

PR23 draft determination:

Settlement document for the System Operator

15 June 2023



About this document

This is one of six settlement documents of our draft determination for the 2023 periodic review (PR23).

PR23 will determine what the infrastructure manager for the national rail network, Network Rail, is expected to deliver with respect to its operation, support, maintenance and renewal (OSMR) of the network during control period 7 (CP7), which will run from 1 April 2024 to 31 March 2029, and how the available funding should be best used to support this.

This strongly influences:

- the service that passengers and freight customers receive and, together with taxpayers, ultimately pay for; and
- the charges that Network Rail's passenger, freight and charter train operator customers pay to access its track and stations during CP7.

Our draft determination sets out:

- our review of Network Rail's strategic business plan (SBP); and
- decisions on its proposed outcome delivery and its planned expenditure to secure the condition and reliability of the network;
- changes to access charges and the incentives framework; and
- relevant policies on managing change and the financial framework.

In addition to **this document**, we have also published as part of our draft determination:

Document type	Details
Executive summaries of our determination	Our key proposals from our draft determination for: <ul style="list-style-type: none">• England & Wales• Scotland

Overviews of our determinations What Network Rail will need to deliver and how funding will be allocated in:

- England & Wales
- Scotland

Consolidated decisions A summary of our draft decisions across Great Britain

Introduction An overview of PR23 and background to our draft determination

Settlement documents Detailed draft decisions for each of:

- Scotland
- Eastern region
- North West & Central region
- Southern region
- Wales & Western region
- **System Operator**

Supporting documents Technical assessments of:

- Health and safety
- Outcomes
- Sustainable and efficient costs
- National Functions
- Other income

Policy positions How we intend to regulate Network Rail during CP7 in relation to:

- Financial framework
- Access charges
- Schedules 4 & 8 incentives regimes
- Managing change

Responding to the consultation on our draft determination

We are consulting on our draft determination and welcome comments from stakeholders on any of our documents which form the draft determination on or before 31 August 2023.

Responses should be submitted in electronic form to our inbox: PR23@ORR.gov.uk. We request stakeholders provide their response using [this proforma](#).

We intend to publish all responses on our website alongside our final determination in October 2023. Annex A to our proforma document sets out how we will treat any information provided to us, including that which is marked confidential.

Next steps

After taking account of stakeholder responses, we expect to issue our final determination on Network Rail's delivery and funding for CP7 by 31 October 2023.

We expect to issue our Review Notice by December 2023 and, subject to Network Rail's acceptance, issue Notices of Agreement and Review Implementation Notices. These will give effect to the decisions made during PR23 in time for CP7 to commence from 1 April 2024 and for Network Rail to develop its plans for delivery.

Executive summary

Our determination includes separate settlements for each region and the System Operator (SO) in Network Rail. Settlements set out our expectations about the funding that will be allocated to each region and the SO and the outputs that will be delivered by them.

This document provides a summary of the key proposals in the SO's strategic business plan (SBP) for control period 7 (CP7) and our review of these proposals, as part of our periodic review 2023 (PR23) process.

We recognise that the SO has challenged itself to reduce funding from earlier rounds of planning. In CP7, the SO's plan requires funding of £531 million; this is a reduction from the adjusted control period 6 (CP6) settlement figure of £580 million and an 18% reduction since we commented upon the SO's draft plan in October 2022.

While the overall approach appears to be aligned to address the requirements of the High Level Output Specifications (HLOSs), the SO has an outstanding decision to make on the scope of the Industry Timetable Technical Strategy (ITTS). This needs to be confirmed, as it encompasses projects that will influence the SO's ability to deliver timetable performance improvements and efficiencies.

We intend that the measures for CP7 reflect the full scope of the SO's activities and will be working with the SO to finalise these over summer 2023. We have set the performance trajectory for freight cancellations at 1.2% throughout CP7, and have set the trajectory for freight growth to reach 7.5% for England & Wales and 8.7% for Scotland by the end of CP7.

We are satisfied that the SO's plan is capable of delivering the HLOS requirements of the Secretary of State for Transport but require more clarification on how the plan addresses those of the Scottish Ministers.

1. Summary of Network Rail's key proposals for the System Operator

Overview of System Operator

1.1 The SO delivers specific licence responsibilities for:

- strategic planning (the SO is accountable for Network Rail's long-term planning process);
- providing information about network capacity to train operators and funders;
- managing operator access to the network via the sale of access rights (SOAR) process; and
- producing the timetable.

