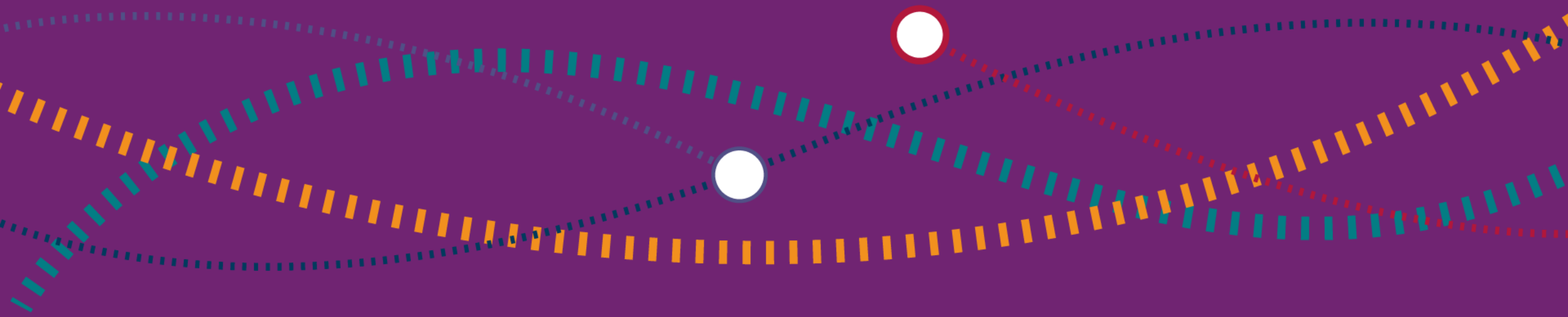# Periodic Review 2023 (PR23)

ORR's final determination
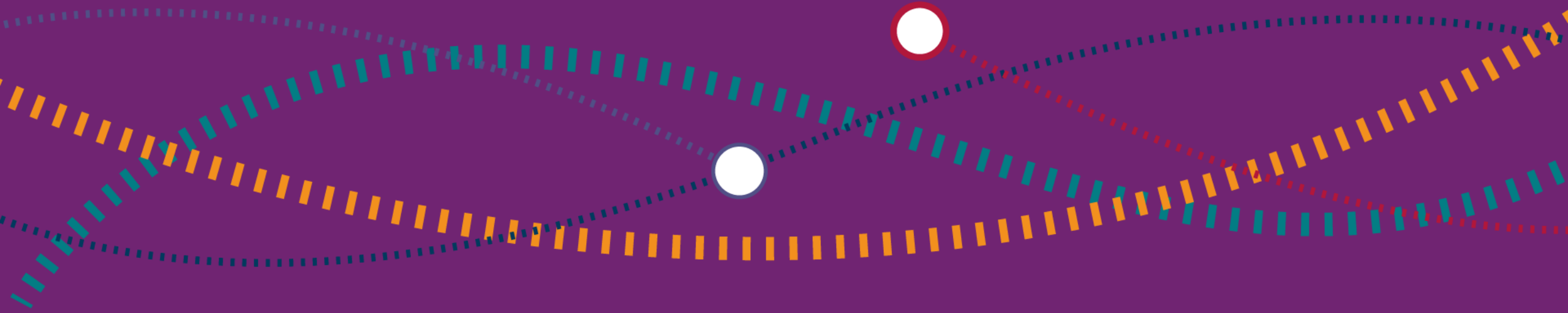
13 November 2023

Agenda

Introduction	Will Godfrey
Train performance	Richard Coates
Asset & environmental sustainability	Steve Fletcher
Safety	Sarah Shore
Expenditure, efficiency, inflation & financial risk	Carl Hetherington
Charges	Carl Hetherington
Incentives	Carl Hetherington
Next steps & close	Will Godfrey

Introduction

5-year settlement that works amid uncertainty & challenges

Funding available reflects wider fiscal conditions

Inflationary pressures

Industrial action

Sector continues to recover from the pandemic

HS2

Rail reform

Setting whole-industry expectations is challenging

PR23 in numbers: England & Wales

ORR has approved Network Rail's plans to spend £43.1 billion to operate, maintain and renew the GB rail network over the next 5 years

Planned expenditure in England & Wales is £38.5 billion over the next 5 years

Network Rail to work with operators to ensure that cancellations are reduced and that punctuality is maintained, even as passenger numbers increase

Passenger performance

Cancellations target: 3.2%
On Time target: 67.1%

Freight performance

Cancellations target: 1.3%
Growth target: 7.5% (5 year period)

PR23 in numbers: Scotland

ORR has approved Network Rail's plans to spend £4.6 billion to operate, maintain and renew the rail network in Scotland over the next 5 years

Passenger performance

To enable ScotRail to achieve a performance target of 92.5% each year

Freight performance

Cancellations target: 1.4%
Growth target: 8.7% (5 year period)

