ORR's annual assessment of Network Rail Scotland 2024 to 2025

Letter

17 July 2025

Dear Liam,

Subject: ORR's annual assessment of Network Rail Scotland

In the first year of Control Period 7 (CP7) we have worked closely with your team to understand how Network Rail Scotland is progressing its delivery plan. This letter summarises our assessment of Network Rail Scotland's performance in Year 1 (2024-2025), where relevant highlighting areas that require focus. We have produced a separate report for Transport Scotland setting out in more detail our assessment of Network Rail's delivery of the CP7 High Level Output Specification (HLOS).

As set out in our final determination, due to constrained funding in CP7 Network Rail will be relying on life-extending repairs and maintenance over renewals over the course of CP7 as compared to CP6. We are therefore increasing our focus on these activities.

Summary of delivery in Year 1 of CP7, 2024-25

Overall, Network Rail Scotland has made a good start to CP7. It has delivered broadly in line with its plan for Year 1 and more financial efficiencies have been achieved than were planned. This has been driven through the leadership and commitment of you and your team.

Network Rail Scotland recently published its Delivery Plan for Year 2. This remains broadly consistent with the delivery plan commitments made at the start of CP7. This contrasts with England and Wales where some regions are reducing planned renewal volumes to address a

funding gap. A stable plan in Scotland should continue to support delivery of the requirements of the HLOS and financial efficiencies. It should also support the supply chain, as there is more certainty and confidence in the work that is planned.

Delivering a reliable service for passengers

Network Rail Scotland needs to maintain its network in such a way that enables ScotRail to achieve the Scottish Train Performance Measure (STPM) target of 92.5% in each year of CP7. At the time of the PR23 final determination, we said that we would set the baseline at 92.5% for each year of CP7 and hold Network Rail Scotland to account for its contribution towards delivering this level of performance in CP7. In the Delivery Plan for CP7, Network Rail Scotland set out a trajectory of how the alliance with ScotRail ('the Alliance') would deliver the target of 92.5% STPM by Year 4 of CP7. This trajectory reflected that it was unlikely the Alliance could deliver the 3.1 percentage point target improvement at the start of CP7. The trajectory gave a Year 1 target of 90.7% STPM.

At the end of Year 1, the STPM (moving annual average) was 89.7%, 1 percentage point worse than the target. Performance over the year was impacted by many issues, notably industrial action, shortages of traincrew and issues with fleet reliability. In the last quarter of Year 1, performance started to improve, achieving or exceeding periodic targets, which is encouraging.

We recognise that your team has been responding to infrastructure issues to improve reliability. This includes the actions taken in response to challenges at Pass of Brander where defective rock detectors (resulting in a 20mph temporary speed restriction) and a landslide impacted performance. By undertaking extensive geotechnical works, restoring rock fall detectors and ensuring good engagement between ScotRail drivers and signallers, the temporary speed restriction and delay minutes associated with Pass of Brander were reduced.

While the STPM target for year 1 has not been achieved, additional indicators show that Network Rail Scotland is meeting its expected contribution. For the Network Rail delay per 1,000 miles of train distance travelled metric, Network Rail Scotland performed slightly better than its target and achieved a 17% year-on-year improvement, which is proportionately the greatest improvement of any Network Rail region over that time.

There have also been fewer cancellations than the target set (2.2% against a target of 2.3%). Network Rail Scotland is the only region to deliver better than target and has the lowest percentage of cancellations.

Recognising the challenges to the delivery of 92.5% STPM, in the final determination we included a Scotland targeted performance fund of £50 million (increased to £53.3 million in cash prices). In Year 1, good progress has been made with setting up the fund, attracting proposals from industry and allocating funding. Thirteen projects have been approved, with further initiatives under review. We welcome constructive engagement with your team on each application to ensure compliance with the governing principles. Going forward, it will be important to monitor progress of the schemes agreed and incorporate benefits into future STPM forecasts.

Looking ahead, the Alliance recently shared its Joint Performance Strategy for Year 2 of CP7. The strategy is clear on performance initiatives, with commitment to a more regular and targeted regime of reporting against milestones and measuring benefits. We see this as a key enabler to getting to 92.5% STPM. However, we have been clear that it is necessary for the Alliance to also:

- strengthen collaborative relationships and embed a more proactive performance culture; and
- continue to maximise opportunities for whole system working and the better use of technology.

Delivering for freight

In Year 1, 1.1% of freight trains were cancelled due to a Network Rail Scotland or a Passenger Train Operating Company. This was 0.3 percentage points better than the target set. Network Rail Scotland reported that this was its lowest number of cancellations since 2019 - 20. In Scotland, freight growth has increased since the start of CP7 but finished Year 1 0.6 percentage points behind the target set (3.2% growth versus 3.8%). This was driven by factors outside of Network Rail Scotland's control, including the loss of the Royal Mail traffic and the Grangemouth traffic. The Network Rail Scotland freight lead remains confident in achieving the end of CP7 target of 8.7%.

Network Rail Scotland is on track with delivering the milestones in its CP7 freight growth plan. It also remains committed to working closely with freight colleagues to identify improvements.

There continues to be strong collaboration through the Freight Joint Board in Scotland. We view this group as best practice and in the past year have encouraged other Network Rail regions to establish similar forums to support freight growth.