1.2 The SO also collaborates with each of Network Rail's regions and the rail industry to carry out functions:

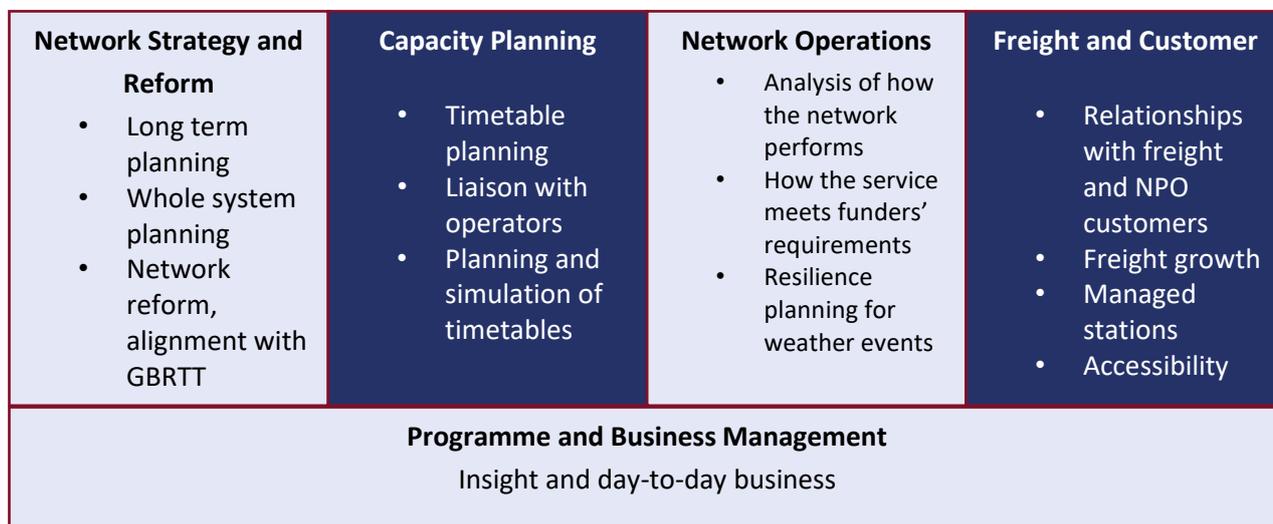
- providing technical expertise and co-ordinated management to deliver performance and safety improvements in network operations;
- improving customer experience at managed stations;
- securing performance of the network for freight and national passenger operators (including specific CP6 requirements in Scotland such as improving freight journey times and freight growth); and
- managing Network Rail's customer relationships with freight operators, national passenger operators, charter operators and potential future open access operators.

1.3 Since the start of CP6, there have been significant changes to the SO's scope and duties. The Putting Passengers First reorganisation saw certain strategic planning functions devolved to Network Rail's regions while a large number of staff transferred into the SO following the merger with the three Network Services functions (Network Strategy and Operations; Operational Programme Delivery; National Passenger and Customer Experience and Freight).

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1.4 In July 2022, the SO completed a reorganisation to five areas of responsibility and reduced its headcount by 20%, though recruitment continues into key teams like Capacity Planning. The SBP is based upon headcount in CP7 of 965, around 20% below CP6 levels. Figure 1.1 shows the SO's current structure.

Figure 1.1 Network Rail's System Operator structure



Source: ORR's interpretation of structure set out in the System Operator Strategic Business Plan 2023

1.5 Funding was allocated in CP6 to enable the SO to address recommendations from ORR's inquiry into the May 2018 network disruption following the introduction of a new timetable. These recommendations included the creation of a project management office to provide oversight of the timetable process, greater co-ordination of processes and a centralised industry view of risks. In addition, the Industry Timetable Technical Strategy (ITTS) was developed to identify areas where IT systems could support more effective work.

1.6 Within CP6, the recommendations from ORR's inquiry into the issues of May 2018 have been actioned and early ITTS implementation has brought benefits in reduced timetable delay minutes. However, the planned scope of the ITTS programme has been reviewed and reduced, partly due to greater-than-anticipated complexity of proposed new systems.

1.7 We note the flexibility of the timetable team in responding to repeated timetable amendments required by external factors including: the Coronavirus (COVID-19) pandemic; sustained disruption from industrial action; extreme weather events; and several events of national importance. This gives some confidence that,

overall, the timetable production process is adequately resourced and assurance processes are now more robust – but this will need to continue into CP7.

The System Operator's plans for CP7

1.8 In its strategic business plan, the SO outlined its strategic priorities and key outcomes for CP7 based on funding of £531 million, compared to an equivalent figure of £580 million in CP6 (adjusted for organisational changes and at 2023-24 prices). The SO's vision for CP7 is 'to make the network operate as one seamless and high performing unit'.

1.9 The SO describes its role as supporting the regions to operate the whole railway as a single integrated system and describes co-ordination in development of the strategic business plans for each region. The SBP states that financial pressures have led the SO to focus on its legal, regulatory and licence obligations in relation to system operation.

1.10 In its SBP, the SO commits to outcomes in four areas.

- Delivering for customers, safety, reliability and capacity;
- Financial sustainability – value for money;
- Sustainable economic growth and levelling up; and
- Environmental sustainability – supporting net zero and climate change.

1.11 To support these outcomes and improved train performance, the SO intends to deliver four named capital projects and focus upon specific operational areas.

Train service delivery

1.12 The SO will continue to deliver the timetable for the network. A robust timetable is vital to support good train performance outcomes, as is continued whole-industry oversight of risks in the timetable development process. The SO plans to reform the timetable development process and to improve data quality and resilience and to reduce defects in the timetables, in part by continuing to implement the ITTS project, which is the single largest identified capex project at £56 million.

1.13 The SO has initiated reform to the Network Code through the Better Timetables for Passengers and Freight (BTPF) project, which was not part of its initial plan for CP6. The project's target date for the new process to be operational is June 2024.

To achieve this, changes to the Network Code and the Network Licence must be implemented, which will require significant work and stakeholder co-operation.