PR23 in numbers

Around £20 billion will be spent on asset renewals across Great Britain

A reduction in carbon emissions target of more than 20% and a biodiversity improvement target of 4.2% across Great Britain have been set
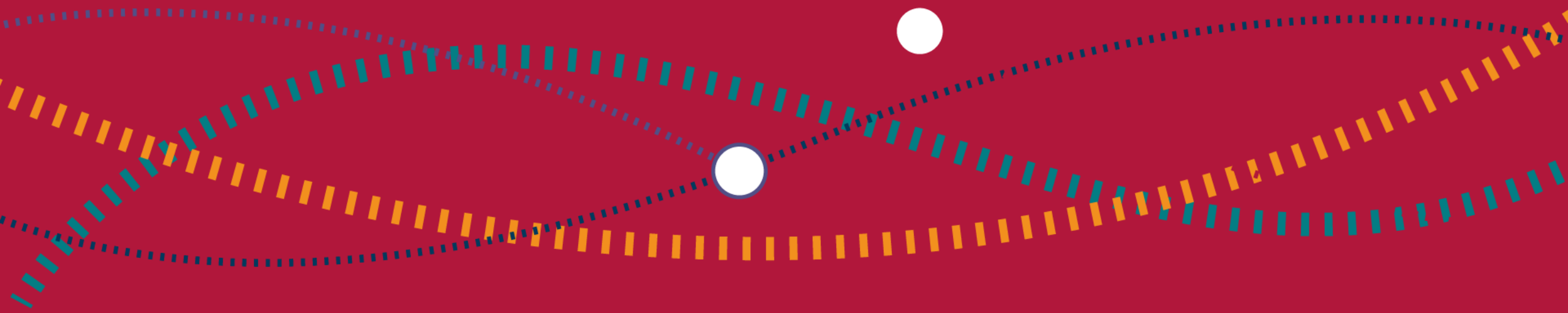
Network Rail forecasts delivery of at least £3.7 billion of efficiencies across Great Britain

Network Rail's risk funding has been set at over £1.7 billion across Great Britain

Train performance

Ambitious yet realistic train performance outcomes

- We have set train performance targets that balance being ambitious with being realistically deliverable. We have considered scope for improvement but also pressures, for example from increased network usage, constrained funding and extreme weather

- The train performance targets (passenger and freight) that we have set are more challenging than those originally proposed by Network Rail, to ensure cancellations are reduced and punctuality maintained

- We have set freight growth targets across GB for the first time

- Network Rail's increased focus on renewing core assets across the GB rail network will bolster safety, performance and asset sustainability

CP7 outcomes framework – train performance measures

- We selected the train performance measures in the CP7 outcomes framework by engaging with industry, and consulting on our CP7 outcomes framework in 2022

- We have focused on simple success measures that represent users' experience, with supporting measures to provide additional insight

CP7 outcomes framework – train performance

Tier	Freight
Success measures	• Freight Cancellations
Supporting measures	• Freight Cancellations and Lateness (FCaL) • Arrivals to Fifteen (A2F)

Tier	Passenger
Success measures	• On Time (England & Wales only) • Scotland train performance measure (Scotland only) • Cancellations
Supporting measures	• Delay minutes per 1,000 miles train travel (track/train split) • Time to 15 • Average Passenger Lateness • On Time (Scotland only)

Reassessing passenger train performance trajectories

- We will reassess passenger train performance trajectories for England & Wales **in advance of year 3 of CP7**

- This recognises uncertainty facing the rail industry, and challenges in accurately forecasting whole industry passenger train performance

- Work on the reset will begin **early in CP7**

Network Rail will need to work with operators and funders to **improve industry processes for aligning longer term performance expectations**

This reset **will only apply to passenger train performance trajectories** and not to freight train performance or other outcome measures from our final determination

We will also recalibrate Schedule 8 benchmarks and payment rates in advance of year 3 of CP7

Passenger train performance targets to ensure reduced cancellations and sustain punctuality

England & Wales	CP6 exit %	ORR FD CP7 year 2 %	ORR FD CP7 year 5 %
On Time	66.8	66.9	67.1
Passenger Cancellations	3.7	3.5	3.2

- ORR's draft determination introduced specific targets that were more challenging than proposed in Network Rail's plans
- In response, Network Rail has improved its plans to ambitious but realistic performance expectations for each England & Wales region

- ORR will hold Network Rail Scotland to account for Scottish Ministers' target of 92.5% for the Scotland train performance measure (improving from 90.3%)
- The reset to passenger train performance, in advance of year 3 of CP7, will not apply to the Scotland performance measure

We expect Network Rail to deliver a high–quality service to freight operators and their customers

Freight Cancellations	CP6 exit %	ORR FD CP7 all years %
England & Wales	1.6	1.3
Scotland	2.4	1.4

Freight Moved (CP7 increase)	ORR FD CP7 year 5 %
England & Wales	7.5
Scotland	8.7

- ORR's draft determination introduced specific targets that were more challenging than proposed in Network Rail's plans
- We have added more stretch in our final determination compared to Network Rail's response

- We welcome Network Rail's £72 million investment in high priority structures for heavy axle weights
- Network Rail's plans also include £17 million for the freight safety improvement portfolio (FSIP) which we support
- We are require Network Rail to publish the key activities it is planning during CP7 to enable freight growth

