

Graham Richards
Director, Planning and Performance



By email

Mike Gallop
Regional Managing Director
Network Rail Wales & Western

Tim Shoveller
Regional Managing Director
Network Rail North West & Central

19 May 2021

Dear Mike and Tim

Network Rail's engagement with ORR (under our Managing Change Policy) regarding the Worcester area transfer from the Wales & Western region to the North West & Central region

Thank you for your letter dated 1 April 2021 outlining your proposed changes to the CP6 regulatory benchmarks following transfer of the Worcester Area from the Wales & Western region to the North West & Central region in March 2021.

ORR recognises that changes can occur during the control period, which may impact on region and/or SO accountability and funding. Therefore, we developed our Managing Change policy¹ to ensure any changes relative to region or SO settlements, set in ORR's Final Determination², are managed appropriately. This balances the need for Network Rail to respond flexibly to changing circumstances and provide greater certainty to the regions and SO (and their customers and funders) whilst ensuring accountability for the delivery of CP6 commitments. Our policy also supports us in comparing regions' performance, across CP6 and beyond. Network Rail is required, under its Network Licence³, to comply with this policy.

As noted in your letter, this change is classed as a Level III Relevant Change under ORR's Managing Change Policy and, at this level, Network Rail must seek ORR's

¹ https://orr.gov.uk/_data/assets/pdf_file/0008/39329/pr18-managing-change-policy.pdf

² <https://orr.gov.uk/rail/economic-regulation/regulation-of-network-rail/price-controls/periodic-review-2018/publications/final-determination>

³ https://orr.gov.uk/_data/assets/pdf_file/0012/3063/netwrk_licence.pdf

opinion of the change and discuss with relevant stakeholders before a decision is made.

With regards to the Worcester area transfer, Network Rail has engaged with ORR from early 2020 onwards in relation to the safety, financial and performance-related impacts of the change. Further comment on these impacts is given below.

Impacts of the change

Following discussions at our working level analytical meetings on the methodology and ORR's review of the associated outputs, we are content with the revised CP6 figures presented in your letter (and as set out in the tables below).

Changes to the financial settlement

We note that the Worcester area transfer will result in changes to both regions' CP6 Financial Settlements, with £72.29m transferring from the Wales & Western region to the North West & Central region for the remaining three years of CP6 (2021-2024). We are content that further detail will be provided to us following the completion of the transfer and that any variances will be explained through our regular reporting processes.

Year by year summary breakdown for CP6:

£m	2021-22	2022-23	2023-24	Total
Income	(0.26)	(0.45)	(0.70)	(1.41)
Opex	9.18	9.42	9.87	28.48
Renewals	14.36	16.17	11.87	42.40
Total	23.28	25.14	21.04	69.47

Changes to the regulatory measures

We also note that there will be changes to both regions' baseline trajectories and regulatory floors of the CP6 regulatory measures of Consistent Regional Measure (Passenger) Performance (CRM-P) and Regional Freight Delivery Metric (FDM-R).

The changes proposed will not restate baseline trajectories and regulatory floors for years 2019-20 and 2020-21 and that the changes are for the remaining years of CP6, reflecting the area transfer occurred at the end of 2020-21.

CRM-P

CRM-P baselines for CP6 (*Previous measure numbers in brackets*)

Region	2019-20	2020-21	2021-22	2022-23	2023-24
North West & Central	1.65	1.57	1.55 (1.53)	1.52 (1.51)	1.49 (1.48)
Wales & Western	1.83	1.78	1.68 (1.70)	1.60 (1.63)	1.58 (1.60)

CRM-P Floors for CP6 (*Previous measure numbers in brackets*)

Region	2019-20	2020-21	2021-22	2022-23	2023-24
North West & Central	1.96	1.88	1.86 (1.84)	1.83 (1.82)	1.80 (1.79)
Wales & Western	2.17	2.12	2.02 (2.04)	1.94 (1.97)	1.92 (1.94)

FDM-R

As set out in Network Rail's letter of 1 April 2021 the numbers included in brackets in the below tables are those originally provided by its 16 March 2021 letter, and the revised numbers on the top line supersede those.

FDM-R baselines for CP6:

Region	2019-20	2020-21	2021-22	2022-23	2023-24
North West & Central	94.6%	94.6%	94.5% (94.6%)	94.5% (94.6%)	94.5% (94.6%)
Wales & Western	94.0%	94.0%	94.1% (94.0%)	94.1% (94.0%)	94.1% (94.0%)

FDM-R Floors for CP6:

Region	2019-20	2020-21	2021-22	2022-23	2023-24
North West & Central	93.2%	93.2%	93.1% (93.2%)	93.1% (93.2%)	93.1% (93.2%)
Wales & Western	92.5%	92.5%	92.6% (92.5%)	92.6% (92.5%)	92.6% (92.5%)



These changes have also been referenced in our recent letter⁴ to you with regards to network-wide changes to FDM-R across all regions.

We note that you will reflect these changes in future regional scorecards; these are expected to be shared with us in early May 2021. Following finalisation of Network Rail's Annual Report & Accounts data for 2020-21, you will remap the historical data, which will be available for trend analysis over time on a consistent basis.

Other measures

As outlined in your letter, there is currently no proposed change to the Composite Sustainability Index (CSI) measure as a result of the area transfer. We note that this is based on a review of the impact of the transfer of track assets, and that Network Rail is conducting a further review of other assets that contribute to CSI. As set out in your letter, if this review reveals any material change to the CSI regulatory baselines and floors then this should be notified to ORR for formal change through the managing change process.

We note that overall core volume delivery commitments remain unchanged and the transfer of the Worcester area does not alter the level of performance that Network Rail is committed to deliver over CP6.

ORR will continue to monitor these changes, reviewing them on an annual basis for any fluctuations. We also agree that the original level of challenge set in ORR's Final Determination remains, despite this change.

Stakeholder engagement

As set out in our Managing Change Policy, we expect Network Rail to engage with its stakeholders about changes relative to its settlement. This approach should be consistent with the principles of good stakeholder engagement⁶. As noted in your letter, Network Rail undertook extensive engagement with ORR, Great Western Railway, West Midlands Trains, CrossCountry, Midlands Connect, the West Midlands Rail Executive, Worcestershire County Council and the Local Enterprise Partnership, and that they are content with the proposed changes. However, should any stakeholders raise any concerns on this change, please inform ORR as soon as possible.

ORR opinion and holding to account

⁴ <https://www.orr.gov.uk/sites/default/files/2021-03/2021-03-19-letter-to-network-rail-on-fdmr-managing%20change.pdf>

ORR's opinion is that it is appropriate for us to agree to this Level III Relevant Change under ORR's Managing Change Policy.

We will continue to hold Network Rail to account for the delivery of the CP6 committed levels of performance in the Wales & Western and North West & Central regions, and expect Network Rail to continue its ongoing engagement with ORR to keep us updated on any potential future impact and/or changes as early as possible.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'G. Richards', written in a cursive style.

Graham Richards