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15 Dec 2016 - Arafer expresses its concern over SNCF Réseau's draft 2017 budget

The French rail & road regulatory body (Arafer) has been asked for an opinion by infrastructure manager SNCF Réseau on its draft budget for 2017. As was the case last year, the regulator is not in a position to verify the compliance of the infrastructure manager's financial plans, which should be defined by the performance contract between the State and SNCF Réseau, which has not yet been finalised. On examining the main balances of the project, the productivity efforts of SNCF Réseau remain far too modest to bring about the economic recovery of the railway undertaking.

The analysis of the draft budget presented by SNCF Réseau for 2017 could only be carried out in relation to that of the financial year 2016. In the absence of a forecast budget execution for 2016, Arafer wonders about the quality of monitoring the implementation of the budget which does not seem to match the means and stakes of a company like SNCF Réseau. Therefore, the quality of the budget forecast for 2017 is questionable.

Several uncertainties are likely to significantly affect the draft budget. A gap of almost 10% between SNCF Réseau and SNCF on the charge-back level of the headline public industrial and commercial undertakings (EPIC) charges. Furthermore, the results of follow-up of a tax audit of SNCF Réseau are not yet known. Lastly, the amount of the depreciation of SNCF Réseau's assets (€9.6 billion) is subject to a reserve by auditors, which was renewed at the end of the interim financial statements as of 30 June 2016.

NO PERFORMANCE CONTRACT

In the absence of a performance contract between the State and SNCF Réseau, Arafer can only repeat the observation already made during the examination of the 2016 draft budget: it is not in a position to verify compliance of the multi-year financial plans in the 2017 draft budget. The scope of the Authority's opinion is therefore limited.

The persistent absence of a multi-year financial framework limits SNCF Réseau and the State shareholder's use of sophisticated management and monitoring tools. As Arafer recently pointed out in its study on the implementation of the railway reform, there is an urgent need to conclude an ambitious contract as soon as possible, giving visibility to all railway undertakings.

CONTINUED UNCERTAINTY ABOUT PRODUCTIVITY GAINS

The information provided by SNCF Réseau following Arafer's questions is not sufficiently detailed to enable the regulator to assess the productivity efforts made in 2016 and hence the relevance of the planned effort for 2017.

Assuming that the productivity gains put forward by SNCF Réseau are achieved, charges are far from decreasing in the same proportions. The economic recovery of SNCF Réseau requires performance targets of a different magnitude than that envisaged in the draft budget for 2017.

INCREASED CAPITAL EXPENDITURES

The investment forecasts included in the draft budget for 2017 confirm the priority given to the renovation of the rail network but nevertheless maintain a major development effort with, for example, the expansion of the Eole project or regional development projects. Taking into account SNCF Réseau's participation in the CDG Express project, the total expenditure devoted to the development of the network is still increasing.

Implementation of the "golden rule" that SNCF Réseau cannot go into debt that is beyond 18 times of its operating margin should not have a short-term impact, even if the ratio continues to move away from the threshold set by the railway reform: from 19 in 2015, it reached 22 in 2016 and will hit 24 according to the draft budget for 2017.

INCREASED DEBT

Despite the objective of controlling railway indebtedness, recently underlined in the strategic policy report published by the French government, Arafer notes a further deterioration in SNCF Réseau's debt, which is expected to continue to increase from 2 to 3 billion euros per year in the coming years. This situation weakens SNCF Réseau, especially if interest rates go up strongly.

Arafer is worried about the financial disengagement of the State which emerges both from the SNCF Réseau draft budget and the report on the railway debt present by the government to Parliament in August 2016.

The persistence of the financial imbalances of the railway system must lead the State to review, in the future performance contract, the means and the level of its financial support to sustainably support the efforts that are also required of SNCF Réseau.

- Arafer's opinion includes elements covered by trade secrecy regulations, it will be appear in a later publication on arafer.fr (in French).

About Arafer

Since 2010, the French railway sector has had an independent regulatory body which accompanies its gradual opening to competition. The “Macron” Act of 6 August 2015 extends the powers of the regulator to road activities: coach transport and motorways.

On 15 October 2015, the rail regulatory body became the rail and road regulatory body (Arafer). Its mission is to contribute to the efficient operation of the public service and competitive activities for the benefit of rail and road transport customers. Its public opinions and decisions are adopted by a group composed of seven independent members chosen due to their expertise in railway, road, legal or economic matters or because of their expertise in competition matters and has been chaired since August 2016 by Bernard Roman.