

Office of Rail and Road | ORR's review of Network Rail's RF6 delivery plan update for the financial year ending 31 March 2024

Will Godfrey

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**Dan Moore, Director Rail Strategy and Rail Analysis,
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Paul Marshall, Group Finance Director, Network Rail

[Redacted]

15 December 2023

Dear Dan and Paul,

ORR's review of Network Rail's RF6 delivery plan update for the financial year ending 31 March 2024

This letter provides ORR's views on the delivery plan update for Network Rail's operating, support, maintenance and renewals (OSMR) activities in control period 6 (CP6) before Network Rail publishes its CP7 delivery plan. This is its period 6 re-forecast in year 5 of CP6, known as 'RF6'. The plan updates on what Network Rail is forecasting to deliver and its income and expenditure forecasts for 2023-24.

Network Rail updates its OSMR delivery plan for CP6 on an annual basis. We review the updated plan as part of how we hold Network Rail to account against the periodic review 2018 (PR18) final determination, as well as to provide assurance to funders about Network Rail's delivery. Specifically, we focus on:

- Network Rail's progress against its 2019 delivery plan (DP19), which sets out how Network Rail intends to deliver our PR18 final determination, and has been approved by the Secretary of State;
- changes since the last annual update to Network Rail's CP6 delivery plan (the 2023 delivery plan, DP23), [which we reviewed earlier this year](#) as part of our RF11 review; and
- changes since the last iteration of the plan (the RF3 plan, e.g. Network Rail's re-forecast of its plan at period 3 (June 2023) in year 5 of CP6). We provided

our RF3 review to the Department for Transport (DfT) on 13 September 2023. We also shared a separate note with Transport Scotland.

At RF6, we undertook a targeted review of four selected areas of risk to the CP6 delivery plan as agreed with DfT and Network Rail. This approach was undertaken as the RF6 review partially took place in parallel to the production of our PR23 final determination.

We have focused our review on areas of risk which may have an impact on CP6 exit, CP7 entry and further CP7 business planning. These are: (i) renewals delivery; (ii) efficiency and the links to financial performance; (iii) train performance and network reliability; and (iv) modernising maintenance. We provide commentary on each of these areas (Annex A).

We also include in this letter information on issues and commentary related to specific regions and national functions (Annex B), the progress made against the full list of issues raised in the RF11 note and RF3 update (Annex C) and a copy of our RF11 letter (Annex D).

Summary of our findings

We consider that Network Rail’s RF6 plans are consistent with DfT’s financial limits as set out in the network grant agreement for 2023-24. In addition, we have not identified any material changes in the RF6 plans that could require sign-off from the Secretary of State. They also remain aligned with the current delivery plan (DP23) and the Secretary of State approved DP19. This is consistent with our findings at RF11 in 2022-23, as communicated to Network Rail and DfT in March 2023, and our RF3 review.

Table 1: Summary of our findings

At RF3, it was noted that Network Rail was forecasting to deliver 90% of the effective volumes stated in DP19; this level has slightly increased to 92% as of period 6.	<p>Increases in the full year forecast for effective volumes in bridges and earthworks have offset the reductions in effective volumes across the other asset categories and driven the 2% improvement in the effective volumes forecast since RF3. Network Rail is currently forecasting to spend £43 million (1%) below its renewals budget for the control period.</p> <p>The effective volume forecast for bridges has increased by 5% since RF3, but remains 26% below the full year effective volume forecast for FY24. The largest increase in</p>
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effective volume levels was seen in earthworks, which has increased by 14%, from 10% below budget to 3% above budget, since RF3.

We noted concerns at RF3 regarding the delivery of signalling effective volumes and telecoms volumes due to a large number of projects being due to complete in the final year of CP6. At RF6, Network Rail has indicated that telecoms volumes are 22% below the target set for CP6 at DP19, and 10% below the full year forecast.

Since Network Rail's RF6 submission, there have been a number of major storm events, more so than in the same periods in 2022, that have necessitated emergency repairs to the network. The full impact of funding these repairs is being worked through by Network Rail and we expect a further update at RF9. We will continue to closely monitor effective volumes delivery through the monthly asset management bilateral we hold with Network Rail.

Up to the end of period 7 (mid-October 2023), Network Rail has delivered £3.4 billion worth of efficiencies, and it appears that it is on track to deliver the total CP6 target of £4 billion by the end of the control period.

Network Rail is forecasting to deliver its efficiency target of £4.0 billion, which is higher than its original DP19 target of £3.5 billion.

The risks left for Network Rail to deliver its efficiency target are the recovery of efficiencies lost due to the agreed pay deal, delivery risks to programmes (e.g. £26 million related to telecoms in Southern), the delivery of workforce reform savings and the continued impact of inflation.

At RF6, most regions were forecasting to meet their passenger and freight performance targets by the end of the year. However, the full impact of multiple

The latest train performance forecasts have accounted for the storms in period 7 and 8. However, they do not account for any higher levels of extreme weather events over autumn and winter than would be anticipated in a 'standard' forecast year at this point.