# Network Rail must dedicate funding to support train performance

In England & Wales

- We have determined **£40 million** for a train performance improvement and innovation fund (PIIF)

- This is intended to kick-start collaborative, cross-industry solutions and builds on a similar scheme in CP6

In Scotland

- We include a targeted performance fund to support Network Rail Scotland in making its contribution towards the Scottish Ministers' performance target

- Based on Network Rail Scotland's plan and other cost adjustments such as risk funding, **£50 million** will be allocated for the targeted performance fund

Asset and environmental sustainability
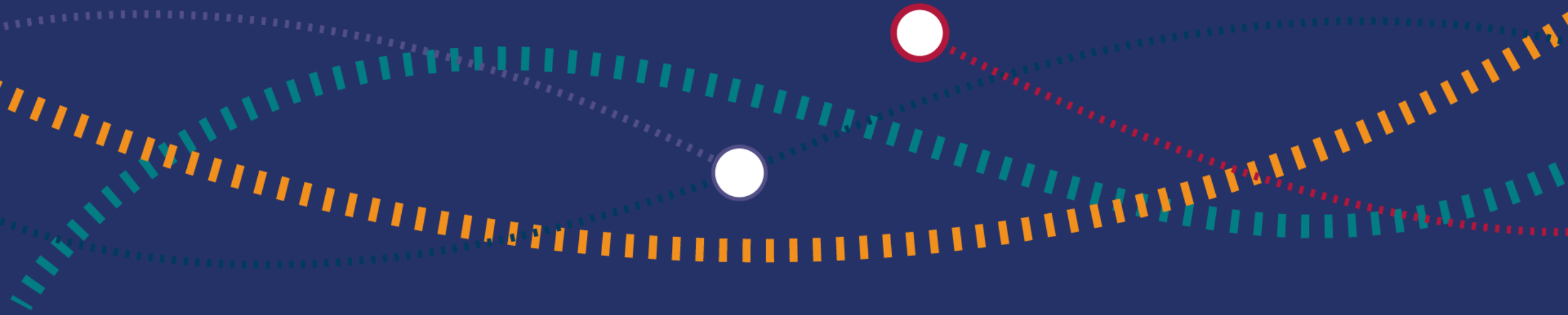
Greater focus on core renewals

Constrained funding requires Network Rail to prioritise its expenditure in CP7

Our draft determination asked Network Rail to further prioritise key assets

We welcome Network Rail's increased focus on core assets, resulting in £541 million of additional core renewals in England & Wales during CP7 and £44m in Scotland

In England & Wales, Network Rail's delivery plan must now confirm how these renewals will be funded. We have identified approximately £1.2 billion of options for reducing costs or expenditure

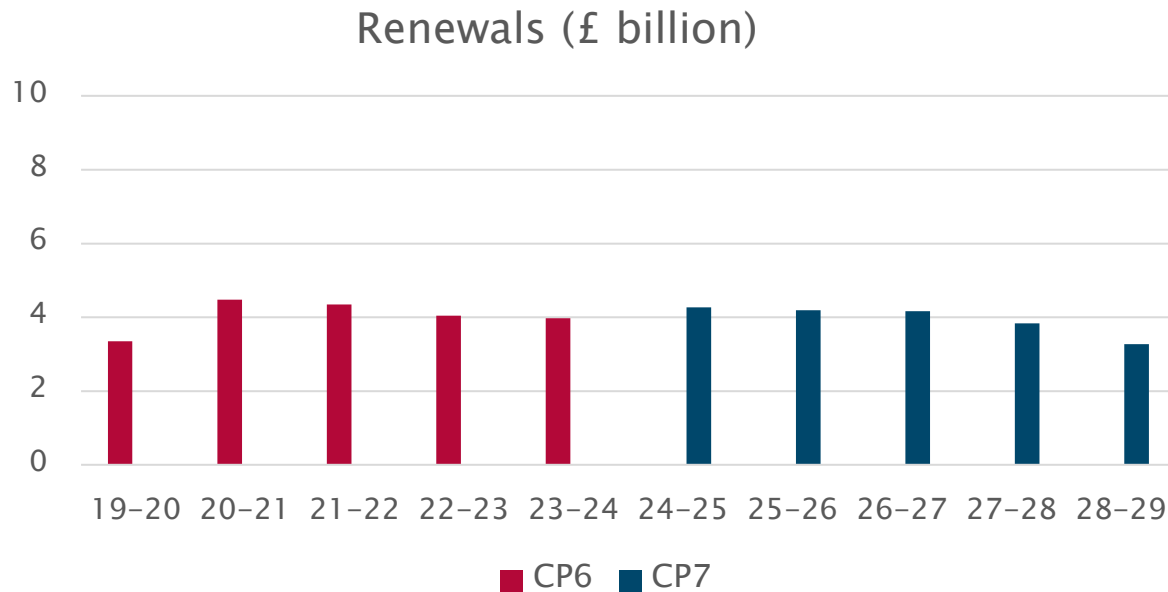Network Rail's choices must be consistent with our key principles:

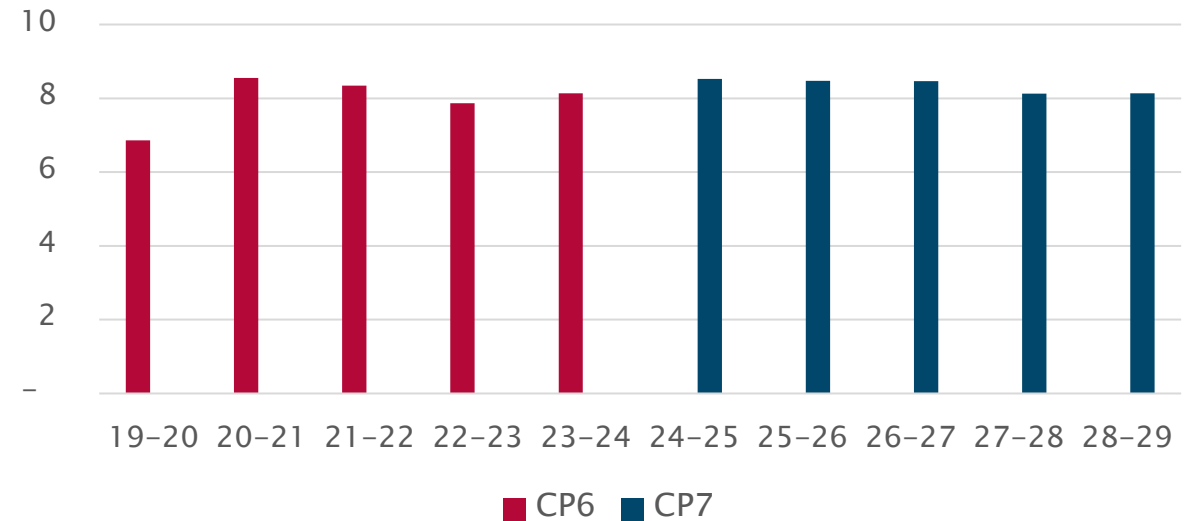| It must not source funding from other core asset renewals or maintenance	No decline in outcome measures specified in our final determination

GB expenditure for CP7 – profile of renewals spend is smoother than in CP6

£43.1 billion total expenditure, less EC4T

Renewals (£ billion)

OSMR & risk (£ billion)

These forecasts have improved since our draft determination due to increased core renewal spend. The spend profile will be refined as part of Network Rail's delivery plan.

Long-term forecasts show increased spending required in CP8–13 to arrest short-term decline in system asset remaining life in CP7

We expect Network Rail to contribute to sustainability and broader environmental targets by moving towards a low emissions railway and conserving and enhancing biodiversity

England & Wales	Network Rail CP7 Year 5 pp	ORR baseline trajectory CP7 Year 5 pp
Carbon emissions scope 1 & 2	−20.3	−20.3
Biodiversity Units	4.2	4.2

Scotland	Network Rail CP7 Year 5 pp	ORR baseline trajectory CP7 Year 5 pp
Carbon emissions scope 1 & 2	−21.2	−21.2
Biodiversity Units	4.0	4.0

Safety
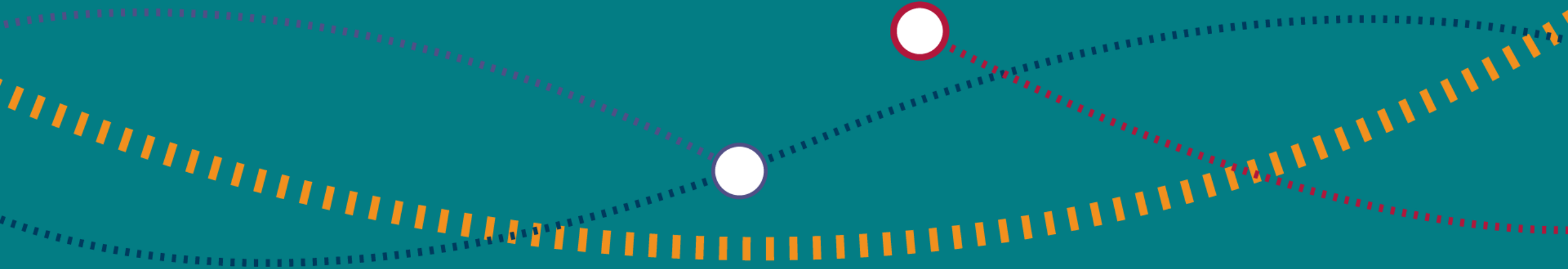
Safety is a key objective for PR23

- We assessed whether Network Rail's proposals for CP7 will allow it to continue to operate a safe railway in line with its legal duties towards the health and safety of staff, passengers, and members of the public

- Our scrutiny has involved detailed assessment of individual regions and national functions

- Our main concerns at draft determination were about the proposed reduced levels of core renewals and anticipated increase in the volume of maintenance activities

- We sought evidence that Network Rail could demonstrate its understanding of the change in risk profile and how it will manage the application of operational controls

Network Rail's plans are capable of maintaining, and in some cases improving, management of health and safety risks