Freight

- 1.14 Network Rail commissioned a study into potential for freight growth and has taken the middle scenario from these findings to set itself a target for growth in rail freight (measured as net tonne kilometres carried) of 7.5% in England & Wales, with an aspiration of 8% across GB. In Scotland, the Scottish Ministers' HLOS establishes a growth target of 8.7%, with an aspiration of 10%. All of Network Rail's regions provided forecasts for freight growth in their SBP submissions, alongside initiatives, interventions and investments that are required to deliver and grow safe and reliable rail freight.
- 1.15 The SO's Freight and National Passenger Operator (FNPO) team, in line with its overall accountability for freight growth, has set out plans to increase freight capacity and support the running of longer, heavier freight trains. Its plan is to focus on corridors and linking routes together, working with regions to improve performance across those parts of the network most critical to freight users. The SO also plans to produce a 30-year strategy for freight growth, in conjunction with Great British Railways Transition Team (GBRTT, the team set up to implement the government's Plan for Rail).
- 1.16 The SO proposes to continue its freight safety programme for specific safety schemes in CP7 but with reduced funding. The FNPO team also intends to focus on preventative freight safety initiatives with the regions via regional freight safety boards, following a pilot of this structure in Network Rail's Southern region.
- 1.17 The SBP prioritises the need to invest in critical structures to safeguard against the loss of heavy axle weight capability. The SO has identified a list of structures across the network where capability to carry heavier traffic has already degraded, or is likely to degrade, within CP7. The submission includes £72 million investment for this mitigation across the network, which is to be delivered by the regions.

Customers and communities

- 1.18 In CP7, the SO will continue to administer the secretariat for the Built Environment Accessibility Panel and will co-ordinate Network Rail's compliance to standards of accessibility (primarily in its managed stations). With industry, it will work with GBRTT to develop an industry-wide National Rail Accessibility Strategy intended to improve accessibility and inclusion.

1.19 The SBP contains an intention to encourage people to travel by rail through improvements to managed stations with national improvements to passenger information systems and support for local station staff with toolkits and consistent operating procedures.

Capital projects

1.20 The SO intends to deliver its priorities through four specific capital programmes, with a combined total expenditure of £107 million. Three started in CP6 and are continuing into CP7.

- **Industry Timetable Technical Strategy (ITTS) of £56 million:** The projects under this strategy have objectives to improve data management and support efficiency in timetable development by reducing data entry and manual calculation. In its final form, the project is planned to contribute to improved performance by delivering improved timetables and reducing average minutes lateness. The SBP states the scope of this work is still subject to decision;
- **Weather Risk Task Force (WRTF) of £20 million:** This programme was initiated to implement recommendations of the Lord Mair and Dame Slingo post-Carmont derailment task force reports. Its aim is to improve operational response and resilience to extreme weather events and the work underpins Network Rail's approach to weather resilience and climate change adaptation. The SO set out that this programme will help Network Rail understand the operational risk of rainfall and other adverse weather to its infrastructure, considering scientific developments in monitoring, real-time observations, weather forecasting and risk-based decision making. In CP7, the SO intends to complete its work on weather risk and transition it to business-as-usual;
- **Freight Safety Improvement Portfolio (FSIP) of £17 million:** The FSIP intends to cover a range of freight safety risks, from infrastructure and vehicle condition to terminal operations. To date, improvement areas have included derailment reduction, trespass and elements of operational security (including policing and crime reduction), and better freight terminal operations including safe systems of work. The SO has proposed a reduced FSIP fund in CP7, with the focus amended to more strategic projects which address freight safety risks, such as those emerging from investigations; and

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- **The 21st Century Operations programme of £15 million:** This new programme is implementing tools and technology to support operational staff to build and maintain competence. In CP7 the budget for the 21st Century Operations programme will move from Network Rail's North West & Central region to the SO.

1.21 In addition, the SO has unfunded plans for a further project, Better Data for Better Operations, to improve operational data quality, delivered in collaboration with Network Rail's Technical Authority. This project intends to reduce errors and allow more accurate modelling, to support improved performance, safety and specific projects such as Optimised Train Track Operations. The SO has said in its plan that where funding becomes available, it would be considered for use on this programme.

Funders' requirements of the System Operator

1.22 The SO has stated how it intends to address the specific requirements in the HLOSs issued by the Secretary of State in England & Wales and by the Scottish Ministers in Scotland (shown in Annex 1).

England & Wales

1.23 The HLOS includes specific requirements for efficient system operation. These focus on train service planning, performance modelling to support the allocation of network capacity, and more accurate performance measurement techniques to support continuous operational performance improvements. It is required that timetabling capability should allow changes to be made without disrupting customers.

1.24 For freight, Network Rail is expected to work closely with freight operators and customers to develop clear plans to support growth by improving reliability. Network Rail is required to set a stretching yet realistic target for rail freight growth over CP7.

Scotland

1.25 The Scottish Ministers' HLOS also includes specific requirements for the SO (shown in Annex 1). These are reviewed in the [PR23 draft determination: settlement document for Scotland](#).

1.26 In relation to specific requirements on the SO, there is a requirement to optimise the use of capacity and capability to bring performance and modernisation,

including connectivity with other modes of transport. The Scottish Ministers require Network Rail to ensure that at least one cross-border route is available for passenger and freight services at all times, other than in unforeseen or exceptional circumstances. Where that is not possible, Scottish Ministers should be notified in advance and would expect to be assured that all options had been thoroughly investigated.

- 1.27 There are requirements for network capability, to operate and maintain the network throughout CP7 at a level which will satisfy all of the track access rights of all passenger, freight and charter operators in place at the date of the publication of the HLOS and any rights secured, or in the course of being secured, between then and 31 March 2024.
- 1.28 The HLOS sets a freight growth target of 8.7% net tonne kilometres in Scotland using existing capability of the rail networks without the need for further enhancements. There is also an aspiration to achieve a higher growth rate closer to 10% through collaboration. Rail freight must reduce the carbon emissions of its own operations, in addition to contributing to Scotland's net zero targets.