Eastern is the only region currently anticipating meeting its train performance target by the end of the year, although the network wide full year forecast for On Time has

storms that took place during periods 7 and 8 on performance will be seen in Network Rail's RF9 submission.

increased to 67.9% at period 7 from 67.2% at RF3. This differs to the figure presented in our [PR23 final determination: supporting document – outcomes](#) for reasons explained in paragraphs A.14 and A.15 in Annex A.

Wales & Western's On Time target of 60.6% includes a 1.9% stretch, which, when removed, aligns with the CP6 exit forecast in our PR23 final determination of 58.7%. However, On Time Moving Annual Average (MAA) performance year to date for period 7 was 59.8% and, with the more challenging winter periods still ahead, the region may find it difficult to achieve the stretch element of its forecast. Delivering train service performance relies on cross-industry collaboration and we continue to carry out enhanced monitoring of the region's performance improvement actions and have initiated a licence investigation due to the region's worsening train performance trajectory since 2021. We welcome the offer of support from DfT officials on the industry roundtable, which we will convene as part of our investigation.

Network Rail has noted that its overall position on Schedules 4 and 8 and variable track access charges (VTAC) has remained the same since its last RF3 update (£46 million adverse to budget year-to-date).

Network Rail is currently expecting to spend £74 million more than budget on Schedule 8 by the end of the financial year. This adverse financial forecast is due to further predicted weather events over autumn and winter in the final year of CP6.

GB Freight growth is currently below Network Rail's current forecast CP6 exit position of 7.6% due to low consumer demand (both maritime intermodal and biomass) and the effect of industrial action and reliability, which has seen shippers move volumes from rail to road.

The modernising maintenance programme has been enabled across the four England & Wales regions. It was enabled in Scotland on 27 November, which is a further one-month delay since RF3.	<p>Network Rail is forecasting £88 million of savings from the modernising maintenance programme for England and Wales in FY24, with £48 million of savings coming from the direct programme savings and £40 million from additional indirect programme savings. Network Rail Scotland is forecasting to deliver £8 million of savings from the modernising maintenance programme, with £7 million coming from direct programme costs and £1 million from indirect costs.</p> <p>The effect on CP6 efficiencies of the delay in Scotland is still being worked through by Network Rail Scotland, and the effect will be shown in Network Rail’s RF9 submission. Network Rail reports that this will have no overall effect on Network Rail Scotland’s delivery of its CP7 efficiency target of £410 million, but we are keeping this under review.</p>
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Implications for CP7

Risks to Network Rail’s CP6 exit position remain regarding **renewals delivery, efficiency delivery relating to modernising maintenance and train performance**. Network Rail set out the potential cost impacts on CP7 in its response to our PR23 draft determination.

We will continue to monitor:

- Network Rail's train performance for the remainder of the year; and
- how the remaining efficiency target for CP6 will be delivered given effects such as the delayed enabling of the modernising maintenance programme.

We are requesting further clarity on the above topics as part of Network Rail’s RF9 submission in January 2024. Our view of the likely CP6 exit position and its implication for CP7 delivery, will form a key part of our assessment of the CP7 outputs provided in Network Rail’s delivery plan for CP7.

Next steps

We will continue to review Network Rail’s updates to its plan in the final year of CP6. In parallel we will assess Network Rail’s delivery plan for CP7 to verify that it is consistent with our final determination. We will provide assurance on Network Rail’s delivery plan,

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ahead of sign off by the Secretary of State. The output of this assessment will be in place of the letter that we usually produce at RF11.

I am happy to discuss any of the points in this letter with you.

Yours sincerely,

Will Godfrey
Director Economics, Finance and Markets

Annex A: Key findings from ORR's review of Network Rail's RF6 submissions

- A.1 The numbers in this annex are for Network Rail as a whole, unless we are referring to a specific region or part of Network Rail, and are presented in cash prices. Where future consumer price index (CPI) inflation forecasts are included, this is based on the Office of Budget Responsibility's (OBR) March 2023 inflation forecasts.
- A.2 We acknowledge that the regions have explained that they have considered health and safety within any plans to defer or cancel work, both regarding renewals and the modernising maintenance programme. As the re-forecast is primarily financial, there is not a lot of detail on health and safety for us to provide commentary on in this assessment. We will continue to work with Network Rail to find the best approach to ensure there is adequate consideration of any change to risk profile arising from the balance of renewals and other activities planned for CP7. For example, in CP7, we expect to see evidence of use of Network Rail's recently developed safety risk framework (referred to as its "bow tie" framework) to review and assure any proposed changes to its plans.

Renewals delivery

- A.3 At RF3, it was noted that Network Rail was forecasting to deliver 90% of the effective volumes stated in DP19; this level has slightly increased to 92% as of RF6. However, any cost pressures in the remaining periods of CP6 would require the regions to address further renewals reductions through deferrals and reprioritisation of work banks into CP7 to remain within financial budgets. Network Rail is currently forecasting to spend £43 million (1%) below its renewals budget for the control period.
- A.4 The effective volume forecast for bridges has increased by 5% since RF3, but it remains 26% below the full year effective volume forecast for FY24. This increase has come from the Southern region, driven by a detailed replanning as part of its prioritisation exercise, and also from additional volumes identified for early delivery in the Eastern region and in Scotland. The effective volumes level for bridges is below the target set at DP19 due to issues around costs being higher than originally anticipated combined with a lower risk provision as the control period has

continued, leading to deferrals into CP7. We noted our concerns around these deferrals in our PR23 draft determination.