We are satisfied that since our draft determination Network Rail has developed and is applying a structured framework that identifies the best means to safely manage risks
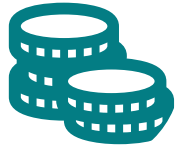
We are satisfied that since our draft determination Network Rail has developed and is applying a structured framework that identifies the best means to safely manage risks

Network Rail has also demonstrated that its maintenance plans are sufficient to support the increased demand

We will work with Network Rail on the delivery of priority programmes for safety management, particularly on infrastructure monitoring and the electrical safety delivery programme (ESD)

We will continue to progress ongoing Worker Health and Safety programmes (including occupational health and fatigue management)

Expenditure, efficiency, inflation & financial risk
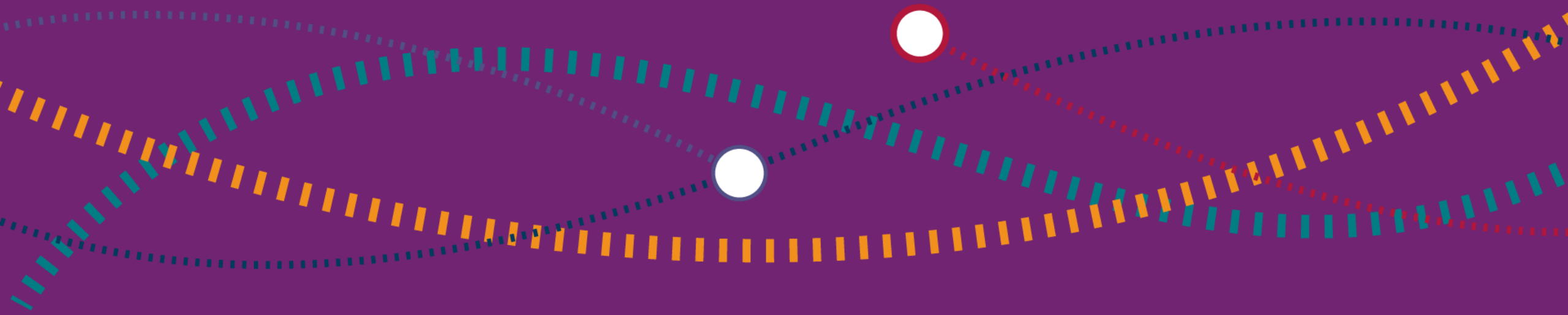
Expenditure in CP7 and movements from CP6

Expenditure	CP6	CP7
England and Wales	38.9	38.5
Scotland	4.6	4.6
Great Britain	43.5	43.1

Network Rail figures as per draft determination response and before ORR adjustments, £billion (2023–24 prices)

Expenditure in Great Britain in CP7 is £0.4 billion lower than in CP6. The main movements are:

- Base spend (i.e. at CP6 efficiency levels) increases from CP6 by £0.9 billion

- £2.0 billion of input price inflation in CP7

- £0.3 billion of headwinds in CP7

- more than offset by £3.7 billion of efficiency in CP7

GB efficiency in CP6
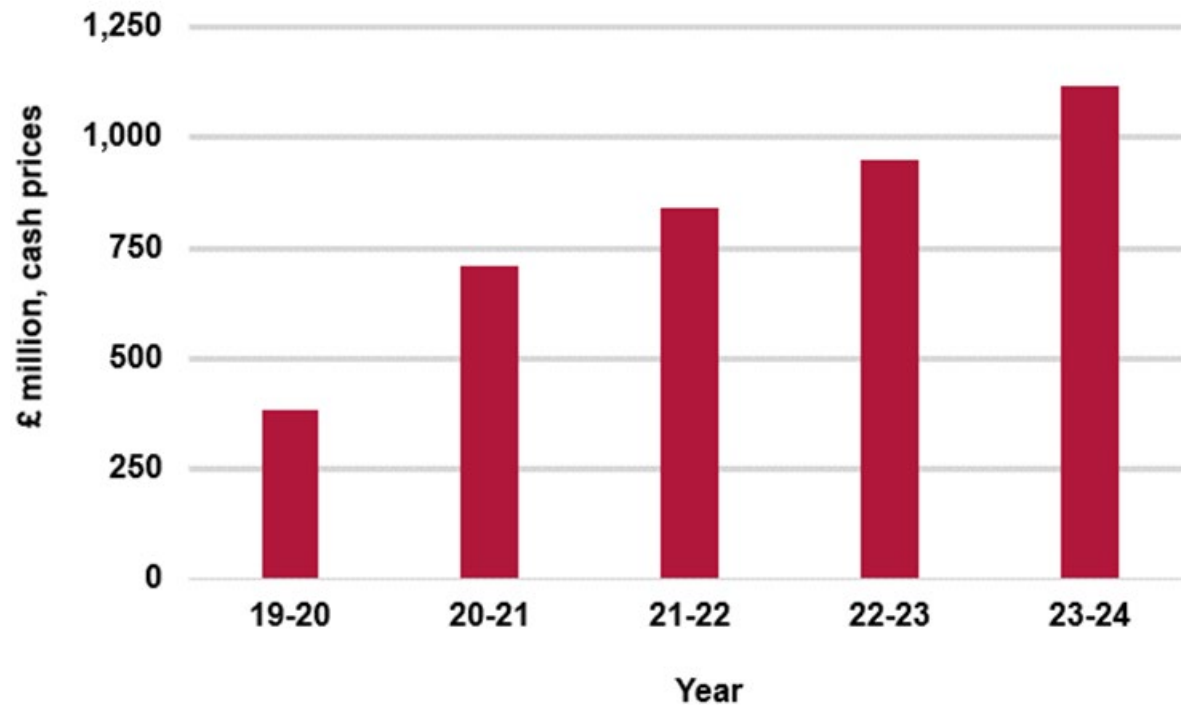
- Efficiency means reductions in the cost of Network Rail's activities