2. Our findings and draft decisions on the System Operator's strategic business plan

2.1 In the course of our assessment, we have:

- analysed the SO's SBP;
- held meetings with the SO and challenged its plans; and
- worked with the SO to develop measures which will be used to monitor the SO's performance throughout CP7 which will be included in Network Rail's reporting requirements (captured in ORR's data protocol).

2.2 There are some challenges which are likely to affect the SO's ability to deliver during CP7, including:

- managing delivery of long-term programmes in a fiscally constrained environment;
- delivering performance improvement and freight growth when regions are forecasting a reduction in asset reliability;
- managing delivery of a system operation function with devolved regional responsibilities and where there is potential for reform of the rail industry and the system operation role;
- delivering best practice and performance improvement against centrally held targets when the operational steps necessary to achieve the targets are under control of the regions; and
- recruiting and retaining sufficient specialist resources.

2.3 We think these potential challenges increase the importance of our monitoring of the SO's delivery and we are seeking to improve transparency of both expenditure and delivery against clear milestones. We intend the measures for CP7 to cover more of the SO's scope of activities than in CP6 and for their trajectories to stretch the SO and bring improved performance while being realistic.

Our assessment

2.4 We have assessed Network Rail's plan against guidance which we issued to it in July 2022. Our four objectives for CP7 are:

- **safety:** the rail network must be maintained in a safe condition for all of its users, workers and the public;
- **performance:** the railway must be customer-focused, making effective use of its capacity to deliver passenger and freight services that are punctual and reliable;
- **asset sustainability:** assets must be planned and managed to deliver their greatest value over the course of their operational lives; and
- **efficiency:** Network Rail must be subject to stretching but realistic efficiency targets.

2.5 While there are some areas where we are seeking further clarification, based on our assessment of the SO's CP7 SBP as submitted, we are broadly content with the SO's plans. This is because:

- the delivery of the projects that the SO has planned for CP7 is necessary to meet the requirements of the HLOSs and to support our PR23 objectives; and
- the SO has demonstrated that it has challenged itself to reduce costs both over the course of CP6 and during the development process for the CP7 SBP.

Our draft decisions on what the SO must deliver

2.6 We set out below the outcomes that we want the SO to deliver in CP7 for the funding available.

Safety

2.7 The SO has allocated £20 million of capex to improve operational response and resilience to extreme weather events through the WRTF. We support this expenditure, recognising that the recommendations are largely focused on improving the effectiveness of operational activity rather than changes to

renewals. We consider that the SO's plan will complement and support the ongoing WRTF programme and we will monitor the delivery of WRTF, including delivery, expenditure and benefit achievement in CP7. This is further discussed in our [PR23 draft determination: supporting document on Health and Safety](#).

2.8 We also continue to support the FSIP fund. We are satisfied that the portfolio will move towards a strategic approach, with funding reduced to deliver the strategic work and regional take up of FSIP projects funded by the regions. We note from the SO's plan, that it is engaging with the regions to create a bottom-up plan which will outline the regional approach to freight safety. These plans will help the SO understand which freight safety areas best interact with the FSIP.

Performance

2.9 Performance improvement is a key priority in CP7. The SO's SBP states that a priority is to make the network high performing by driving improvements and promoting good practice across the network.

Delivering an effective timetable

2.10 Effective timetabling is critically important to operators, customers and funders, with specified HLOS requirements. Currently, we monitor timetable production and delays caused by the timetable and intend to continue using these measures in CP7. While there has been good progress in reducing delays caused by the timetable in CP6, this must continue to be an area of focus to deliver optimum use of capacity and freight growth.

2.11 Currently, the timetable process is not operating in compliance with Network Code timescales and the SO intends the implementation of the BTPF project to achieve this. While the project has achieved industry agreement, there remain stakeholder concerns and we have asked the SO to set out the impact of the changes on operators. We will continue to monitor the continued implementation of BTPF closely and consider it a priority that the timetable production processes are in compliance with the (current or amended) Network Code by the end of 2024.

- **Draft decision 1:** SO to return the timetable process to Network Code compliance by end of December 2024.

2.12 We have previously raised concerns around the pace of Network Rail's technology adoption. Our conclusions about Network Rail's centrally managed technology projects are included in our [PR23 draft determination: supporting document on](#)

[sustainable and efficient costs](#). From assessment in CP6, we have concerns where project scopes are poorly defined and would be looking for clear definition of all SO projects. For CP7, we will more explicitly focus on benefit delivery in our monitoring of the SO's capital projects.

2.13 Planned improvements to timetable production and efficiencies are dependent on projects in the ITTS, which is the largest area of capital expenditure for the SO. We therefore intend to include projects under the ITTS as a supporting measure for the SO and will be monitoring delivery and benefits obtained. While we support the ongoing implementation of the ITTS, the SO's plan highlights that there are outstanding decisions to be made on its scope and cost. Given the stated importance of the ITTS to delivery of the SO's objectives, it is important that we understand any changes in advance of making our final determination.

- **Draft decision 2:** In our conclusions on the CP7 Outcomes Framework, we decided to monitor SO strategic projects. ITTS is the largest of these and progress will be monitored as a Tier 2 supporting measure. To do this:
 - we require the SO to confirm, during summer 2023, what the scope and cost of ITTS will be and the implications for other deliverables, to inform our final determination, due to be published in October 2023; and
 - as part of this clarification, we require the SO to confirm how any reduction in planned spend on ITTS will be used.