- A.5 The effective volume levels for earthworks for the final year of CP6 have increased by 14%, from 10% below budget to 3% above budget, since RF3. Effective volumes is a system to combine the volume of renewals with lighter interventions (such as refurbishment and maintenance) as a single number. This increase in earthworks effective volumes levels has stemmed from a change in strategy to deliver an increase in lighter interventions, such as maintenance and refurbishment, which have offset reductions in full and partial renewals. Additional rock cutting volumes in North West & Central and in Scotland, alongside the recognition of additional volumes in Eastern, has also contributed to the increase in effective volumes for the remainder of the control period.
- A.6 We noted concerns at RF3 regarding the delivery of signalling effective volumes and telecoms volumes, due to a large number of projects being due to complete in the final year of CP6. At RF6, Network Rail has indicated that telecoms volumes are 22% below the target set for CP6 at DP19, and 10% below the full year forecast. This is caused by deferrals in Southern, as a result of the non-availability of replacement parts, alongside increasing costs and cancellations and deferrals in North West & Central, and to meet cash targets. All other regions are forecasting to deliver higher than their budgeted telecoms volume levels for the year. We will continue to closely monitor any effects this may have on CP7 through the monthly asset management bilaterals we hold with Network Rail.
- A.7 Regarding signalling, 63% of forecast works for the year are still to be delivered and cost pressures remain, which are driving work bank reviews and reprioritisation. We recognise that Network Rail is continuing to work to ensure these volumes are delivered but note some of the volumes are being delivered around the end of March/early April, which could affect delivery in 2023-24.
- A.8 Since RF6, there have been a number of major storm events that have necessitated emergency repairs to the network. The full impact of funding these repairs, and if any further adjustments are needed to CP6 forecasts, is being worked through by Network Rail. We expect a further update at RF9. We will continue to closely monitor renewals delivery of all asset types through the monthly asset management bilaterals we hold with Network Rail.

Finance and efficiency delivery

- A.9 Up to the end of period 7, Network Rail has delivered £3.4 billion worth of efficiencies, and appears on track to deliver its higher efficiency target of £4.0 billion, which is higher than its original DP19 target of £3.5 billion.
- A.10 The main risks to Network Rail delivering its efficiency targets for FY24 are noted as the recovery of efficiencies lost due to the agreed pay deal, delivery risks to programmes (e.g. £26 million related to telecoms in Southern) and the delivery of the workforce reform savings, as discussed in the modernising maintenance section below. Of the remaining efficiency opportunities left to be delivered in FY24, £20 million worth do not have an initiative identified.
- A.11 Network Rail is carrying out £100 million of additional work this year. The funding for this work will be either through funding brought forward from CP7 or the release of an accrual. There is a risk to Network Rail's plan if this work is not funded.
- A.12 Inflation will remain a risk for the remainder of the control period, with the latest OBR forecasts of CPI at 4.6% for the year, rather than the lower rate of 4.0% that was the basis for RF3 forecasts earlier in the year. This, combined with the uncertainty around the efficiency points above, means that we remain concerned about further renewals deferrals that would probably have to take place to offset these issues. We will continue to monitor this closely.

Train performance and network reliability

- A.13 At RF6, most regions were forecasting to meet their passenger and freight performance targets by the end of the year. However, the full impact of multiple storms that took place during periods 7 and 8 on performance will be seen in Network Rail's RF9 submission. We will continue to monitor this in our periodic engagement on performance, and further detail can be found in our [mid-year letter on performance](#) which was published in early December 2023.
- A.14 At RF6, Eastern is the only region currently anticipating to meet its train performance target by the end of the year, although the network wide full year forecast for On Time has increased to 67.9% at period 7 from 67.2% at RF3. This figure differs to the network wide figure presented in our [PR23 final determination: supporting document – outcomes](#) due to the presence of stretch in the Wales & Western target of 60.6% in the CP6 network wide figure (this is discussed further in paragraph A.18 below). Regarding freight performance, cancellations have improved to 1.5% at period 7 from 1.7% at RF3. This improvement has been

driven by improved cancellations in both North West & Central and Wales & Western.