- Continued efficiencies are required to provide value for money for customers and funders

- Network Rail's efficiency declined in CP5

- For CP6, Network Rail is on course to deliver £4.0 billion of savings, £0.5 billion higher than ORR's determination for that control period

GB efficiency targets for CP7 are challenging but deliverable

£million (2023–24 prices)
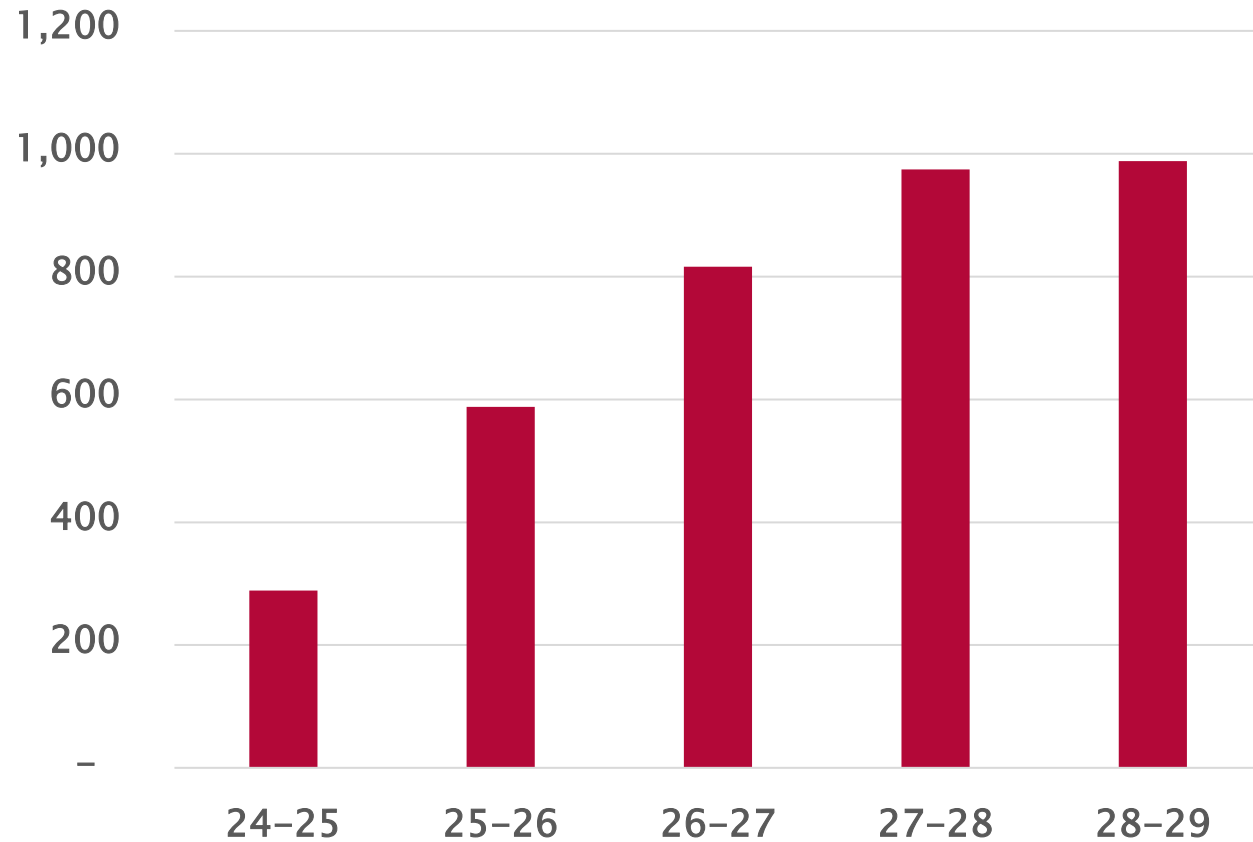
Network Rail has a target to deliver at least £3.2 billion of efficiencies in England & Wales and £410m in Scotland

Financial risk

Like most companies, Network Rail needs appropriate provisions in place to efficiently manage the financial risks it faces, such as inflation, cost shocks and adverse events, such as flood damage.

Network Rail needs to live within its means and both the England & Wales and Scotland determinations are tight. Unlike other regulated companies, Network Rail has no equity buffer and cannot borrow money to raise funds.

