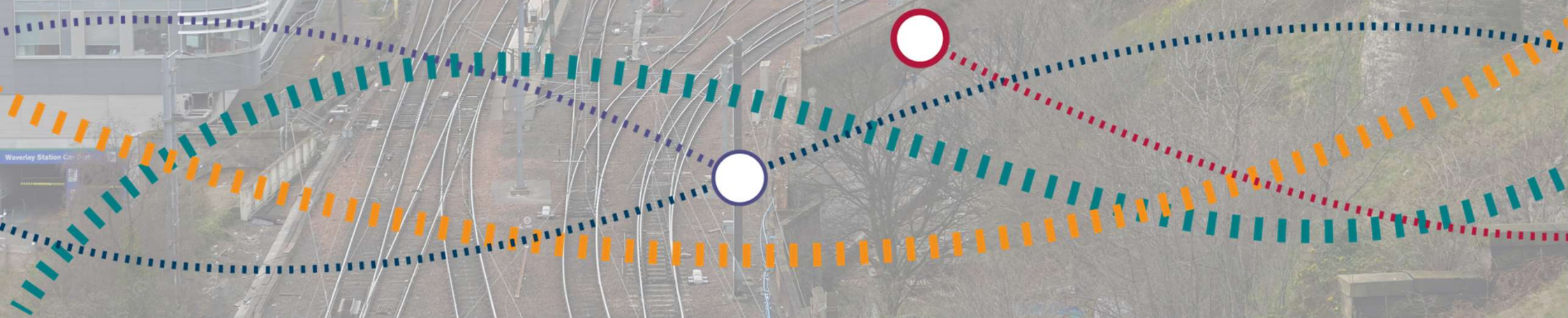# Periodic Review 2023 (PR23)

Draft Determination for Scotland

20 July 2023

Agenda

Periodic review – introduction – 10:00 (10 mins)

Key messages from ORR's draft determination

① Performance and Q&A – 10:10 (15 mins)

② Asset sustainability and Q&A – 10:25 (15 mins)

③ Health and Safety and Q&A – 10:40 (15 mins)

④ Efficiency and Risk and Q&A – 10:55 (15 mins)

⑤ Charges and Incentives and Q&A – 11:10 (15 mins)

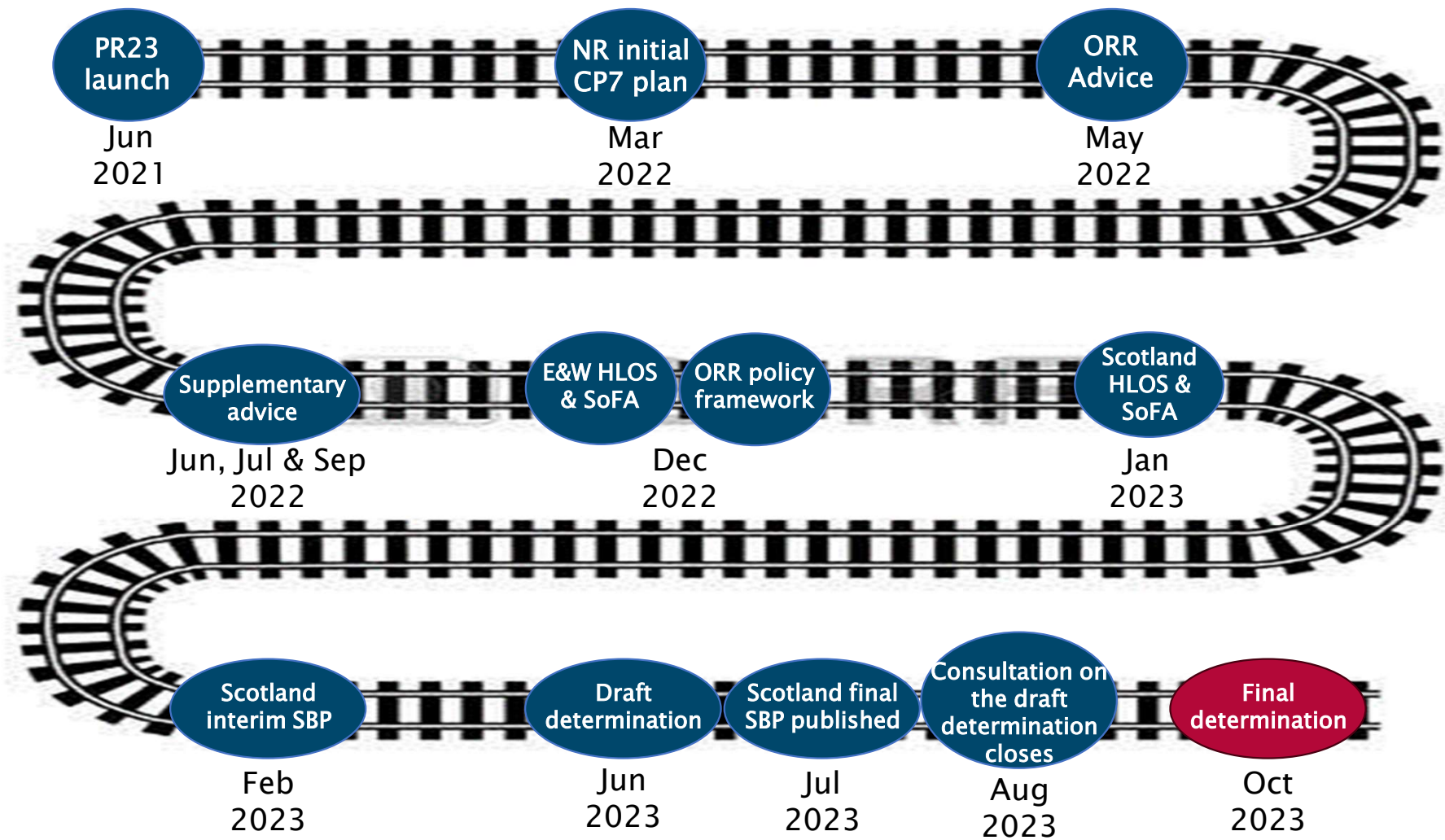Next steps – 11:25 (5 mins)