- A.15 Wales & Western's On Time target of 60.6% includes a 1.9% stretch which, when removed, aligns with the CP6 exit forecast in our PR23 final determination (of 58.7%). However, On Time MAA performance for period 7 was 59.8% and, with the more challenging winter periods still ahead, the region may struggle to achieve the stretch element of its forecast. Delivering train service performance relies on cross-industry collaboration and we continue to carry out enhanced monitoring of the region's performance improvement actions and have initiated a licence investigation due to the region's worsening train performance trajectory since 2021. We welcome the offer of support from DfT officials on the industry roundtable, which we will convene as part of our investigation.
- A.16 The combination of severe weather events in periods 7 and 8, such as storm Babet, and further predicted weather events, as standard for autumn and winter forecasts, means Network Rail is currently expecting to spend £74 million more than budget on Schedule 8 by the end of the year.
- A.17 In total, Network Rail has requested £103 million of extra grant funding (as per the neutrality agreement) from DfT. Network Rail will use this to offset the above forecast Schedule 8 costs alongside £19 million of adverse forecast Schedule 4 and £8 million of adverse forecast variable track access charge (VTAC) costs. This grant funding position is £19 million adverse to the position at RF3.
- A.18 Network Rail's latest forecast for GB freight growth is currently below its RF9 (2022-23) freight growth forecast CP6 exit position (which envisaged 7.6% growth). Network Rail attributes the lack of growth to low consumer demand (both maritime intermodal and biomass) and the effect of industrial action and reliability, which has seen shippers move volumes from rail to road. This downturn has had a monetary effect, for example there is a £3.3 million decrease in freight income in Eastern in the final year of CP6. Network Rail's CP7 freight growth forecasts for the regions average 7.5% growth across the GB network (this growth is against the CP6 exit position). We will hold Network Rail to account for its contribution to this target. To support this, we are requiring it to publish clear plans to describe the actions it will take and how it will work with the industry to achieve the targets for freight growth. In developing these plans, Network Rail is committing to producing a freight growth plan as part of its CP7 delivery plan.

Modernising maintenance

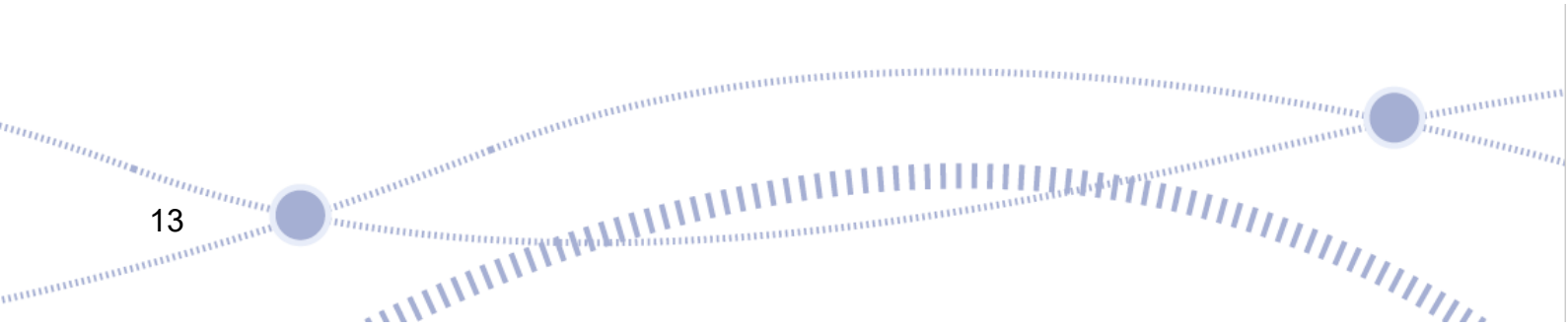
- A.19 The modernising maintenance programme has been enabled across the four England & Wales regions after being delayed from the initial planned enabling date of April 2023. Network Rail is forecasting £88 million of savings from the modernising maintenance programme for England and Wales in FY24, with £48 million of savings coming from the direct programme savings and £40 million from additional indirect programme savings. However, the regions have noted that the recency of the enabling dates means that any further potential effects will be worked through for the RF9 submission. We will continue to monitor Network Rail's reporting on any further impacts caused by the later enabling dates through the reforecasting process and our quarterly efficiency meetings with Network Rail.
- A.20 The modernising maintenance programme was enabled in Scotland on 27 November. This is the only area to have a further one-month delay since RF3 where the enabling date was forecast to be the start of November. Currently, Network Rail Scotland is forecasting to deliver £8 million of savings from the modernising maintenance programme, with £7 million coming from direct programme costs and £1 million from indirect costs. The effect of the further postponed enabling date on CP6 efficiencies is still being worked through by Network Rail Scotland, but the effect will be shown in its RF9 submission. Network Rail reports that this will have no overall effect on Network Rail Scotland's delivery of its CP7 efficiency target of £410 million. We will continue to monitor this programme through our quarterly efficiency meetings with Network Rail.
- A.21 The changes in ways of working (such as the new rostering system) will take some time to embed and deliver the associated potential savings over six to nine months after the enabling date, as planned and communicated to us at RF11. We said in our [PR23 final determination: supporting document – sustainable and efficient costs](#) that we expect Network Rail's Technical Authority to continue to monitor the impact of this embedding to facilitate the sharing of any lessons learnt between the routes and regions. We will monitor this through our regular liaison meetings with Network Rail's Technical Authority.

