both a Ramsey and a net-revenue approach, with the lowest mark-up being levied.

Affordability check: this would be addressed by the approaches defined in Options 2 and 3 automatically.

Option 5: Holistic judgement

Flexible approach incorporating different segmentation approaches and various methodologies (and assessments).

Key findings presented by Oxera

- GBR's future approach to mark-ups must preserve investment and efficiency incentives for operators (and their investors) – the policy approach should not discourage operators from increasing revenues or lowering costs, due to concerns that GBR could 'claw back' these improvements through mark-ups. To mitigate this:
 - **Mark-ups should be fixed for five-years.** This means that mark-ups will not be adjusted mid-Funding Period. This is intended to not discourage investment and efficiency.
 - **Mark-ups should be benchmarked to an 'average efficient operator' not individual operators.** This means that individual operator's efficient improvement will only influence the benchmark.
- GBR will have the discretion to apply 'modifiers' to help pursue wider policy objectives, specifically 'market support mechanisms' (e.g., phasing-in mark-ups for new services).

Fixed charges for GBR's own services

- ❖ GBR must allocate infrastructure fixed costs across all operators, including its own services, in a consistent manner. This allows for a meaningful understanding of GBR's own costs compared to other operators.
- ❖ While it is not a legislative requirement to set a mark-up that is linked to a 'lump-sum' charge, we think that maintaining this approach is worthwhile to demonstrate comparability between GBR and non-GBR operators for fixed cost contributions.

Overview of our current thinking

– *Conor Murrells*

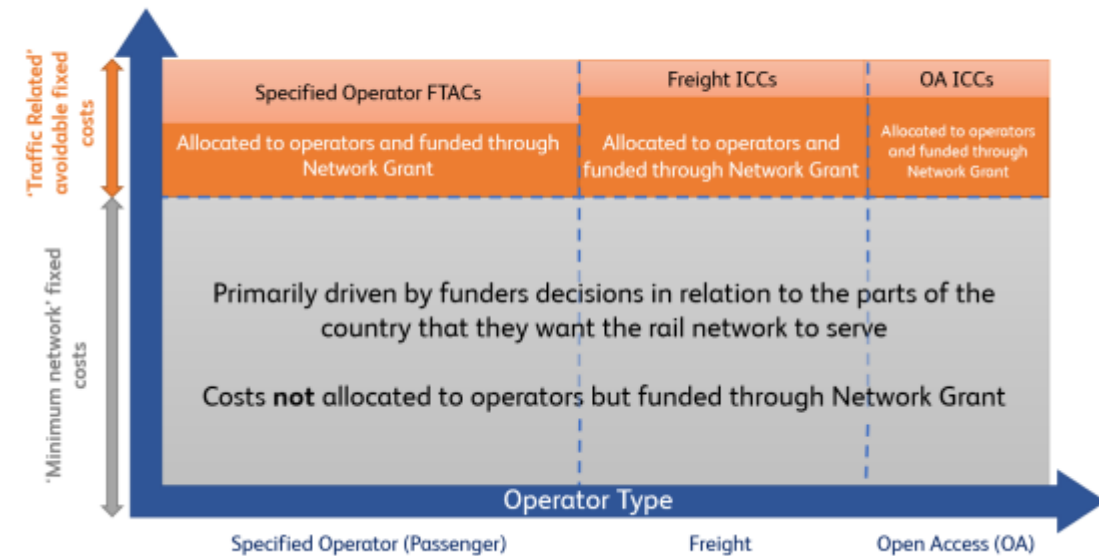
(1) Fixed cost contributions by GBR and 'devolved' operators

– *Conor Murrells*

Fixed Track Access Charge: what is the current approach?

- The current approach to calculating the Fixed Track Access Charge (FTAC) for publicly-funded operators is to categorise Network Rail’s fixed costs into “**traffic-avoidable fixed costs**” (which are potentially avoidable in the long-run) and “**minimum network fixed costs**” (which are not avoidable in the long-run).
- The “**minimum network fixed costs**” are allocated to funders and not to operators, essentially being covered by Grant.
- Network Rail’s fixed cost model estimates an operator’s maximum allocation of “**traffic-avoidable fixed costs**” following a two-step process: (1) estimate costs of individual geographic track sections (c.1,900 in total) and allocate these costs to operators using traffic forecasts, and (2) adjustments to exclude variable charges and third-party income.
- Network Rail calculates FTACs by adjusting the maximum-allocation of traffic-avoidable costs to reflect Network Grant and funding arrangements between Transport Scotland and DfT.