Close – 11:30

Periodic review, PR23

1. Establishes the level of funding for the GB rail network for a five-year control period

2. Sets how ORR will hold Network Rail to account during a control period

3. Determines the framework for access charges and the contractual performance and possessions regimes

- **ORR leads** the periodic review process, which is one of the principal mechanisms by which we hold Network Rail to account and secure value for money for users and funders of the railway

- Funders (**UK and Scottish governments**) **play a key role** setting out what funding they make available and what they want Network Rail to deliver in return

- **Network Rail is responsible for delivering on its business plan** to satisfy the output requirements within the agreed funding

PR23 launch
Jun 2021

NR initial CP7 plan
Mar 2022

ORR Advice
May 2022

Supplementary advice
Jun, Jul & Sep 2022

E&W HLOS & SoFA
Dec 2022

ORR policy framework

Scotland HLOS & SoFA
Jan 2023

Scotland interim SBP
Feb 2023

Draft determination
Jun 2023

Scotland final SBP published
Jul 2023

Consultation on the draft determination closes
Aug 2023

Final determination
Oct 2023

ORR's draft and final determinations

- Network Rail plans to spend £44.8 billion to operate, maintain and renew the GB rail network in CP7

- Expenditure for Scotland is £4.8 billion (an increase of £0.2bn, or 4% compared to CP6)

- Expenditure on the railway for England & Wales is £40 billion (an increase of £1.8 billion, or 5% compared to CP6)

June 2023

- Consultation runs until 31 August
- We expect Network Rail to consider our proposals for how the available funding is used and the outcomes that should be delivered

Draft determination

October 2023

- Establishes Network Rail's commitments for CP7
- These will be reflected in Network Rail's CP7 delivery plan
- ORR will monitor delivery against these commitments and hold Network Rail to account

Final determination

PR23 key messages

Safety

Asset sustainability

PR23 objectives

Performance

Efficiency

ORR requires

- More ambition to deliver better train performance for passengers and freight

- Greater focus on renewing core assets – key drivers of safety and reliability

- Better resilience to address uncertainties through increased provision for risk

- Network Rail Scotland to demonstrate how it will deliver its efficiency target
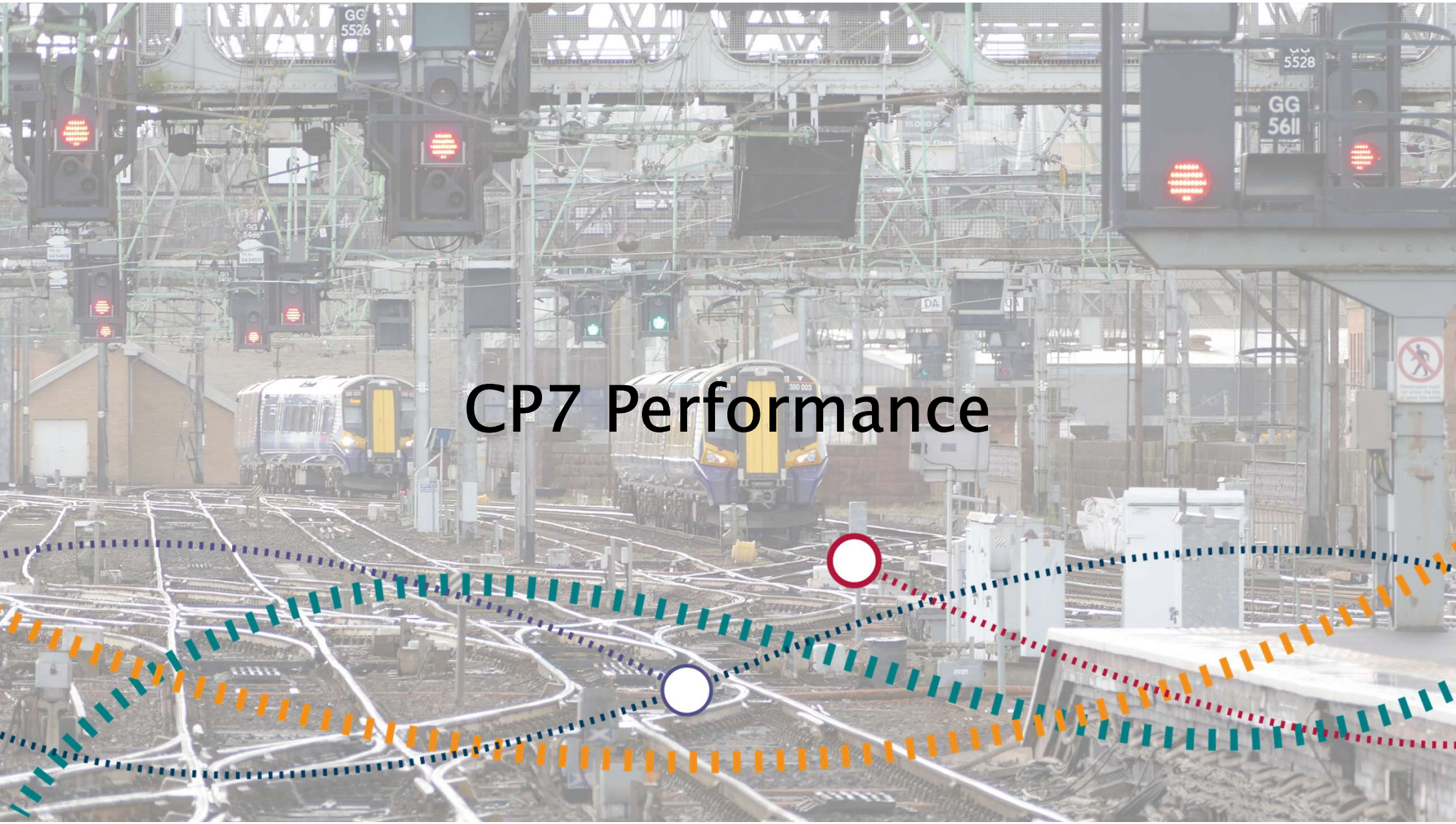
CP7 Performance

Train performance

ORR will introduce performance targets that are aligned with HLOS requirements and more stretching than Network Rail Scotland's interim plan.