2.14 Part of the ITTS plan for CP7 is development of a replacement Access Planning System. During CP6, we have frequently raised concerns with Network Rail about the adherence of the SOAR process to required timescales and about the quality and timeliness of information provided in support of access decisions. Whether or not Network Rail proceeds with a replacement Access Planning System, there is a recognised need to improve compliance with processes in this area.

- **Draft decision 3:** We expect SO to confirm whether the development of a replacement Access Planning System will be undertaken and the consequences for performance of the approach chosen to inform our final determination in October 2023. Whatever approach is adopted, we would expect to see a plan adopted to minimise applications processed post industry standard within year 1 of CP7.

Freight performance

- 2.15 We have previously (in our conclusions on the [CP7 Outcomes Framework](#)) confirmed that achieving a low level of freight cancellations would be our success measure for freight train performance.
- **Draft decision 4:** We will hold the SO to account for the GB-level trajectories for freight cancellations and require the SO to set out more detail of how it will deliver its target in its delivery plan for CP7.
- 2.16 Network Rail has provided forecasts for train performance and we have set the GB trajectories based on freight cancellations that are 5% below the historical average performance over a four year period. (The years used are 2017-18 to 2019-20 and 2021-22. Network Rail used these years in its calculation of freight cancellation ranges, with 2020-21 and 2022-23 data excluded given exceptional circumstances in those years relating to the pandemic and industrial action.) We consider this provides a stretching but realistic trajectory, given an anticipated increase in freight traffic consistent with freight growth.
- 2.17 A fuller explanation of our approach for freight cancellations is set out in the [PR23 draft determination: supporting document on outcomes](#).

Table 2.1 GB Freight cancellations

Area of measurement	CP6 forecast exit position	2024-25	2025-26	2026-27	2027-28	2028-29
Freight cancellations GB	1.4 - 2.6%	1.2%	1.2%	1.2%	1.2%	1.2%

National Passenger Operators' performance

- 2.18 Our monitoring, reporting and holding to account of Network Rail's delivery of train performance to National Passenger Operators (NPO) will focus on the performance of On Time and Cancellations measures for each NPO. Network Rail included forecasts for these measures, presented as ranges, for each NPO as part of its SBP.
- 2.19 We expect Network Rail to include On Time and Cancellations for CP7 as point (rather than range) forecasts for each NPO (Caledonian Sleeper and CrossCountry) in its delivery plan. We expect Network Rail to engage with these operators to set point forecasts that are aligned with and support corresponding

regional baseline trajectories we have set. This will provide us with additional assurance that Network Rail is focused on the delivery of train performance to all passenger operators.

- **Draft decision 5:** We require the SO to develop and include updated On Time and Cancellations forecasts for each NPO in its delivery plan for CP7. Within this, we require the SO to set out more detail on the impact of its actions on NPO stakeholders.

Performance innovation

2.20 In CP6, one tool for improving performance is the Performance Innovation Fund (PIF) which is used to support innovative projects. In December 2022, we consulted on its future and most respondents, including train operators and Department for Transport (DfT) supported the fund's aims. In the light of funding constraints, the SO's SBP proposes to discontinue the PIF in CP7.

2.21 Given CP6 performance to date has not met customers' or funders' expectations, we do not consider it appropriate to discontinue a specific performance fund at this time. We recognise there have been challenges in implementing the PIF in CP6 but consider this can be addressed by clearer criteria for eligible projects. We propose to require Network Rail to retain a revised fund in CP7 and consider it appropriate for the SO to continue to run this.

- **Proposal 1:** The SO is to operate a Performance Improvement and Innovation Fund (PIIF) which allocates funding specific for performance improvement and innovation schemes, in the England & Wales regions. This is intended to kick-start collaborative, cross-industry solutions with the aim of improving train performance between train operators and Network Rail. We expect to require Network Rail to confirm arrangements in the delivery plan with funding of £40 million to come from the financial adjustments proposed in our [PR23 draft determination: supporting document on sustainable and efficient costs](#).
- **Proposal 2:** In our [PR23 draft determination: overview document for Scotland](#), we propose that a targeted performance fund is set up. It would only apply in Scotland and should be funded from any remaining unallocated funding once Network Rail Scotland has considered our other proposals to increase expenditure on core renewals and risk provision. We propose this fund is split between asset renewals and operational interventions which are

intended to improve performance. The latter would include working with train operators. Further information on these funds can be found in the [PR23 draft determination: supporting document on sustainable and efficient costs](#).

Freight growth

- 2.22 Both HLOSs place a strong emphasis on freight growth in CP7. The England & Wales HLOS highlights the need for the infrastructure manager to develop clear freight plans to benefit freight customers and support growth and to set itself a stretching yet realistic growth target over the control period; the SO has set this target at 7.5%. Scottish Ministers have set a specific growth target for freight growth in Scotland of 8.7% with an aspiration to achieve 10%.
- 2.23 We are content with the methodologies used to develop freight growth forecasts and consider they provide a sound basis for our CP7 trajectories. We consider the Scottish HLOS target of 8.7% to be appropriately ambitious but realistic, noting the aspiration for greater growth. Overall, the SBP submission aligns well with this opportunity and the requirements to drive freight growth in CP7. In our December 2022 conclusions on the [outcomes framework for CP7](#), we confirmed that growth in freight net tonne kilometres moved would be a success measure in CP7.
- 2.24 Achieving success requires action across a number of areas, including access, capability, capacity allocation, industry engagement, performance, and safety to retain existing freight customers and attract new ones (the England & Wales HLOS contains a specific requirement to support an allocation of network capacity that best underpins reliability and enables freight growth).
- 2.25 The outturn freight growth for CP6 is estimated to be approximately 50% lower than originally envisaged and it is important that the SO sets out and monitors the steps that it will take in these areas to deliver freight growth targets. This will need to include what actions each of the regions are taking to support delivery of this outcome. To do this, we will require the SO to produce, as part of its delivery plan, a CP7 freight growth plan, distinct from but consistent with the longer-term 30-year freight growth strategy. We are intending to hold the SO to account for the GB freight growth trajectory and will work with Network Rail to develop this to inform the final determination.

