



**Addendum to annual
efficiency and finance
assessment of Network
Rail 2018-19:**

**Route-level efficiency
benefit sharing (REBS)
payments 2018-19**

13 January 2020

Contents



Summary	3
Background	5
Material alliances	6
REBS process	6

Feedback

We welcome comments on the content of this report. These should be sent to:

Customer Correspondence Team
Office of Rail and Road
25 Cabot Square
London E14 4QZ
Email: contact.cct@orr.gsi.gov.uk
Tel: 020 7282 2018

Summary

1. In our Periodic Review 2013 determination (PR13) for Control Period 5 (CP5) we introduced the route-level efficiency benefit sharing mechanism (REBS) to encourage train operators who were not in alliances to work with Network Rail to improve productivity, reduce costs and deliver better value for customers. Operators participating in REBS share in the risks and rewards of parts of Network Rail's financial performance.
2. Our 2018-19 annual efficiency and finance assessment of Network Rail (published in July 2019¹) concluded our assessment of Network Rail's financial performance for 2018-19 but it did not comment on Network Rail's performance under the REBS regime. At that time, Network Rail's assessment of the amounts payable between operators and Network Rail under the REBS mechanism for 2018-19 had not yet been finalised. Network Rail has subsequently notified us of the amounts that it considers payable and we are now publishing the payments due between operators and Network Rail for the 2018-19 financial year.
3. To assist with our review of the REBS payments for performance in 2018-19, we appointed the independent reporter, Arup, to review aspects of the calculation as an extension of their review of Network Rail's financial performance as reported in Network Rail's regulatory financial statements for 2018-19².
4. As examined in our annual efficiency and finance assessment, all of Network Rail's routes financially underperformed in 2018-19. As shown in Table 1, all participating operators will make payments to Network Rail. Net payments, excluding any VAT are due within 56 days of this publication.
5. REBS has not been continued into CP6. Please see our periodic review 2018 (PR18³) for further details.

¹ See https://orr.gov.uk/_data/assets/pdf_file/0014/41513/annual-efficiency-and-finance-assessment-2018-19.pdf

² See <https://cdn.networkrail.co.uk/wp-content/uploads/2019/10/NRIL-Regulatory-Financial-Statements-for-the-year-ended-31st-March-2019.pdf>

³ <https://orr.gov.uk/rail/economic-regulation/regulation-of-network-rail/price-controls/periodic-review-2018/publications/final-determination>

Table 1: Summary of net payments between Network Rail and operators

Operator	Payments from operator to Network Rail	Payments from Network Rail to operator
Arriva Rail North	-£0	nil
Caledonian Sleeper	-£104,020	nil
Eurostar	-£470	nil
First Hull Trains	-£47,722	nil
Govia Thameslink Railway	-£1,217,712	nil
Southeastern	-£6,463	nil
Virgin East Coast	-£349,813	nil
West Midlands Trains	-£433,285	nil
Northern Rail	-£102	nil
Total	-£2,159,587	nil

Background

5. To provide context to the REBS payments listed in Table 1, we have provided some information below on the process for calculating REBS payments. The financial information used to calculate the REBS payments is generated from Network Rail's regulatory financial statements, on which we commented in our 2018-19 annual efficiency and finance assessment.
6. REBS was introduced in CP5 to incentivise train operators to work with Network Rail to improve both financial and network performance. REBS replaced the Efficiency Benefit Sharing Mechanism (EBSM) used in CP4 and has the following key features:
 - a. it operated at a Network Rail operating route level, rather than at a national (England & Wales and Scotland) level;
 - b. it was based on inflation-adjusted REBS baselines that were set by Network Rail for each of the nine England & Wales operating routes which reconcile, on a line-by-line and year-by-year basis to our national England & Wales PR13 income and expenditure assumptions⁴. As we had a separate determination for Scotland, our PR13 final determination income and expenditure assumptions provided the REBS route baselines for Scotland;
 - c. it provided operators with both upside (25% share) and downside (10% share) exposure to Network Rail's cumulative financial performance over the control period, rather than just upside as with the EBSM;
 - d. it had payments that are capped for both outperformance and underperformance. Those caps were set at the start of CP5 relative to REBS baselines;
 - e. it provided train operators with an opt-out from the REBS mechanism (by route) at the start of CP5 and in certain circumstances during CP5;
 - f. it reflected the incentives that Network Rail faces in relation to its renewals expenditure; and
 - g. it covered many of Network Rail's costs in a similar way to the calculation of financial performance, including adjustments for non-delivery of outputs but excluding enhancements and financing costs.
7. REBS is based on Network Rail's ten operating routes as set out in our PR13 determination: Anglia, East Midlands, Kent, London North East, London North West, Sussex, Wales, Wessex, Western and Scotland. Since the determination, London

⁴ Network Rail, [REBS baselines](#), 31 March 2014. Baselines are adjusted annually for RPI inflation.

North East and East Midlands merged, as did Sussex and Kent. However, we continued to monitor the routes in CP5 in accordance with our determination.

8. Train operators (franchised passenger services, open access operators and freight) were opted in by default, unless they opted out. For newer franchises in England & Wales, train operators must have had the consent of the Secretary of State to opt out. Operators may also have opted out if a material alliance was formed on a route that they used. Further details on the background and process are set out in our REBS guidance⁵.