So, to help provide planning stability, we have used some of the funding provided by the governments for risk funding.

Inflation is a key risk and the forecast for CP7 has risen significantly since the SBP.

The November 2022 forecast of CPI, which the SBP was based on, had very low inflation in CP7 (circa 0% per annum over CP7). The May 2023 forecast, which was the basis of our determination, is higher than November 2022 (circa 2% per annum over CP7). The overall increase since Network Rail's original plans is £1.5 billion – which we have recognised in our final determination.

Risk funding should be reasonable for CP7, if governed effectively using agreed principles

England & Wales

Our final determination sets Network Rail's risk funding at £1.5 billion

£1.5 billion is consistent with the level of risk funding identified by Network Rail in response to our draft determination. It is also broadly similar to what it spent on managing financial risk in CP6

Scotland

We set out in our final determination that risk funding is £225 million

Risk funding should be relatively higher (i.e. relative to expenditure) than in England & Wales as Network Rail Scotland may be particularly exposed to financial risk during CP7 because of its stretching efficiency target

Charges & Incentives
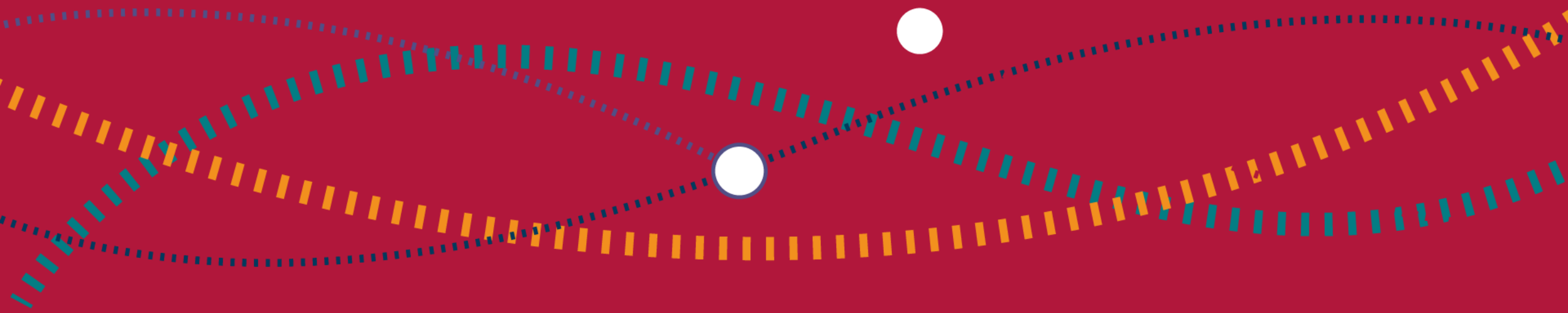
Access charges represent one third of Network Rail's income

Through the periodic review, ORR sets the access charges paid by operators (passenger, freight, charter, heritage) to use Network Rail's track and stations

Variable charges are paid by all operators and reflect the cost of using the network

Infrastructure cost charges (ICCs) are paid by some operators based on their ability to pay and recover a portion of fixed costs

These charges ensure that Network Rail recovers the cost of maintaining and renewing the network fairly from different users (as well as from taxpayers)

Network Rail is expected to receive approximately £16 billion (in 2023–24 prices) from access charges during CP7, which constitutes around 34% of total income

Decisions on access charges

Passenger operators

- Variable charges will **remain fully cost-reflective,** increasing 3% in year 1 of CP7 and flat thereafter in real terms

- Infrastructure cost charges **for open access operators will be held constant** in real-terms (£5 per train mile)

- **We will introduce an infrastructure cost charge for open access services to major airports** (£5 per train mile)

Freight operators

- Variable charges **will continue to be capped** below cost, rising 3.3% per year in real terms to reach the PR18 level of cost reflectivity by the end of CP7. Our policy of not moving to PR23 cost reflective rates will save the industry £33 million.

- Existing **infrastructure cost charges for commodities will reduce or be held constant,** saving the industry £12 million

Incentive regimes compensate for service disruption
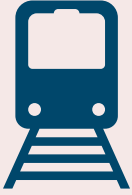
Network Rail's possessions and performance regimes compensate train operators for financial impacts arising from planned and unplanned service disruption

The possessions and performance regimes are contained within Schedules 4 and 8 of track access contracts

Schedule 4 places incentives on Network Rail to plan possessions efficiently so as to minimise disruption

Schedule 8 places incentives on Network Rail and train operators to limit the disruption they cause and therefore to improve network performance