	Current performance P1 2023 2024 (MAA)	Network Rail CP7 years 1 to 5	ORR CP7 years 1 to 5
Scotland train performance measure	89.1%*	91.5% improving to 92.5%	92.5% every year
Freight Cancellations and Lateness (FCaL)	9.7%	6.0% improving to 5.5%	5.5% every year

* Current performance figure is for ScotRail PPM

Passenger train performance

- The Scotland train performance measure is the primary success measure in our CP7 outcomes framework

- We will hold Network Rail Scotland to account for its contribution to the Scottish Ministers' target of 92.5% for this measure

- We will also hold Network Rail Scotland to account for its delivery of performance requirements for Caledonian Sleeper that are to be defined before the start of CP7

Freight requirements

- We will hold Network Rail to account against its delivery of the FCaL target of 5.5% for each year of CP7

- We have also set a baseline trajectory of 8.7% more freight moved in Scotland and we expect Network Rail to set out a clear freight growth plan to enable this target to be achieved in CP7

CP7 train performance targets vs historical trends

Scotland train performance measure
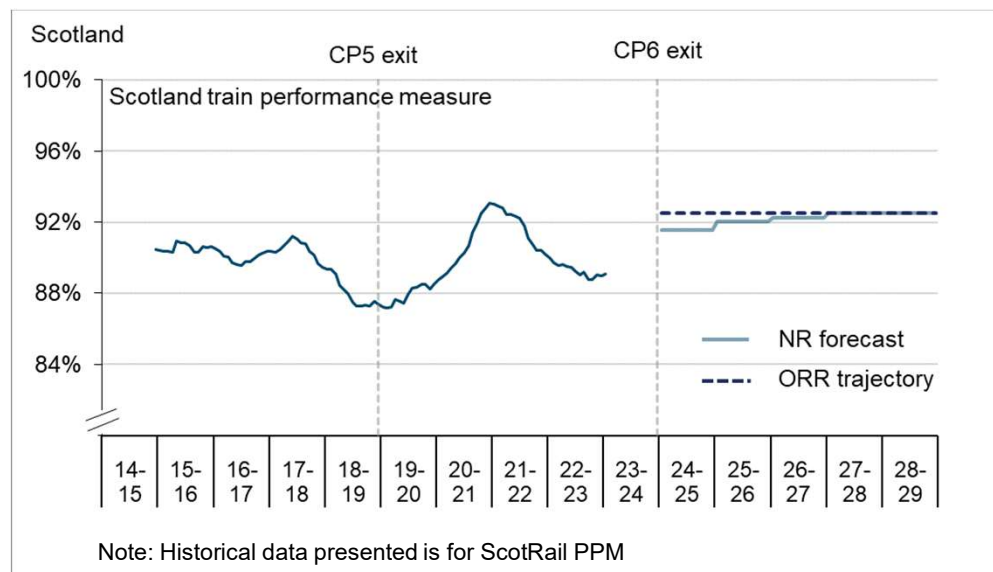
**Freight Cancellations and Lateness**
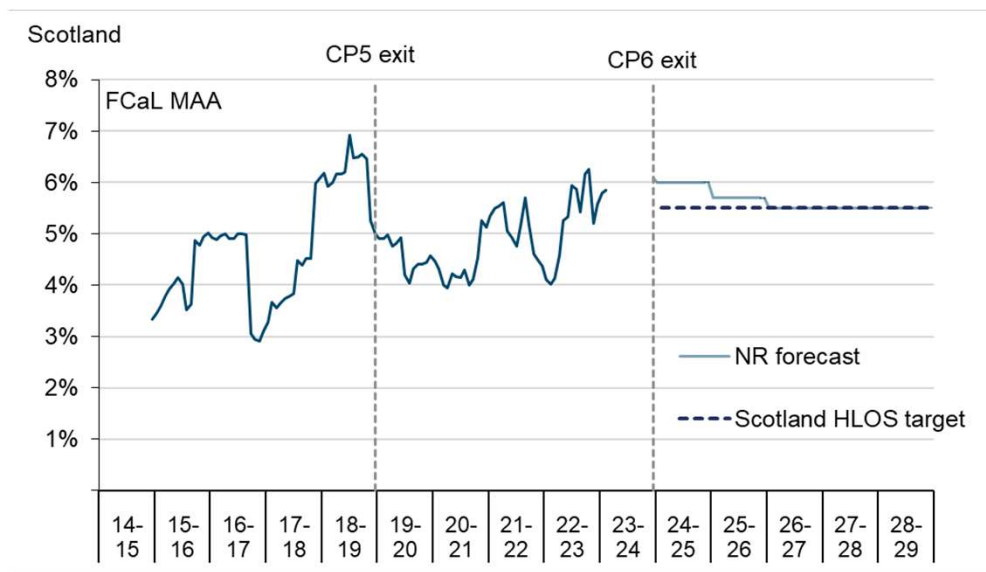
Targeted train performance fund

In Scotland

- We propose 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 interim plan, up to c. £100 million could be available, but we anticipate this amount will change as Network Rail Scotland evolves its plans and as assumptions on available funding change.

