Further to our correspondence in December and January regarding the reclassification of Network Rail, I am writing to let you know that as of 4th July 2014, Network Rail now will be borrowing from the Government rather than the market.

Reclassification occurs on 1st September 2014, and we have been working with Network Rail, HM Treasury and the ORR on how governance, financing, accounting and budgeting arrangements should be adjusted to take account of the change. The approach as to how we will work together will be set out in a Framework Agreement to be published by 1st September 2014. We have continued to work in line with the principles set out in the Memorandum of Understanding between the Department for Transport and Network Rail that we agreed on December 17th.

In advance of concluding the Framework Agreement we are putting in place a borrowing facility that will be used for future financing of Network Rail. The intention to start lending to Network Rail was set out in the Debt Management Office statement of 23rd April (CGNCR Outturn 2013-14: Revision to DMO’s financing remit 2014-15). I also set this out in a Written Ministerial Statement laid on 29th April, which sought a £550million Contingencies Fund Advance on the £6.5billion included in the Department for Transport’s Main Supply Estimates. The Advance will meet Network Rail’s borrowing requirements until the Main Supply Estimates receive Royal Assent later in July.

This borrowing arrangement offers better value for money for taxpayers and has been agreed with HM Treasury. It replaces any new commercial
borrowing that Network Rail undertake, with up to £30.3 billion of loans available from DfT for Control Period 5 (2014-2019). Track Access Charges and Network Grant will not be affected.

This new approach to financing Network Rail will not affect investment in the railways, including Network Rail’s £38bn settlement for running and improving the network in the 5 years from 2014. Funding and financing requirements beyond 2019 will be agreed at a later stage, as part of the ORR’s PR18 process.

We will be publishing the loan agreement alongside the Framework Agreement later in the summer.

THE RT. HON. PATRICK McLOUGHLIN