Figure 1: Allocation of fixed costs and Network Grant.



Source: [Network Rail's consultation on regulated access charges in Control Network Rail's consultation on regulated access charges in Control Period 7 \(CP7\)](#)

Observations: non-GBR publicly owned or contracted operators

- Separate charging arrangements will be required for non-GBR publicly owned or contracted ('devolved') operators running services on GBR infrastructure. The reason for this is the presence of public subsidies, which greatly complicates any assessment of ability to pay.
 - If subsidies are excluded, devolved operators would not be able to pay any mark-up as they are not generally profitable without public support. This would place greater burden on taxpayer funding.
 - Conducting analysis at a service level for devolved operators would undermine their policy autonomy to enable cross-subsidisation of profitable and non-profitable services.
- It is our view that devolved operators should be treated as a distinct segment, capable of bearing the full allocation of avoidable fixed costs adjusted for the presence of Grants (as the charge is effectively passed through to its funder).
- Mark-ups for non-GBR publicly owned or contracted operators should be operationalised through a lump-sum charge, covering the full allocation of avoidable fixed costs adjusted for Network Grant. This would ensure a simple, transparent process for apportioning costs between public funders. This would be comparable to the Fixed Track Access Charge. It is also consistent with approaches across Europe.
- We have considered simplification of this lump-sum charge, for GBR's own services and non-GBR 'devolved' operators alike, which we explore in more detail on the next slide.

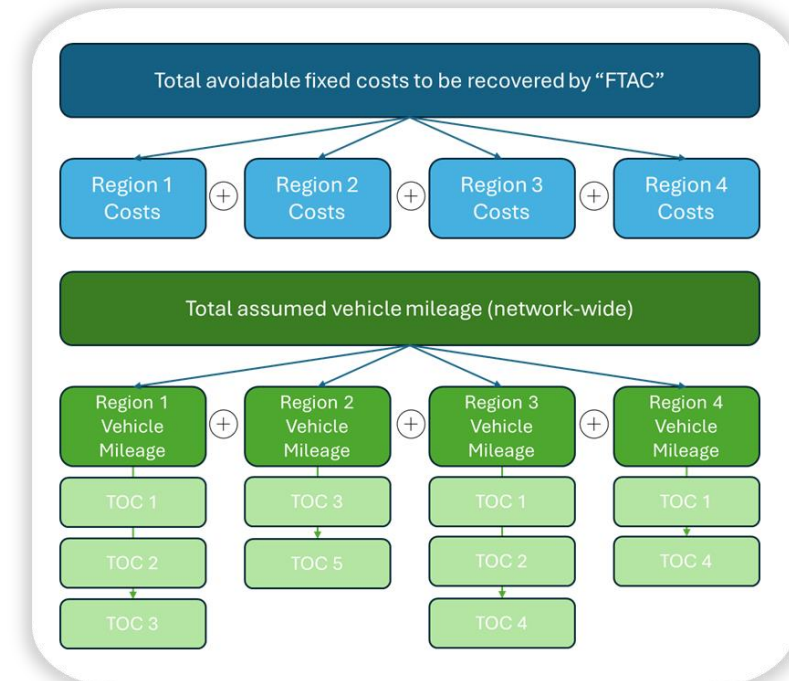
Workshop discussion point: Are distributional impacts acceptable in exchange for a simpler and more transparent approach?

FTAC: simplification proposal

- The allocation of traffic avoidable fixed costs to approximately 1,900 track sections adds complexity to the modelling and calculation of operator FTACs.
- There is an opportunity to greatly simplify the calculation of publicly-contracted FTACs (for GBR services and devolved operators). The rationale underpinning this is proportionality of the charge, recognising that FTAC is essentially another form of Grant between public funders.
- We believe train miles could be a reasonable proxy for allocating avoidable fixed costs, as most operators show close alignment (typically within ± 1 pp). However, some outliers remain where differences are larger (+2pp) and likely reflect underlying structural factors rather than systematic bias.
- While train miles is broadly aligned with avoidable fixed cost shares, applying this proxy would redistribute costs across operators. This results in material uplifts or reductions for specific operators.
- Although there is no “correct” answer and neither approach is inherently more accurate than the other, there is clearly a trade-off between (A) proportionate apportionment, and (B) analytical precision.