Q&A
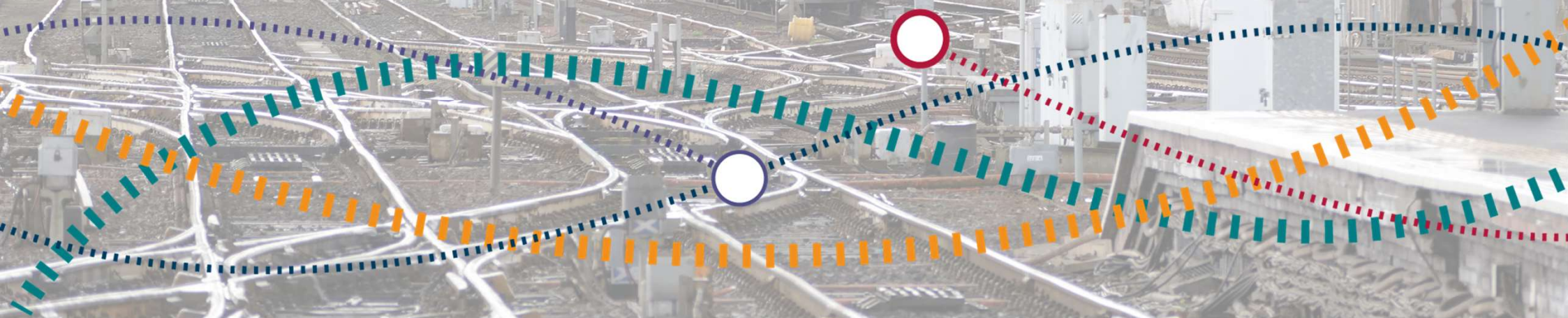
Asset sustainability
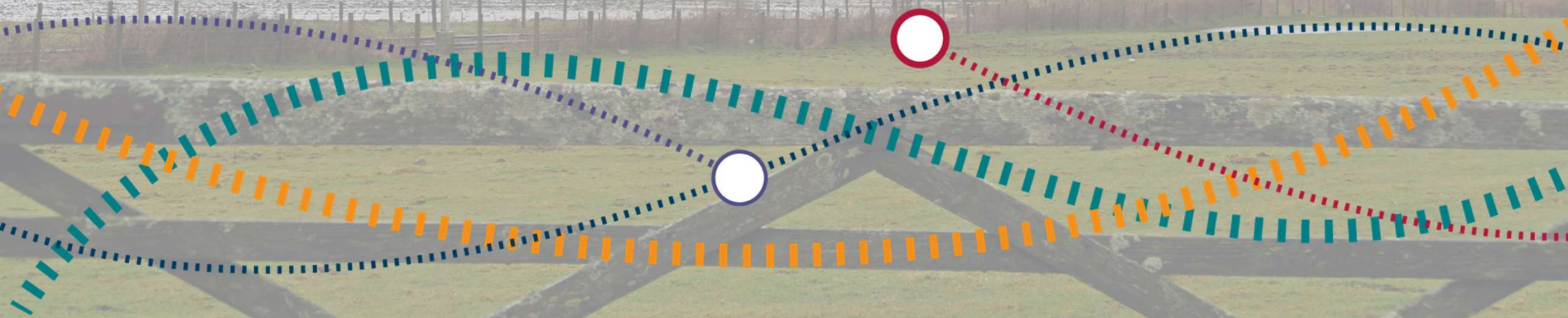
Greater focus on core renewals

- We have identified the need for additional spend on core renewals of £50m, specifically on metallic structures

- The growing challenges of climate change and extreme weather amplify the importance of securing these assets

- The additional expenditure would be funded from the £221 million 'gap' between Network Rail Scotland's interim plan and the funding made available by the Scottish Government

- Composite Sustainability Index (CSI) is our headline success measure of asset sustainability and allows us to monitor the percentage change in asset remaining life

Scotland	Network Rail CP7 Year 5	ORR baseline trajectory CP7 Year 5
CSI (change in CP7)	−3.4pp	−3.4pp

We have taken account of our proposed increase in renewals expenditure in setting the baseline trajectory for Network Rail

Environmental sustainability

- There is a step up in governments' expectations to contribute to legislative requirements

- The expenditure must be linked to clear commitments

Scotland	Network Rail CP7 Year 5	ORR baseline trajectory CP7 Year 5
Carbon emissions scope 1 & 2	−46.2%*	−21.2pp
Biodiversity Units	2.5pp	4.0pp

* The Network Rail forecast (year 5 CP7) for Scotland is relative to 2018–19

Q&A
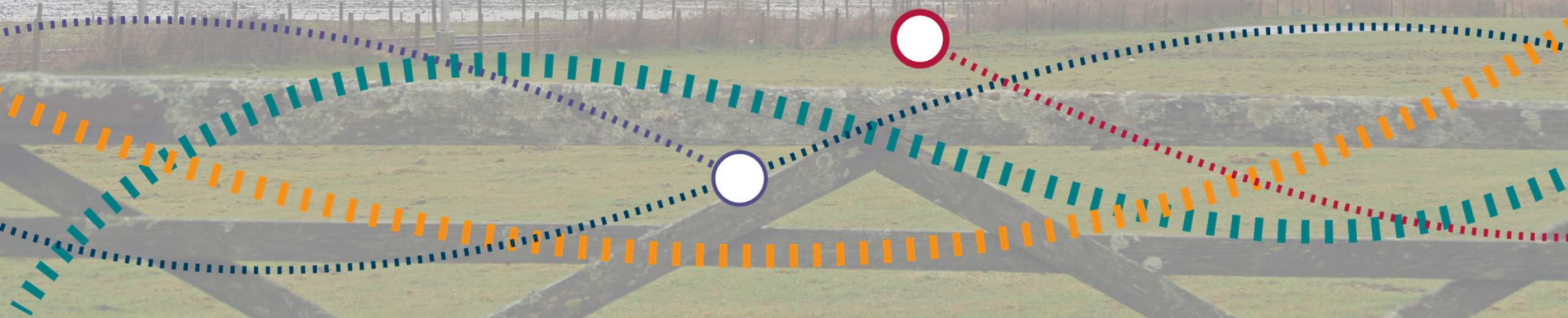
Health & Safety

Safety related to asset management, reduced renewals, increased maintenance

Asset management

Reduced renewals

Increased maintenance demand

Modernising maintenance

Operational Controls

NR proposes to conduct fewer renewals and more maintenance during CP7 in comparison to CP6.

We expect NR to demonstrate

- its understanding of, and how it will manage, the change in risk profile which results from conducting fewer renewals and taking a more maintenance-based approach to management and operation of its infrastructure.

- Maintenance volumes aligned to renewal plans.