Table 2.2 Freight growth trajectory in CP7 England & Wales

Area of measurement	CP6 forecast	2024-25	2025-26	2026-27	2027-28	2028-29
Freight growth target England & Wales (made up of regional trajectories to achieve target by end of CP7)	GB 15.6% Revised RF9 2022/23 7.6%	1.5%	3.0%	4.5%	6.0%	7.5%

Table 2.3 Freight growth trajectory CP7 Scotland

Area of measurement	CP6 forecast	2024-25	2025-26	2026-27	2027-28	2028-29
Freight growth target Scotland	7.5%	3.8%	4.3%	5.7%	8.7%	8.7%

- **Draft decision 6:** We have decided to accept Network Rail’s forecasts for freight growth but require additional work in the following areas:
 - Network Rail to develop GB-wide trajectories for freight growth to inform the final determination;
 - the SO to clarify how it intends to use capacity planning to support reliability and bring freight growth in the delivery plan; and
 - the SO to detail the actions that it plans to take to deliver targeted freight growth across the whole of Great Britain in the delivery plan.

Asset sustainability

2.26 While the SO does not directly manage asset sustainability, its long-term planning and its support for heavy axle weight services through infrastructure interventions are relevant.

2.27 The SO has licence responsibility for long-term planning; during CP6, elements of this work were devolved to the regions. The SBP describes the SO as a contributor to the long-term strategy for rail rather than a leader, with focus upon

its functional areas of freight and customer strategy, working with GBRTT. We intend to monitor the delivery of long-term planning via a regular SO narrative report, to ensure that appropriate work is completed.

2.28 To support capability, the SO has agreed a plan and funding with the regions to deliver work to maintain heavy axle weight services through CP7. This will be monitored at SO level because of its importance to achieving freight growth.

Efficiency

2.29 The SO's planned efficiency is £34 million – around 6.5% of expenditure. Compared to Network Rail's wider efficiency plans (8.6% for England & Wales as a whole and 9.9% for Scotland), the efficiency challenge for the SO appears modest. However, the SO has made an 18% saving on its total budget during the planning process, primarily targeting capex and has a greater contribution of opex within its total costs (circa 80% for the SO compared with circa 51% for the network as a whole).

2.30 For our draft determination, we are using Network Rail's efficiency and updated headwinds assumptions for England & Wales and Scotland. In summer 2023, we will work with Network Rail, its regional teams and the SO to ensure that the regional and SO assumptions are consistent with the overall analysis and challenging yet realistic.

2.31 We consider the SO efficiency reasonable but note that £7 million of this relies on further technology implementation and the single largest reduction of over £5 million is unidentified.

- **Draft decision 7:** We accept the SO's planned efficiencies of £34 million but expect the SO to continue to develop its plans and provide clarification on the following specific points:
 - clarify how the planned savings from technology will be affected by decisions in relation to ITTS to inform the final determination in October 2023; and
 - clarify the source of the £5 million unidentified efficiency in its delivery plan.

Draft decisions on the SO's CP7 funding

- 2.32 For CP7, the SO's SBP proposed expenditure of £531 million (risk-adjusted) against an equivalent spend of £580 million in CP6 (at 2023-24 prices), noting that the SO's scope changed in CP6. The proposed planned expenditure is approximately 8% lower than CP6 with a slight increase in opex and a decrease of £66 million in capex.
- 2.33 In our supplementary advice to funders on SO costs (October 2022), we said that overall, we considered that Network Rail's proposed SO costs of £623 million were more appropriate than in its initial CP7 submission of £649 million in March 2022; this change reflected that costs had been developed using a 'bottom-up' approach (based on a more detailed understanding of Network Rail's asset requirements) and also from more engagement with the regions.
- 2.34 In finalising its plan, the SO further revised down its expenditure. Given that the SO has achieved an 18% decrease in expenditure from earlier planning rounds, we consider it has provided evidence of an appropriate level of challenge to its CP7 funding. However, within its plan, £24 million of opex is currently unallocated and is described as a fund to support strategic projects. Prior to the final determination, we are seeking further information on this.
- **Draft decision 8:** We accept the SO's expenditure plans but require the following clarification to inform our final determination in October 2023:
 - The SO to justify its need for £24 million of unallocated opex, including the criteria for allocating it to projects, including Better Data for Better Operations.