Annex B: Commentary by region and national function

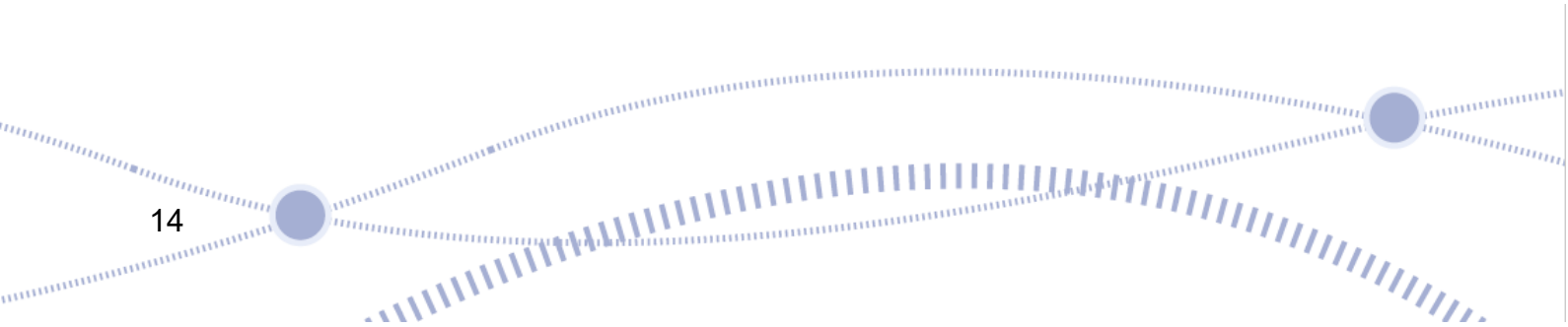
Table B.1 Notable items by region and national function

Region/function	Key points
Eastern	<p>The region's income is £4.5 million less than forecast for FY24. Schedule 4 and Schedule 8 are improved from forecasts by £4.6 million; however managed station retail income, freight income and variable track access charges due to operator industrial action are all less than forecast by £9.1 million in total. Opex has increased by £7 million as the region is holding a £4 million risk on the full year forecast cost of utilities while it undertakes a deep dive on accruals to review rates and consumption values and has undertaken further route hardening at cable theft locations in the East Coast route costing a forecast £1 million over the year.</p> <p>At RF3, the Cambridge re-signalling project deferred volumes to CP7. Some of the volumes are being delivered around the end of March/early April, which could affect delivery in 2023-24.</p> <p>The region has stated that it has received approval for the acceleration of £28 million of CP7 funding since its RF6 submission. £25 million will be used in renewals work including emergency earthworks, underbridge strengthening and high output (track renewal system) to mitigate incurring £5 million of sunk costs. Some work has already been delivered and the remainder was planned before the end of this year with £8 million being used for advance material purchase for track works in year 1 of CP7. The remaining £3 million was to be used to cover forecast loss of freight revenue as a result of lower actual volumes (primarily less biomass to Drax power station) and forecast freight growth not achieved, both in North & East route.</p> <p>Post the RF6 submission, emergency repairs (circa £3.5 million) have been required on Plessey viaduct (East Coast route), and it has incurred circa £4.5 million of Schedules 4 and 8 costs. Whilst insurance claims (circa £2 million after excess) are being investigated to mitigate some of this cost, East Coast route is reviewing options to reduce work as part of its RF9 review. In addition, the East Coast route has recently suffered flooding of the line, and this is anticipated</p>

Region/function	Key points
	<p>to have a circa £3 million impact on Schedule 8 together with a further risk of claims from open access operators related to this disruption.</p> <p>The delay of the go live date of the modernising maintenance programme may reduce efficiency savings in the region this year by £2 million due to higher staff costs for an extended period. Alternative options are being explored to cover this gap so Eastern will still achieve the full efficiency forecast for this year.</p> <p>The region has £54 million of financial risks and £6 million of opportunities for the remainder of the control period. The largest risk category is opex at £36 million (£16 million of which comes from underutilisation charges from supply chain operations). Other risks include renewals (£7 million in North & East), property (£8 million) and income (£4 million).</p> <p>The region remains on track to deliver £1,050 million of efficiencies in FY24.</p>



Region/function	Key points
North West & Central	<p>The region's income is forecast to be £17 million adverse against target. Schedule 8 is £4.7 million adverse due to poor performance in periods 4 and 5 with a gas leak at Bletchley and a panel control failure. Schedule 4 is £12.4 million adverse as a result of items such as the summer blockade of West Coast Mainline South, unbudgeted late notice possession in the North West, along with West Coast South works over Easter that were more disruptive than budgeted.</p> <p>Opex costs are on target. The effective renewals volumes forecast has reduced to 95% versus its year 5 target, reflecting expected volumes losses due to further project deferrals required to achieve the renewals expenditure target. Key movements in RF6 include additional overhead line equipment (OLE) renewals in Central Route to improve performance, while a number of structures schemes have been deferred into CP7 due to access issues and budget constraints. The region requires a 21% reduction in its current renewals run rates (i.e. an estimation of the region's future performance based on current financial data) to meet its expenditure budget.</p> <p>The region is forecasting that it will exceed the DP23 efficiency target of £703 million by £3.4 million.</p> <p>While the region has been focused on recovering poor train performance, there is a risk that poor train performance continues with a potential impact on income of between £13 million and £35 million.</p>