- Maintenance capability to deliver increased maintenance volumes.

- How operational controls will be applied to ensure safety.

Modernising maintenance

Approach of fewer renewals and more maintenance is reliant on implementing the maintenance modernisation programme

ORR is supportive of modernising maintenance but requires effective implementation.

ORR seeks assurance of the ability to embed and deliver the additional work required.

- Tight timescales

- Competence requirements

- Embedding to achieve efficiency gains

- Mair/Slingo recommendations

- Deferred renewals

- Maintenance backlog

Wider health and safety requirements

- **Fatigue management**: more detail to identify how Network Rail might accommodate potential changes to roster patterns and other fatigue controls

- **Occupational health**: more detail on planned improvements to risk controls or allocation of funding to deliver the SBP commitments on work related ill-health

- **Electrical safety programme**: importance of delivery of the programme

- **Off-track boundaries**: delivery of effective boundaries

- **Signalling**: scope and development plans for OTTO

- **Level crossings**: more detail on Network Rail's plans

Q&A
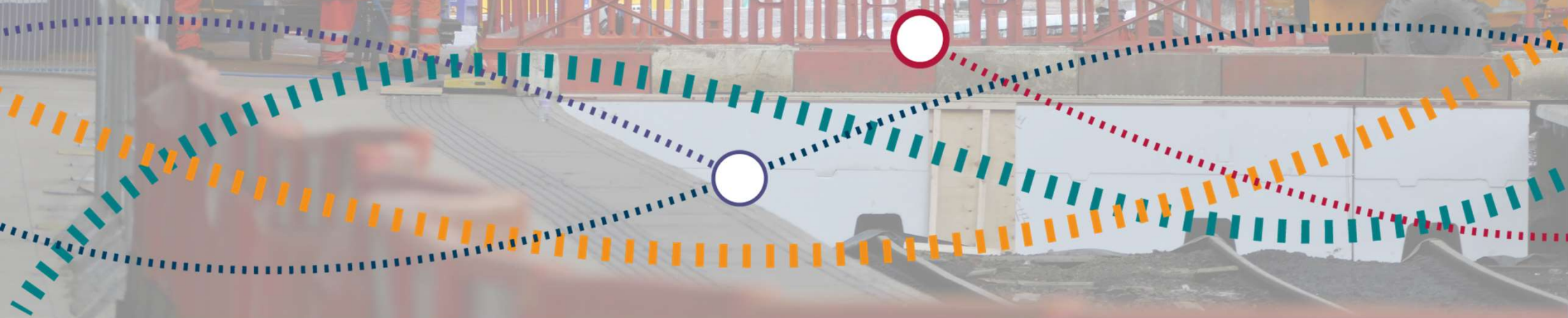
Efficiency and risk

Efficiency (1)

- Network Rail Scotland is proposing to deliver £429 million of efficiencies during CP7:

    - £380 million of which will be delivered by Network Rail Scotland

    - £49 million will be allocated from national functions

- Overall, this is a 15% efficiency for renewals and a 10% efficiency for operations, maintenance and support activities (opex) by 2028–29, the last year of CP7.

It is vital that Network Rail continues to build on the success of recent efficiency initiatives

ORR considers Network Rail Scotland's proposed efficiency target will be challenging

Ahead of our final determination, we expect Network Rail Scotland to further clarify how its efficiency target would be achieved

Efficiency (2)

■ **1 – Scotland's Transformation Programme (£184m)**
- Circa 2/3 relate to renewal efficiencies, with around half from track
- Circa 1/3 relate to operational efficiencies
- Efficiencies are expected from:
  - Streamlining the operating model and collaborating with ScotRail
  - Capability improvement
  - Market led planning with strategic corridors and bundling
  - Harnessing technology and data
  - Optimised contracts, procurement and access strategies
  - Robust governance and reporting

■ **2 – Conventional Renewal Efficiencies (£128m)**
- £39m relating to structures, £31m relating to track, £22m relating to signalling, £17m relating to drainage, £19m relating to other assets
- Efficiencies are largely due from improved strategies relating to access, workbanks and delivery

■ **3 – Conventional Operational Efficiencies (£68m)**
- £58m relating to maintenance (£33m from modernisation)
- £10m from other operational initiatives
- Efficiencies are largely due from improved strategies relating to access, workbanks and delivery

■ **4 – National Programmes (£49m).**
- Efficiencies are due from Route Services, Technical Authority, RD&I, SPEED, Reform and more
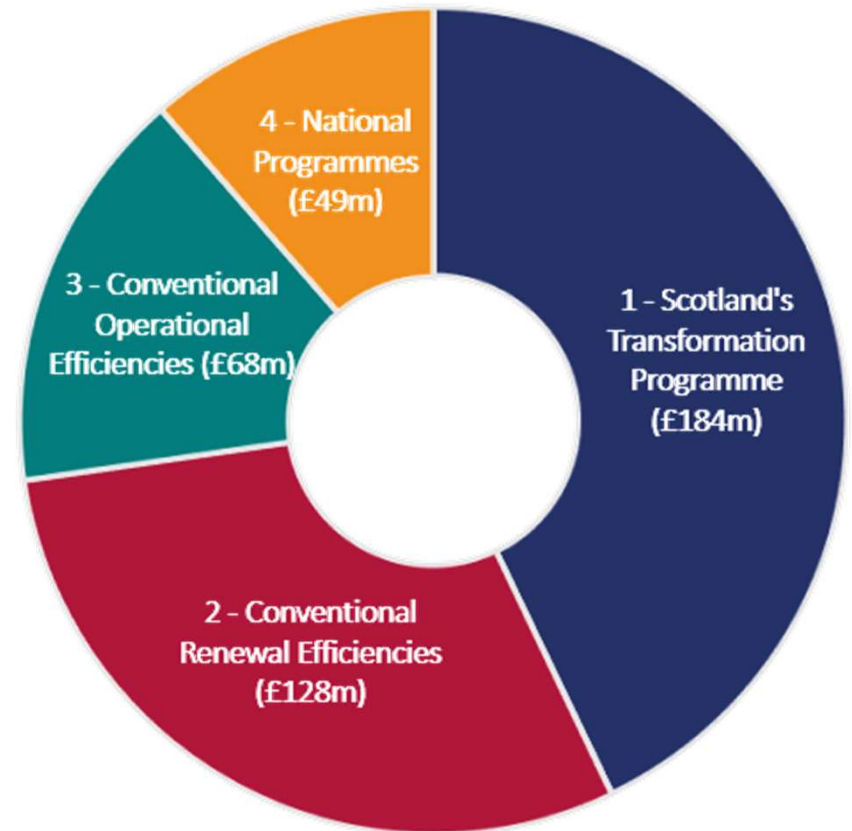
Amounts are in 2023–24 prices and are based on the interim SBP. More detail is to be provided by Network Rail Scotland at a later stage.