Table 2.4 Financial summary as proposed by the System Operator

£m (2023-24 prices)	CP6		CP7					% vs CP6	
	2023-24	CP6 Total	2024-25	2025-26	2026-27	2027-28	2028-29		CP7 Total
Operations	-	-	-	-	-	-	-	-	n/a
Support	92	407	92	86	83	82	81	424	4%
Maintenance	-	-	-	-	-	-	-	-	n/a
Renewals	48	173	28	38	22	11	8	107	- 38%
Industry costs, rates, & traction electricity	-	-	-	-	-	-	-	-	n/a
Risk provisions	-	-	-	-	-	-	-	-	n/a
Gross Rev requirement	139	580	121	124	105	93	89	531	- 8%
Other income	-	(2)	-	-	-	-	-	-	n/a
Net revenue requirement	139	579	121	124	105	93	89	531	-8%
Fixed Track Access Charge income	(57)	(296)	(57)	(57)	(57)	(57)	(57)	(287)	- 3%
Variable Charges	-	(1)	-	-	-	-	-	-	n/a
Electricity for Traction (EC4T) income	-	-	-	-	-	-	-	-	n/a
Schedule 4 and 8	-	-	-	-	-	-	-	-	n/a
Schedule 4 access charge supplement	-	-	-	-	-	-	-	-	n/a
Network grant	(82)	(281)	(63)	(67)	(47)	(36)	(31)	(244)	-13%
Total SoFA related income	(139)	(579)	(121)	(124)	(105)	(93)	(89)	(531)	-8%
Gross revenue requirement less EC4T	139	580	121	124	105	93	89	531	- 8%

Stakeholder engagement

- 2.35 As part of our Annual Assessment of Stakeholder Engagement, we wanted the SO to demonstrate more clearly that stakeholders are able to both participate in and effectively influence business decisions. The SO provided evidence of ongoing structured engagement across its range of activities but did not provide enough detail on how this engagement has translated into the development of its CP7 plan. Specifically, it is not clear how the CP7 plans have been developed over time with stakeholders or whether stakeholders have seen the SO's strategic business plan as one coherent final plan. This is an area that we want the SO to strengthen in its CP7 delivery plan.
- 2.36 While it is reasonable to expect the SO to place a greater weighting than the regions on internal Network Rail engagement in the development of its plans, we are seeking more clarity on the impacts on end user outcomes and require this as part of the SO's plans for freight and NPO stakeholders.
- 2.37 To complement our assessment, as part of our 2023 annual stakeholder engagement survey (an online survey of Network Rail's stakeholders) we asked stakeholders what they thought of Network Rail's engagement with them on its CP7 strategic business planning. For the SO, 26 stakeholders participated in the survey. Their responses revealed that 47% thought the SO had engaged either well or very well. 16% thought the SO's engagement was poor or very poor and 38% did not have a view.
- 2.38 It is vital that the SO continues to engage with its stakeholders in refining its plans, which extends to the annual updates that Network Rail will make to its delivery plan throughout CP7. In doing so, we expect Network Rail's engagement to meet the four overarching principles of good stakeholder engagement, which are inclusive, transparent, well-governed and effective and welcome the SO's commitment to these in its SBP.

Reporting and governance arrangements

- 2.39 In our [July 2022 consultation](#) on our proposals for the CP7 outcomes framework (a consultation on the outcome requirements that Network Rail needs to deliver for the funding it receives from 2024 to 2029), we sought feedback on the potential to increase the scope of our CP7 monitoring and reporting of the SO's activity.

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- 2.40 In addition to headline success and supporting measures, we have identified specific areas which will be the focus of monitoring in CP7 and the exact metrics will be developed with the SO over summer 2023 – and they are intended to include the full scope of SO’s activities.
- 2.41 While we recognise that not all elements of some measures are under the SO’s control, monitoring and reporting on them will support transparency of delivery.
- **Draft decision 9:** During summer 2023, we will work with the SO to finalise processes and measurement systems to enable monitoring of its performance in: management of network capability; management of the SoAR process; and strategic planning.
- 2.42 The SO is proposing broadly to maintain its current governance arrangements in CP7. There has been engagement with the regions during the development of CP7 plans and the intention is for this engagement to increase through CP7 to reinforce and provide clarity on progress where there is separation between accountabilities and delivery responsibility. The SO plans to add elements intended to support working with the regions via the Network Integration Board and Forums, regional freight safety boards and specific measures. Customer and stakeholder engagement is provided through the SO Advisory Board and Standing Advisory Groups.
- 2.43 We are content that the level of governance proposed is suitable and will be an area of focus in our monitoring to assess the success of devolved system operation functions.

Delivering the HLOSs

- 2.44 We have received assurances from the SO that its CP7 SBP will deliver both the requirements of the Secretary of State’s HLOS for England & Wales and the Scottish Ministers’ HLOS for Scotland. Having scrutinised the SO’s plan against the HLOS requirements and sought further clarification, we consider that the plan addresses the England & Wales requirements, though further clarification is required on the requirements in Scotland.
- 2.45 In Annex 1, we set out specific CP7 HLOS deliverables for the SO. We will closely monitor and report on delivery of these requirements throughout CP7.

Annex 1: Assessment of SBP against HLOS requirements

The SO has a role in delivering or contributing to the delivery of outcomes in the areas below.