Region/function	Key points
Southern	<p>The region's overall income and expenditure is £1 million better than forecast.</p> <p>Renewals expenditure has increased by £25 million from what is described as additional funding since RF3. It has allocated this spend to Voltaire Road track and Vic 5 signalling, both of which were projects that had been originally deferred from CP6. The effective volume is forecast at 90.6% for FY24. The region currently has a range of £17 million underspend and £35 million overspend on renewals.</p> <p>The region remains on track to deliver the FY24 efficiency target of £232 million and the CP6 target of £900 million. There is £67 million of efficiencies at risk, of which £4 million do not have any plans in place. In opex, this is mainly driven by forecast reform savings (£26 million) including Maintenance Modernisation (£23 million), and Telecoms renewals (£26 million). Southern has taken a cautious approach to its recognition of efficiencies and is holding a £85 million provision, which it is expecting to release and increase the level of efficiencies.</p>

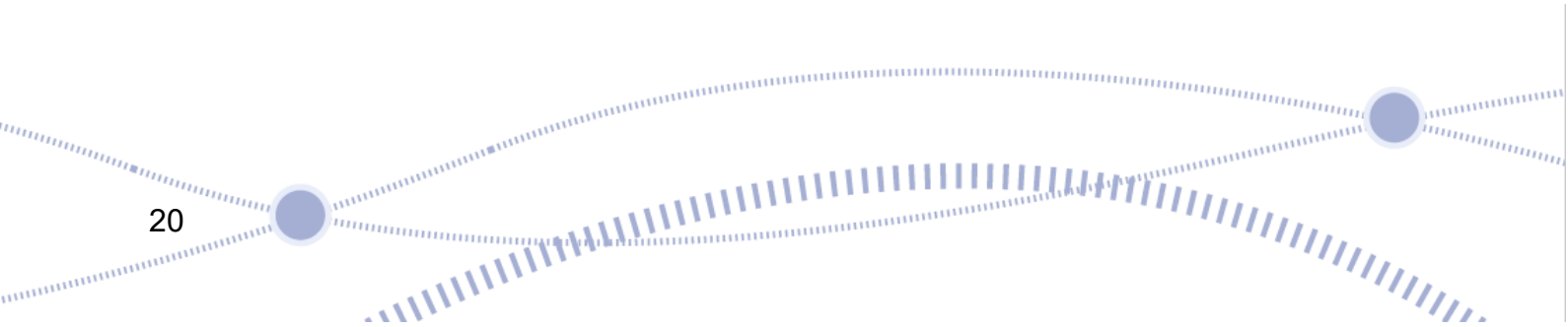
Wales & Western	<p>Recent cost challenges have added between £10 million and £40 million of risk to the region’s renewals expenditure forecast, with a likely total spend of £620 million, which is over the expenditure budget of £600 million. The region is taking a number of actions to deliver against its set budget, including ongoing renewals reviews of its portfolio, reviewing its current contingency and accruals, reviewing activity that can be re-prioritised and challenging contractors to identify additional efficiency. The region forecasts that it will only deliver 82% of its effective volumes target for year 5. This total includes the Port Talbot re-signalling project whose commissioning was deferred from year 4 into year 5. Since RF3, projects have been removed from the CP6 work bank, including Bristol West Junction. The region indicates that the decision to remove Bristol West Junction from the CP6 work bank was the best decision on cost and priority.</p> <p>Despite cost increases in re-signalling projects at Port Talbot and Devon and Cornwall, the region is forecasting that it will over deliver on efficiencies in CP6 by £56 million (£527 million against a target of £471 million).</p> <p>While the region has continued to deliver on train service delivery improvement actions, this has not led to whole industry improvements in On Time, which has an annual scorecard target to end the year at 60.6% (at the start of CP6 the year 5 target for the region was set at 64.4%). The region’s On Time target includes a 1.9% stretch, which, when removed, aligns with the CP6 exit forecast in the final determination. However, On Time MAA performance for period 7 was 59.8% and with the more challenging winter periods still ahead, the region may find it difficult to achieve the stretch element of its forecast. Delivering train service performance relies on cross-industry collaboration and we continue to carry out enhanced monitoring of the region’s performance improvement actions and have initiated a licence investigation due to the region’s worsening train performance trajectory since 2021. We welcome the offer of support from DfT officials on the industry roundtable, which we will convene as part of our investigation. Freight cancellations are forecast to be better than target and aligned with the CP6 exit in our final determination.</p> <p>A significant risk to the region is posed by the Devon and Cornwall signalling project, which accounts for 13% of full year forecast renewals expenditure. Its commissioning has been delayed from September 2023 to February 2024. While the region reports that it remains on track for delivery and commissioning, contractor performance and weather pose the greatest risks to the project.</p>
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Region/function	Key points
Scotland	<p>Approximately 35% of the full year volume in track plain line is due to be delivered in the last three periods of the financial year. The region remains confident in delivery with the main risks being weather, haulage (e.g. train paths), other projects and route priorities as they come to the end of the control period. We will keep this under review as part of our regular engagement with the region.</p> <p>The modernising maintenance programme went live in Scotland on 27 November 2023. The region seemed confident in its ability to deliver its latest forecast for savings from maintenance modernisation. [Redacted].</p> <p>The region has improved its efficiency forecast to £64 million of efficiencies in FY24 and £341 million of efficiencies over CP6. This means the region is now on track to meet the efficiency target set in our PR18 final determination (£339 million over CP6 as a whole), although still slightly behind Network Rail's own in year DP23 delivery plan (£349 million over CP6 as a whole). However, at RF6 there was an ongoing discussion on whether to categorise the Carmont fine of £7.2 million as an inefficiency or a headwind (a cost increase outside Network Rail's control). Network Rail Scotland considers the Carmont fine of £7.2 million as a headwind but we consider it to be an inefficiency. Network Rail Scotland has now agreed that the fine will be treated as an inefficiency and discussions are ongoing on where the fine will be recorded e.g. at Group level or within Network Rail Scotland. A further update is due later this month. If the £7.2 million is classed as an inefficiency and that inefficiency is allocated to the region then that will have an impact on the region's efficiency forecast of £64 million for FY24 and the CP6 target of £339 million.</p> <p>Network Rail Scotland was on a three-year deal with its energy supplier which kept costs lower. This was not accounted for in Scotland's budgeting process, and has now come to an end, leading to higher costs of £4.6 million.</p> <p>Network Rail Scotland is currently forecasting PPM MAA% to reach 90.0% by the end of this financial year, which falls short of the full year target of 90.3% by 0.3 percentage points. As it transitions to the CP7 measure in April 2024 (which includes a derogation for extreme weather and connections to other services and ferries), it expects to achieve a Scotland Train Performance Measure, which will be the measure used in CP7, position of 90.3% by the end of the 2023-24.</p>