Material alliances

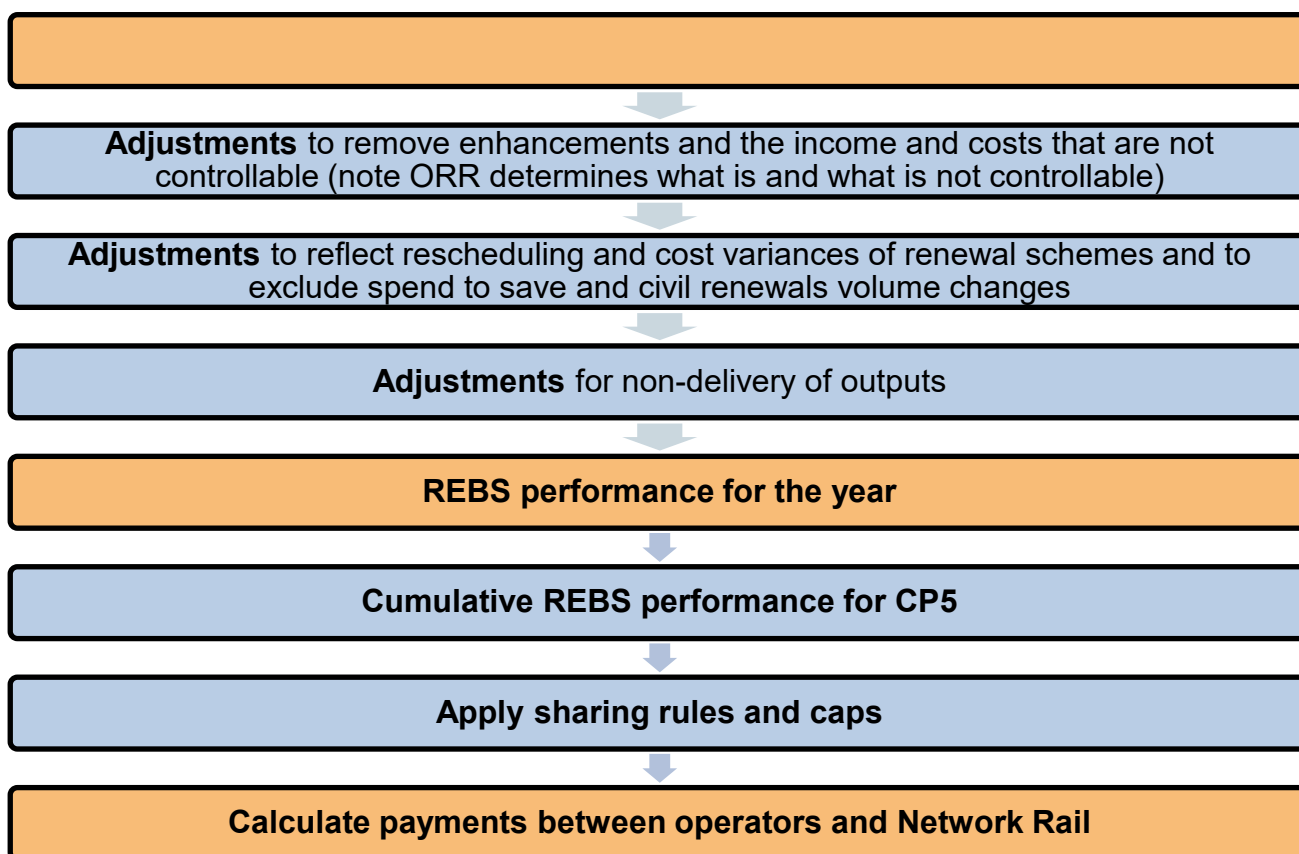
9. Material alliances formed between Network Rail and operators are essentially an enhanced version of REBS and therefore any payments between the alliance partner and Network Rail are netted off from the route's REBS performance. As part of our REBS assessment we confirm the status of material alliances as their existence has implications for other REBS participants in the routes that the alliance operates⁴.
10. There were no material alliances in 2018-19.

REBS process

11. Figure 1 shows the process for determining REBS payments.

⁵ ORR, [Route-level efficiency benefit sharing \(REBS\) mechanism](#)

Figure 1. REBS payment calculation process



12. Network Rail has confirmed that twelve operators participated in REBS for at least one route, and five operators participated in REBS for all routes for 2018-19. Network Rail has notified us of the amounts that it considers payable. We are now publishing the payments due from operators to Network Rail for the 2018-1 financial year. We have used the Independent Reporter Arup to validate the payments that are to be made to Network Rail by operators that opted to participate in REBS in 2018-19.
13. The share of capped route REBS performance is allocated to operators based on their share of variable usage charges (VUC) on that route and, for part-year participants, on the timing of their operator contract commencing or expiring. Some of the REBS participants either did not incur any charges on routes for which they were in REBS, or operated only for diversionary, training or ancillary purposes and therefore incurred small amounts of VUCs, which translate into very small REBS payments. It will be for Network Rail to decide whether to recover these amounts.
14. Further information about the REBS mechanism is available at <http://orr.gov.uk/rail/publications/guidance/route-level-efficiency-benefit-sharing>.



© Crown copyright 2020

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at orr.gov.uk

Any enquiries regarding this publication should be sent to us at orr.gov.uk