Risk

In its interim SBP, Network Rail Scotland proposed £206m of risk funding. Our assessment of the interim plan indicates that this could by up increased by up to circa £100m. This would allow Network Rail to better respond to increased uncertainties (e.g. rapidly changing inflation, severe weather).

We propose Network Rail Scotland increases its provision using a proportion of the funding which remains once it has prioritised our proposed increase on core renewals.
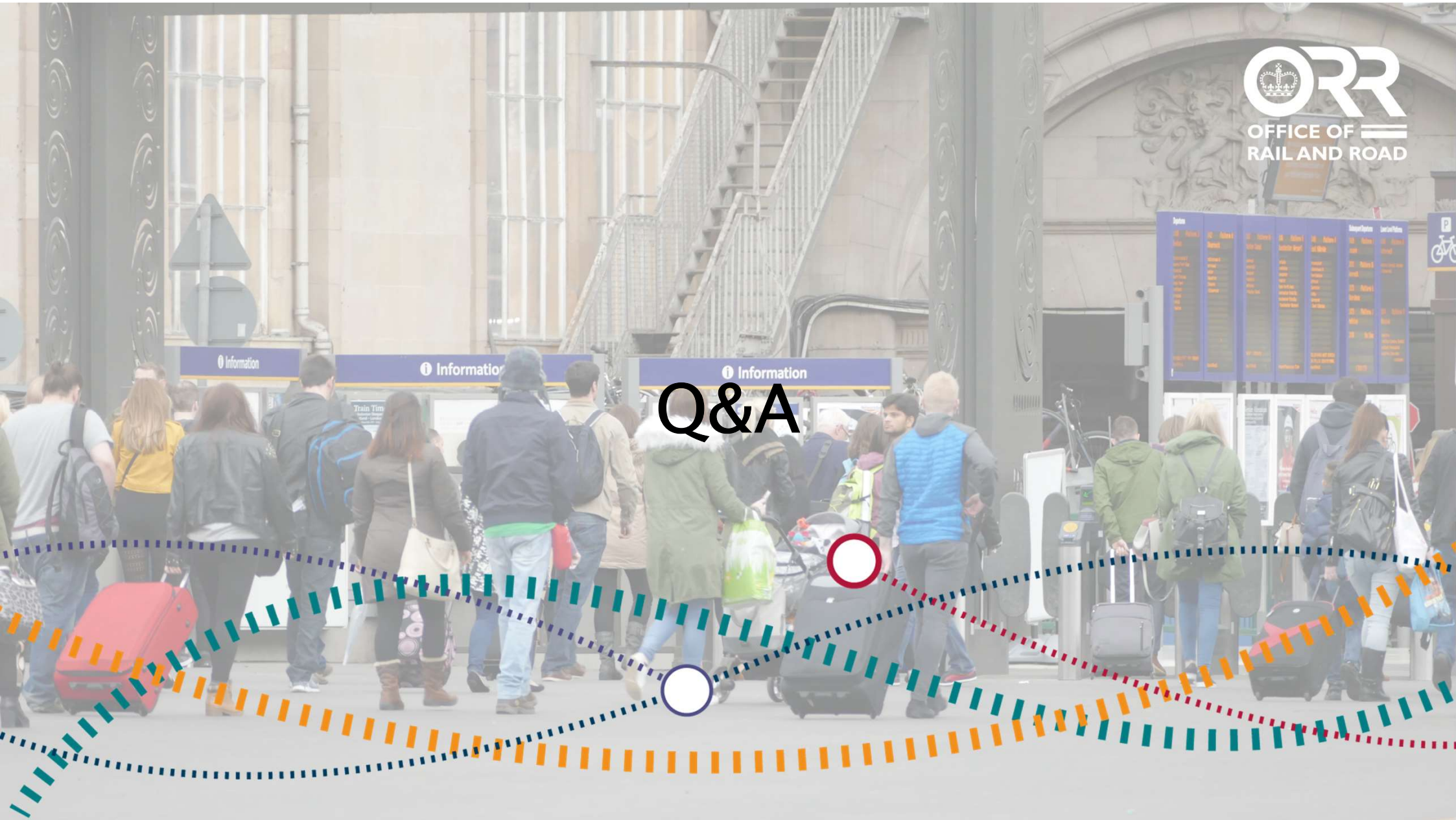