Region/function	Key points
System Operator (SO)	<p>Where appropriate to do so, the System Operator has been proactive in releasing funds to Group Finance to spend elsewhere in Network Rail which means that SO-driven opportunities are limited. The SO does recognise some minor slippage and is proactively managing this on a programme-by-programme basis.</p> <p>At RF3, ORR noted the closedown of the Industry Timetable Technical Strategy (ITTS). At RF6, some replacement projects for ITTS have been identified and they are to go for formal investment approval from November onwards. While we are comfortable for CP7 with the approach of smaller, more focused projects, we have general concerns over project delivery because capex has significant underspends with current freight safety and weather risk taskforce projects being described in the SO scorecard as descoped or cancelled. SO agreed projects are not meeting the initial spend rate. Also, performance innovation fund (PIF) projects are currently £5.6 million underspent, which is primarily driven by contracting issues, though planned spend is weighted towards delivery from period 6 and delays are anticipated to reduce overall spend by £2 million in the year.</p> <p>When we challenged the regions on this, the approach to project delivery was further described as an ongoing focus on finding more efficient ways to deliver the same outputs in a time of fiscal constraint. While overall governance for projects is in place, it was agreed that the strategic thinking behind such decisions needs to be more transparent, particularly the interdependence of projects, to highlight where changes to one scope will impact another area (especially when this is in the regions). Work is ongoing to agree new measures, including greater focus on project delivery.</p> <p>There has been a change of approach to recruitment and ongoing retention which has largely addressed the shortfalls in Capacity Planning. There are remaining concerns over the quality of December 2023 access applications, though there is ongoing progress with the actions and recommendations following the capacity Independent Reporter review.</p> <p>Dates have now been given for the preparation of plans for freight improvements and growth which will be included as part of the delivery plan.</p>

Region/function	Key points
Group Property	<p>Group Property is planning to spend its FY24 capex budget across renewals, Revenue Generating Renewals (RGR) and Joint Venture (JV) working capital. Profit after sales is the same as target.</p> <p>Group Property forecast versus RF3: Income +£0.4 million from higher rental income. Opex -£0.2 million. Sales -£0.6 million. Profit after sales unchanged from RF3.</p> <p>Group Property is on plan to achieve £17 million efficiencies through workforce reform and accommodation savings from optimising corporate workplaces.</p> <p>Footfall at period 6 is 75% of pre-Covid levels (-4% vs period 5). From a regional perspective, profit is £0.9 million adverse to RF3. Within this, retail profit has reduced by £5.2 million since RF3, but the majority of the stretch target for property income has now been achieved. The retail property unit void is 9.5%, although this reduces to 6.3% excluding units under offer. There is £44 million of CP6 Revenue Generating Renewal (RGR) capex spend (27%), remaining which is all authorised and some areas have over-planned to offset any slippages.</p>
Technical Authority	<p>Organisational change is being finalised as part of the final post implementation review to assess the structures agreed from modernising management during October. There is a risk of not achieving the separate modernising maintenance efficiency due to a delay in the delivery of a technology solution [Redacted]. This will be mitigated with any underspends in other vacancy savings.</p> <p>Efficiency forecast for CP6 is £482 million, of which £124 million is direct efficiency and £358 million is enabling efficiency in the regions and is included in their forecasts.</p> <p>Occupational Health insourcing went live on 1 November. There is no associated financial risk and no impact on statutory requirements.</p>