Operator FTACs could be calculated using Regional avoidable costs and train miles, as such:

((Operator Vehicle Miles, Region / Total Vehicle Miles, Region) x Regional avoidable Fixed Costs).



(2) Determining mark-ups: OAOs

– *Conor Murrells*

(1): Define open access passenger market segments

- The first stage of the analysis will be to define open access market segments that best reflect the structure of the rail passenger market today, and the full suite of passenger flows operating on the network.
- We have not started our thinking on how we could update the list of passenger market segments in detail, but our priority is to commission an independent study building on the work completed by ORR during PR23.
- We want to take this opportunity to start afresh on the definition of passenger market segments, to evaluate the utility of the station threshold criteria applied by ORR, and to consistently apply mark-ups to open access passenger market segments.
- Although we do not have detailed findings at this stage, these will be developed over the coming 6 months and formally consulted on in GBR's charges policy document in Spring 2027.

Workshop discussion point: How well does the ORR's current list of passenger market segments reflect the flows operating on the network today?

In PR23, ORR identified two key market segments for the purposes of levying a mark-up. These are defined with reference to passenger usage and station distance thresholds.

Interurban open access services

At least one station served has average entries / exits above 15 million passengers per year

At least one other station served has average entries / exits above 10 million passengers per year

Airport services

At least one station served has average entries / exits above 15 million passengers per year

At least one other station served has average entries / exits above 5 million passengers per year

(2): Economic approaches to setting mark-ups

Workshop discussion point: What are your views on the strengths, limitations, or implementation challenges of each proposed option? Do you have a preferred approach?

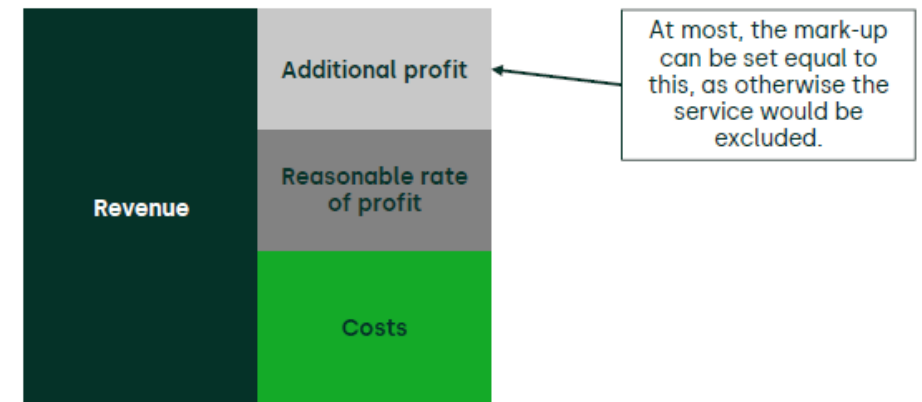
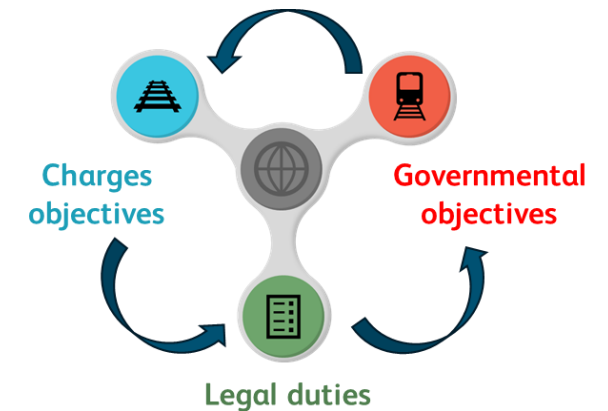
Approach	Description
<i>Net-Revenue Analysis</i>	Option 1 (policy consistency) – build on ORR’s net revenue analysis approach (assessing the impact on revenue and abstraction). This option does not require a revenue target.
<i>Demand Elasticities</i>	Option 2 (policy change) – move toward a Ramsey-inspired pricing approach (where mark-ups are inversely related to demand elasticity). This option may require a revenue target.