We have reviewed the Schedule 4 and 8 incentive regimes as part of PR23

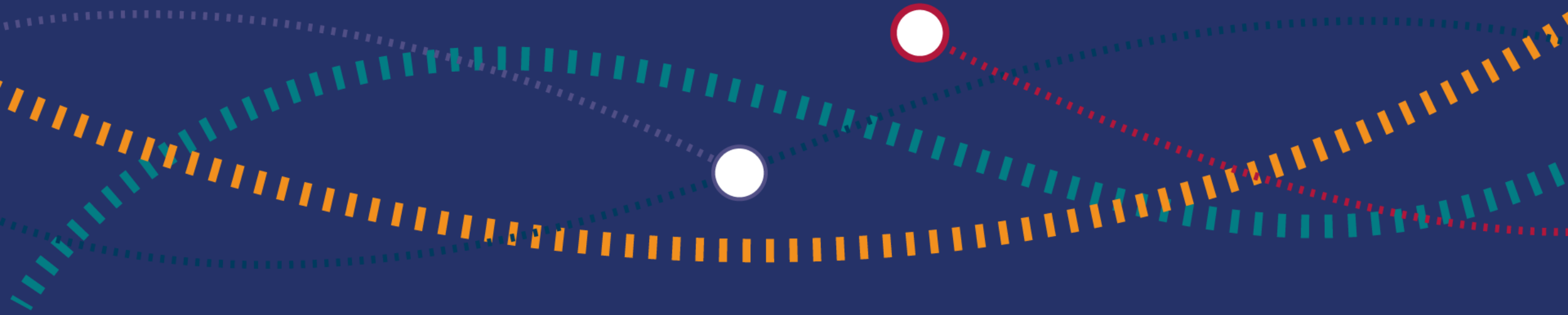# Decisions on financial incentives

Decisions on scope and flexibility

- We will **allow for the removal of Schedule 8 payments** between Great British Railways and its contracted operators, if enabled by legislative change, and provided there are sufficiently robust incentives in place

- We have allowed train operators to **opt in or out of Schedule 4 – most operators are opting to be in Schedule 4 in CP7**

- We **commit to resetting Schedule 8 passenger benchmarks and payment rates** in advance of year 3 of CP7

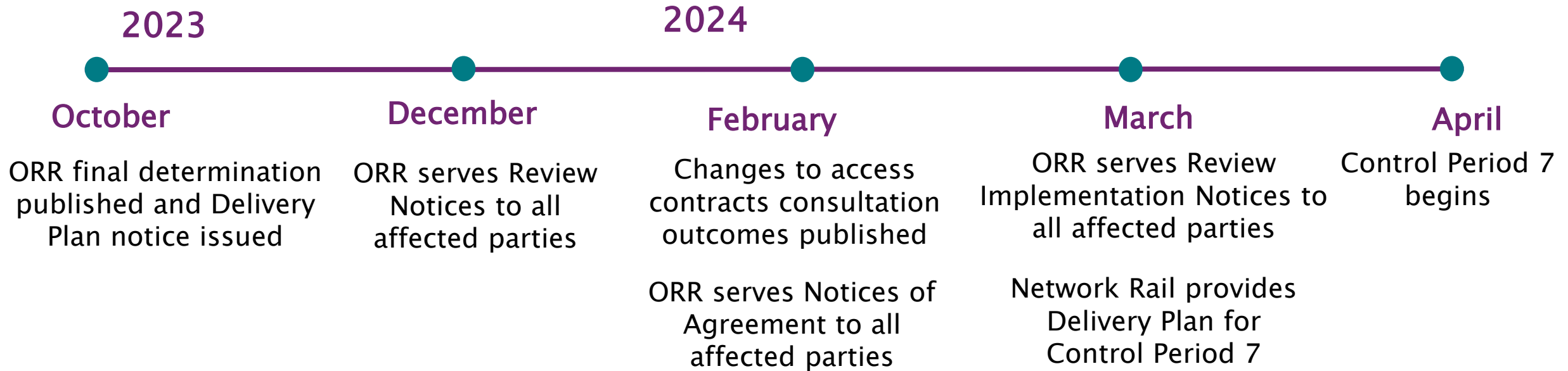## Decisions in 'recalibration' ahead of CP7

- We are **implementing a transitional adjustment in the reduction to lower Schedule 8 Network Rail payment rates** in the passenger regime

- We are adjusting the **freight operator Schedule 8 benchmark** so that it is set **midway between the PR18 and PR23 recalibrated levels**, addressing concerns about achievability of the benchmark

Next steps

PR23 summary timeline

2023

2024

October

ORR final determination published and Delivery Plan notice issued

December

ORR serves Review Notices to all affected parties

February

Changes to access contracts consultation outcomes published

ORR serves Notices of Agreement to all affected parties

March

ORR serves Review Implementation Notices to all affected parties

Network Rail provides Delivery Plan for Control Period 7

April

Control Period 7 begins

Implementation

- Implementing the final determination requires changing station and track access agreements for CP7

- We set these out as instructions through **seven review notices**:

| Passenger Service Operator | Open Access Operator | Freight Operator |
| | Charter Operator | Freight Customer |

| Traction Electricity Rules | Station Access Contracts and Long Term Charges |

- By 20 December, we will send paper copies to around **75** organisations

What next?

- Network Rail will produce a delivery plan ahead of the start of CP7, which is consistent with our final determination

- ORR will monitor and hold Network Rail to account against delivery of the targets set in the final determination

- ORR produces an annual assessment of Network Rail each summer

Final Questions

For further questions please email: pr23@orr.gov.uk