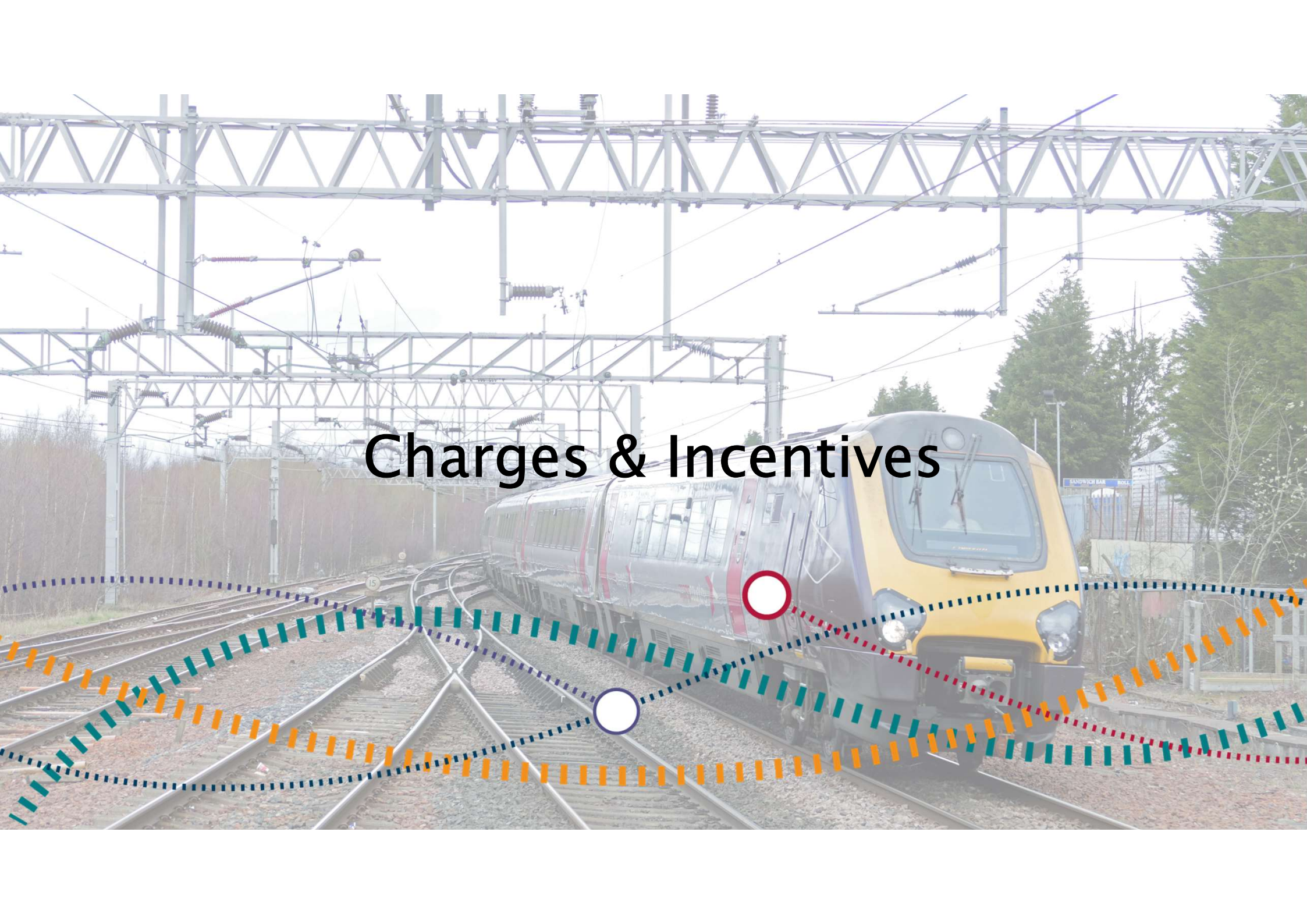UK inflation at 8.7% in May 2023

May 23
8.7%

BoE target

Source: Office for National Statistics

BBC

Q&A

Charges & Incentives

Charges

Through PR23, ORR sets:

- **variable charges** (primarily the VUC), which are paid by all train operators and recover the costs directly incurred in using the network

- **infrastructure cost charges** (ICCs) for some operators, based on their ability to pay additional charges over and above variable charges

We will retain the same overarching charging framework for passenger and freight operators during CP7

Uncapped VUC rates are set to increase by an average of 9% in real terms in CP7, compared to CP6

VUC rates for freight and charter were capped in PR18, so are currently below cost. We propose to continue capping these

- We propose to continue capping freight and charter VUC rates in CP7, with rates increasing broadly along the same trajectory as was set in PR18

- For freight, this would imply a c.18% increase in average VUC rates by the end of CP7 and a c. 11% increase for charter (in real terms).

- We will maintain the open access infrastructure cost charge on interurban services at £5/ train mile (2023–24 prices)

Incentives

Our draft determination includes draft decisions on outstanding Schedule 8 matters, and recaps decisions already made during the PR23 process.
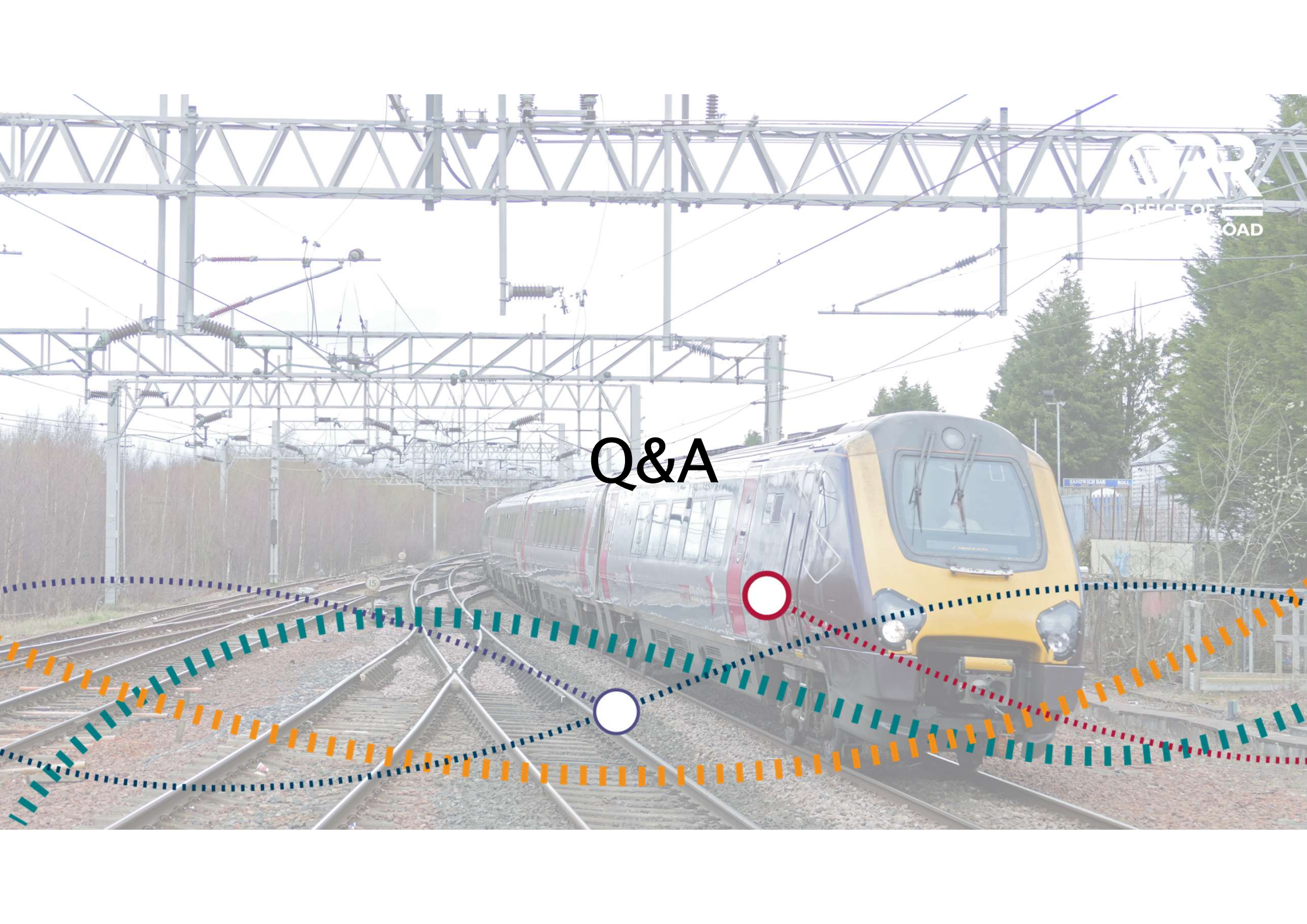
- We are creating scope for the 'switch-off' of Schedule 8 payments for GBR's future operators if GBR is formed and if legislative reform allows for this.