- We want to take this opportunity to start afresh to consistently apply mark-ups to open access passenger market segments. Regardless of the preferred option, we want to ensure there is a clear line of sight from economic theory to application.
- Option 1 provides policy stability as it is the approach that ORR currently takes to assessing open access markets and their ability to pay a mark-up. The Oxera research highlights that most of the data is currently available and implementation should be easily achievable by GBR on this basis.
- Option 2 represents a change from the approach that ORR currently takes. The Oxera research highlights that explaining mark-ups based on elasticities, transformations, and optimisation to non-technical stakeholders may be challenging. There is, however, a strong economic rationale to holistically using demand elasticity analysis for all non-GBR operators.
- **The next step for our work will be to procure consultancy support to undertake analysis to define open access passenger market segments, and identify a specific approach to setting mark-ups based on these options. This work will be published and consulted on in Spring 2027.**

Workshop discussion point: What are your views on how GBR should evidence that an efficient operator can afford to pay mark-ups, including the appropriate balance between analytical robustness and proportionality?

(3): Efficient operator test overlay, to comply with Railways Bill

- The third stage of the analysis will need to take account of what an efficient operator is able to afford. This is necessary to comply with Clause 64 (3) of the Railways Bill.
- One potential option for how GBR could undertake this assessment is a quantitative approach that explores a “reasonable rate of profit”. This relies on GBR having access to, and a better understanding of, cost and revenue assumptions at the level of individual market segments. GBR could develop a “standard carrier” for each market segment to model affordability.
- A second potential option is to rely on a lighter-touch qualitative assessment to take a conservative approach and reduce the ‘optimal’ mark-up set, based on GBR’s duties and objectives.
- In undertaking this assessment, we will (A) consider an average efficient operator in the context of the given market segment under consideration **not** the operator holistically, and (B) only consider the viable markets identified in stage two, to focus the analysis and keep it proportionate.



[Independent-Advice-on-GBR-Mark-ups.](#)

Next steps

– Caitlin Scarlett

Summary and next steps

- Proportionate amendments to how mark-ups are set for open access operators are needed to suitably address the legislative changes in the Railways Bill 2026.
- In our view, there is an opportunity to review the analytical approach to setting mark-ups for open access operators. Two choices emerge from the Oxera research: (1) maintain the current net revenue analysis approach, or (2) move to a demand elasticity approach.
- We intend for future work to reevaluate the definition of passenger market segments, and the utility of the station threshold criteria applied by ORR.
- Although we cannot predict GBR's policy positions, there is an opportunity to provide consistency in the application of mark-ups for operators within the same market segment.
- A clear next step for this work is to procure further analysis to update the market segments, and undertake further research on how GBR should undertake the efficient operator test.

Key dates / Look ahead – upcoming charges workshops

Station Charges on 16 June and 07 July [Passenger] – – this will be an opportunity to discuss potential changes to station charges.

TBC, follow-up workshops on key areas, e.g., Mark-Ups. (*no invites sent yet).

10 and 11 November – Overview of Charges Proposals (*no invite sent yet).

For more information on our charges and performance workshops, please visit this link: [GBR's Charges and Performance Schemes](#).

- **Outcome of our engagement in 2026: the information shared and gathered during these workshops will help to shape our thinking on GBR's future approach to setting mark-ups for open access operators, which will inform GBR's Charges Consultation in Spring 2027.**

How you can help shape GBR's Charges Scheme and Performance Scheme Statements for FP1

Ways to get involved:

- Technical workshops on important charges and performance scheme topics.
- Targeted engagement with freight, devolved bodies, open access, other infrastructure managers, and funders.

We are committed to:



Early visibility of emerging approaches.



Open feedback and transparent reporting.



Listening to concerns and perspectives.

For more information on our emerging proposals for charges and performance , please visit this link:
<https://www.networkrail.co.uk/industry-and-commercial/developing-gbrs-charges-and-performance-schemes/>

If you have any questions or would like to discuss this further, you can contact the team via our dedicated inbox:
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