England & Wales

England & Wales HLOS requirements

HLOS requirement for CP7 (paragraph reference)	SO delivery of requirement in CP7
6 - 7. Developing a long-term strategy for rail:	<ul style="list-style-type: none"> Preparation of 30-year freight strategy Work with GBRTT on customer strategy Contribution to long-term plan for rail
9. Strong and effective analytical capability linking to other forms of transport, considering inclusion	<ul style="list-style-type: none"> Capacity Planning Timetable Performance and Simulation team established June 2022 IT work to improve data and modelling capability through ITTS (currently under review) and Better Data for Better Operations (currently unfunded)
10. Support for those with protected characteristics in asset decisions	<ul style="list-style-type: none"> Best practice for managed stations Working with partners on connectivity and 'last mile' Secretariat for Built Environment Accessibility Panel
11. A clear and effective stakeholder engagement process between Network Rail and its customers and stakeholders	<ul style="list-style-type: none"> Stakeholder engagement plan
12. Resolute focus on value for money and a strong contribution by rail to national and local growth priorities	<ul style="list-style-type: none"> Freight growth target Savings through implementation of ITTS (under review)
13 – 16. Safety and security, including weather response	<ul style="list-style-type: none"> Work of Weather Risk Task Force

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HLOS requirement for CP7 (paragraph reference)	SO delivery of requirement in CP7
17 – 18. Cost efficiency in project delivery	<ul style="list-style-type: none"> • £34 million of efficiencies planned • More efficient working through ITTS (under review) • Challenge panel for headcount
19. Contracting risk management	<ul style="list-style-type: none"> • Planned saving of £5.2 million from contract negotiation
20 – 21. Achieving performance and use of metrics to track delivery	<ul style="list-style-type: none"> • Developing new metrics to track performance, including for freight corridors • New governance boards to consolidate work with regions
22. An efficient approach to system operation. Strong train service planning expertise; more accurate and timely performance modelling to support an allocation of network capacity that best underpins reliability and to enable more informed decision making relating to timetable specification	<ul style="list-style-type: none"> • The SO's strategic priorities set out their approach to achieving efficient system operation • Requested clarification on how capacity planning will support reliability
22. More accurate performance measurement techniques to support continuous operational performance improvements.	<ul style="list-style-type: none"> • Developing new metrics to monitor performance, including for freight corridors • New governance boards to consolidate work with regions
22. Strong and effective timetabling capability for executing changes without disrupting customers.	<ul style="list-style-type: none"> • Timetabling function supported by implementation of ITTS (under review)
23. Approach to asset management and incident management to support performance	<ul style="list-style-type: none"> • Use of incident management reviews in freight
24. Considering local needs	<ul style="list-style-type: none"> • Secretariat for Built Environment Accessibility Panel • Work with freight lineside neighbours
25. Work closely with freight operators	<ul style="list-style-type: none"> • Objective of FNPO team through forums/groups
25. Improve capacity allocation for freight	<ul style="list-style-type: none"> • Requested clarification

HLOS requirement for CP7 (paragraph reference)	SO delivery of requirement in CP7
26. Set a stretching but realistic freight growth target	<ul style="list-style-type: none"> Target set: England & Wales = 7.5%, Scotland = 8.7%
27. Maintain reliability for freight	<ul style="list-style-type: none"> Heavy axle weight programme to maintain key assets Focus through freight corridors
28. – 33. Improve weather resilience and environmental performance	<ul style="list-style-type: none"> Work of Weather Risk Task Force
29. / 34. Asset management and digital signalling	<ul style="list-style-type: none"> The SO does not operate assets but is concerned with supporting freight
35. Research, development and adoption of technology	<ul style="list-style-type: none"> Intent to implement ITTS (under review) ORR draft decision to maintain Performance Improvement and Innovation Fund
36. – 38. Rail supply chain	<ul style="list-style-type: none"> SO owns the supplier partner framework: further clarification required on how this will meet the HLOS requirements
39. – 40. Financial risk	<ul style="list-style-type: none"> Risk assessment completed and included in business plan

Scotland

The SO has a role in relation to specific responsibilities in the Scottish HLOS. The overall approach is contained in the [PR23 draft determination: overview- Scotland](#).

Scotland HLOS requirements

HLOS requirement for CP7	Delivery of requirement in CP7
2. Addressing the priorities of the Scottish Ministers'	<ul style="list-style-type: none"> SBP confirms updates will be made to address Scotland's priorities once finalised
3.4 Establish a Scotland-based timetable team to deliver all activity on the Scottish network	<ul style="list-style-type: none"> Review of requirement in the Scotland settlement

HLOS requirement for CP7	Delivery of requirement in CP7
3.6 Maintaining network capability	<ul style="list-style-type: none"> Network Rail’s SBP plans are expected to maintain capability for rail freight.
3.9 Network maintained to allow Caledonian Sleeper to meet performance targets	<ul style="list-style-type: none"> Expectations to be clarified for Caledonian Sleeper
3.11 FCaL measure for Scotland to not exceed 5.5%	<ul style="list-style-type: none"> FCaL is a supporting measure in our outcomes framework so we will require Network Rail to include a forecast for this in its delivery plan.
3.24/ 3.25 Making freight an attractive to business across Scotland, including safely increasing speed and facilitating access	<ul style="list-style-type: none"> Freight safety improvement portfolio to improve safety Regional freight safety boards ITTS implementation to improve timetable access
3.26 Facilitate freight growth of 8.7%, with an aspiration of 10%. Deliver a freight growth strategy by halfway point of CP7	<ul style="list-style-type: none"> We have set a trajectory in our draft determination for Network Rail to deliver 8.7% freight growth in Scotland. Additional growth beyond this may require additional funding during CP7.
3.30 Maintain at least one cross-border route at all times	<ul style="list-style-type: none"> Review of requirement in the Scotland settlement
3.37 Continue to improve weather resilience	<ul style="list-style-type: none"> The Weather Resilience Task Force is addressing weather resilience
3.43 Derive maximum utility from the network with whole industry measures	<ul style="list-style-type: none"> We require the SO to clarify how it intends to use capacity planning to deliver reliability and freight growth



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