Improving asset reliability

While effective renewal volumes for the whole of CP7 remain as planned, there have been some changes between years. In Year 1, Network Rail Scotland over-delivered renewal volumes by 7%, predominately in structures and earthworks. The only area of under-delivery has been in signalling, caused by the issues with product acceptance of Alstom's Modular Control System Infinity remote signalling control which has resulted in deferral of volumes to later in CP7. Your team has confirmed that this project will complete in June 2026.

During Year 1, we escalated concerns with examinations and assessments of structures in line with Network Rail standards. If not addressed, this risks undetected faults, safety hazards and operational disruptions. Your team submitted a recovery plan which we have judged to be good – it shows that Network Rail Scotland has engaged with the supply chain and has allocated resource and funding.

We also escalated concerns with the quality of data on vegetation encroachment. Following a review, we found locations where vegetation conditions are not scored in the system, with an approx. 20% gap. Poor quality data on vegetation encroachment could impact decisions on what maintenance is required, resilience of the network (if more reactive work is required) and it could impact passenger and freight operators (either through disruption or through damage to their vehicles). Your team has responded to our concerns, taking proactive steps to address the gap by working closely with the Technical Authority, route teams and delivery units.

Looking ahead, planned effective renewal volumes for the whole of CP7 remain broadly consistent with the CP7 Delivery Plan. We note some deliverability risks in Year 2. In addition to wider financial pressures, including inflation and increased National Insurance contributions (both for Network Rail Scotland and within the supply chain), other risks include maintaining alignment with enhancement projects, availability of resource (particularly for signalling and telecoms) and challenges with some suppliers and 3rd party landowners. Engagement with your engineering and asset management team gives confidence that they understand these risks and have plans in place to mitigate where necessary to avoid lost volumes and reduced expenditure.

In addition to renewing infrastructure, Network Rail Scotland has also delivered key enhancements to the network in Year 1 on behalf of Transport Scotland. In June 2024, the Levenmouth Rail Link was opened, marking a major milestone in the delivery of enhancements within the Network Rail Scotland region. The project introduced two new stations, Cameron Bridge and Leven, and represents the successful completion of a significant development and delivery

programme undertaken through Control Period 6. Network Rail Scotland adopted a new contracting model for this project, which played a key role in facilitating its effective delivery.

Delivering better environmental outcomes

While we recognise areas of strong delivery throughout this letter, one area of concern is Network Rail Scotland's carbon emission reduction. The Year 1 data shows that in Scotland, scope 1 and 2 emissions decreased by 0.5 percentage points (which is significantly adrift of the target set of a 4.4 percentage point reduction).

Your team reported an issue with the scope 1 and 2 carbon emission data which it expects the Technical Authority to correct. We have had early sight of draft revised data which shows an improvement in reducing emissions but remains below the target set. We recently wrote to you to better understand the data issue and what steps Network Rail Scotland is taking to reduce carbon emissions, to give assurance that even though the target has not been delivered, Network Rail Scotland is doing all it can to deliver carbon emission reductions.

Delivering value for money

Network Rail Scotland has delivered £33 million of efficiency savings, 28% above original delivery plan target of £26 million. These were mainly achieved through optimisation of access (£12 million), implementation of minimum viable product strategies (£4 million), and modernising maintenance practices (£4 million).

Our independent reporter efficiency planning review highlighted that over-delivery in the early years of the control period could play an important role in supporting Network Rail Scotland delivering its CP7 efficiency plans. This will help ease the pressure in future years where the efficiency trajectory increases substantially and support delivery of the overall £389 million efficiency target in CP7. We are pleased your team has taken this on board and is advancing plans to deliver £62 million in efficiencies in Year 2. As of March 2025, 73% of Year 2 efficiency plans were well-developed.

For Year 2, leading indicators show that financial authorisations stand at 67%, 10 percentage points below glidepath but closely aligned to the national average of 68%. Remits issued and accepted for planned initiatives stand at 89%, aligning closely with the national average of 87%. While there is not a cause for concern with renewals planning for Year 2, we recommend focusing on increasing authorisations for renewals work in the early part of the financial year to avoid

delays with Year 2 deliverables.

Despite progress in efficiency, Network Rail Scotland reported a financial underperformance of £28 million against its annual budget in Year 1. This was largely a result of underperformance in renewals, particularly in track, signalling and drainage due to an increase or change in scope of work, supply chain costs and delays.

Network Rail Scotland set aside £234 million of ring-fenced risk funding for unplanned costs in CP7. We understand that 56% of the fund has been allocated across Network Rail Scotland's plan for CP7 to manage known financial pressures, such as National Insurance contributions increases and performance improvement costs. This only leaves Network Rail Scotland with £102 million of risk funding to manage unknown financial risk over the remainder of CP7.

While the remaining level of risk funding is a concern, we understand the pressures faced by the region in the current economic climate. We will continue to closely monitor Network Rail Scotland's management of risk.

Overall, Network Rail Scotland has made significant progress in efficiency savings, however the region must remain focussed and proactive in addressing the challenges ahead. We would like to see continued focus on developing comprehensive plans for efficiency improvements, securing authorisations for renewal activities, and mitigating financial risks, as this will be essential for achieving CP7 deliverables in upcoming years.

Yours sincerely,

[signed]

Anna Rossington

Deputy Director, Regulatory Strategy & Reform

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