Region/function	Key points
Route Services	<p>Overspend of circa £3.5 million (1%) year-to-date and £18.5 million overspend forecast for the year due to additional ballast costs (£18 million) following the fire at Mountsorrel in November 2022. Supply is not expected to return to normal levels until early 2024. This will have to be mitigated by reductions in renewals unless an insurance claim for the incremental track ballast costs is favourable. Another significant cost movement, which has been mitigated to £11 million, is the cost of the new stone blower maintenance contract, which is improving service levels significantly.</p> <p>Of the £50 million deferral request from Group Finance for FY24, £30 million has been identified so far (including £25 million for Project Reach) with further reviews underway to minimise CP7 impact.</p> <p>[Redacted].</p> <p>Route Services is forecasting to deliver £520 million of functional efficiencies in CP6 (96% of which are already delivered), £98 million (23%) ahead of its target of £422 million. Enabling delivery of an additional £707 million of efficiencies to the regions in CP6 (circa £13 million less than RF3). Commercial and Procurement are providing efficiency contributions of a further £752 million across Network Rail in CP6 and forecasting to exceed target for FY24 by £32 million.</p>

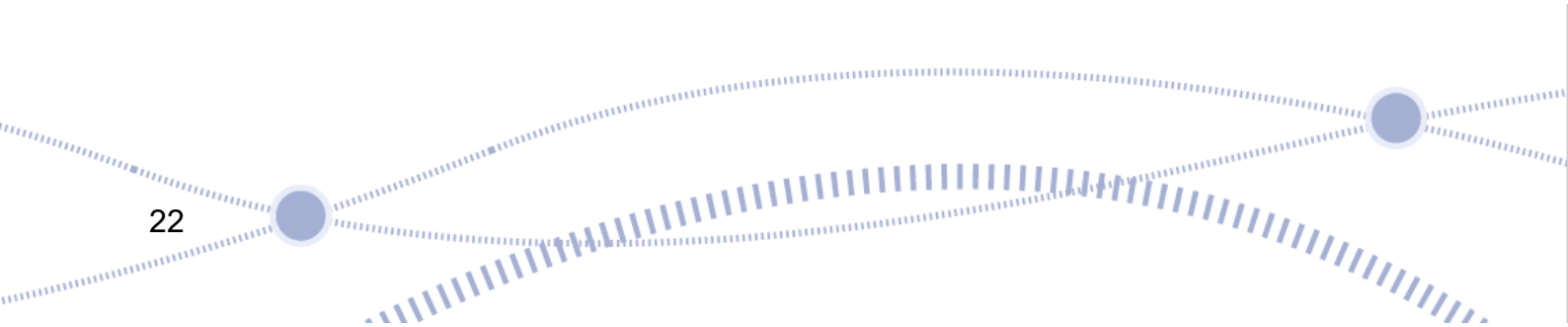


Annex C: Network Rail's progress against the issues raised at RF11 (March 2023) and RF3 (September 2023)

Table C.1 Closed issues

Issue	Reason for closure
Network Rail did not provide us with assurance of its ability to deliver its planned renewals.	Network Rail continues to provide assurance to ORR at monthly asset management meetings. It was agreed to close this action as work on any CP7 impact of renewals deferrals would take place within the context of PR23 and further discussions would therefore be best to take place in the relevant forums.
Network Rail's process for making changes to renewals plans could be more transparent. Its process should more clearly show the effect of deferrals on safety, asset sustainability and efficiency and how Network Rail will mitigate those effects.	Network Rail provided a letter to ORR regarding its assurance processes for health and safety matters in its delivery plan update processes. It was agreed that a health and safety statement would be provided in future reforecasting material and that this action could therefore be closed.
There are ongoing delays to Network Rail's maintenance modernisation programme which could impact the overall efficiencies target for CP6.	Network Rail met with ORR on 17 May 2023 to discuss the timelines around the implementation and efficiencies related to modernising maintenance. It was agreed that the issue could be closed and any further work will be taken forwards in a PR23 context.
Uncertainty around inflation remains, especially regarding Network Rail's contracts with suppliers that are due to end in the final year of CP6.	Network Rail met with ORR on 11 July 2023 to provide this information. It was agreed that the issue could be closed. Any further work will be taken forwards in a PR23 context.
The delays to the delivery of the new stone blower fleet has led to concerns around the delivery of planned works, and the effect that this will have on asset condition.	Network Rail provided a written response to a direct request from ORR. ORR confirmed receipt and agreed to continue further monitoring in other BAU forums.

Issue	Reason for closure
ORR and Network Rail share concerns regarding potential delays to the commissioning of some signalling projects into CP7.	Network Rail provided updates to Signalling delivery risks and opportunities, including management actions as part of the RF6 process. This update provided ORR with assurance on the latest position. This will continue to be monitored and shared with ORR periodically and as part of the RF review process.
There is concern around the delivery of telecoms renewals due to the large number of projects due to take place in the final year of CP6.	The Telecoms update was provided as part of the RF6 process. This update provided ORR with assurance on the latest position. This will continue to be monitored.



Annex D: RF11 note

Please see RF11 letter attached.



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