- This is in addition to allowing operators to 'opt out' of Schedule 4 if they wish to do so.

- We are also creating a new 'in-period' recalibration mechanism for Schedule 8, to add flexibility in CP7 in the event of a material change in circumstances.

Recalibration of Schedule 4 & 8 regimes is underway

Indicative draft results show a **significant (75%) reduction** in Network Rail payment rates in the Schedule 8 passenger regime, due to newer evidence on how passengers respond to disruption, and to a lower revenue base post-COVID.

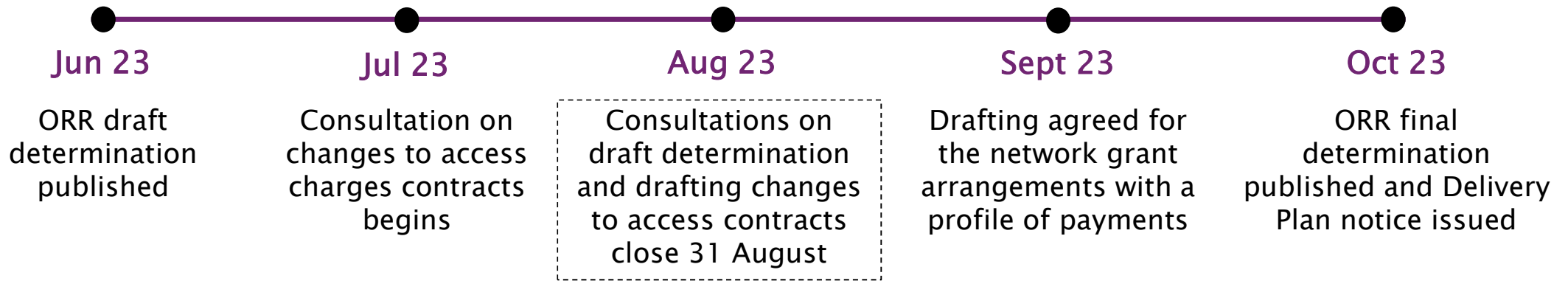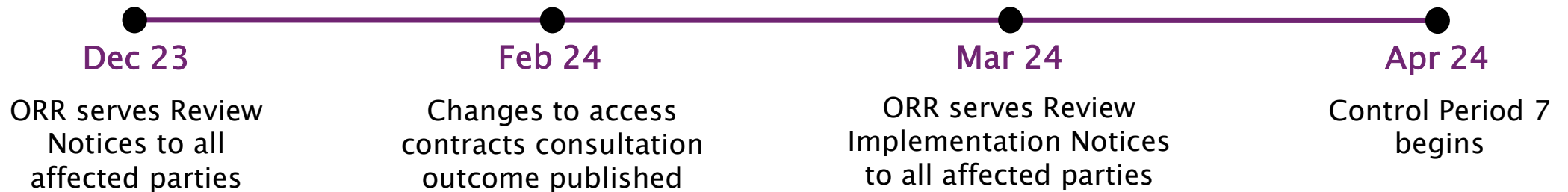Other parameters, such as benchmarks, also currently being updated.

Q&A

Next steps

PR23 milestones

Final determination

Jun 23	Jul 23	Aug 23	Sept 23	Oct 23
ORR draft determination published	Consultation on changes to access charges contracts begins	Consultations on draft determination and drafting changes to access contracts close 31 August	Drafting agreed for the network grant arrangements with a profile of payments	ORR final determination published and Delivery Plan notice issued

Implementation

| Dec 23	Feb 24	Mar 24	Apr 24
ORR serves Review Notices to all affected parties	Changes to access contracts consultation outcome published	ORR serves Review Implementation Notices to all affected parties	Control Period 7 begins

Close

For the key documents please refer to Periodic review 2023: draft determination | Office of Rail and Road (orr.gov.uk)

Please send responses by 31 August 2023 to pr23@orr.gov.uk using our consultation response proforma

Annexes

- Network Rail Scotland's expenditure
- PR23 success measures summary
- Weblinks to additional draft determination documentation
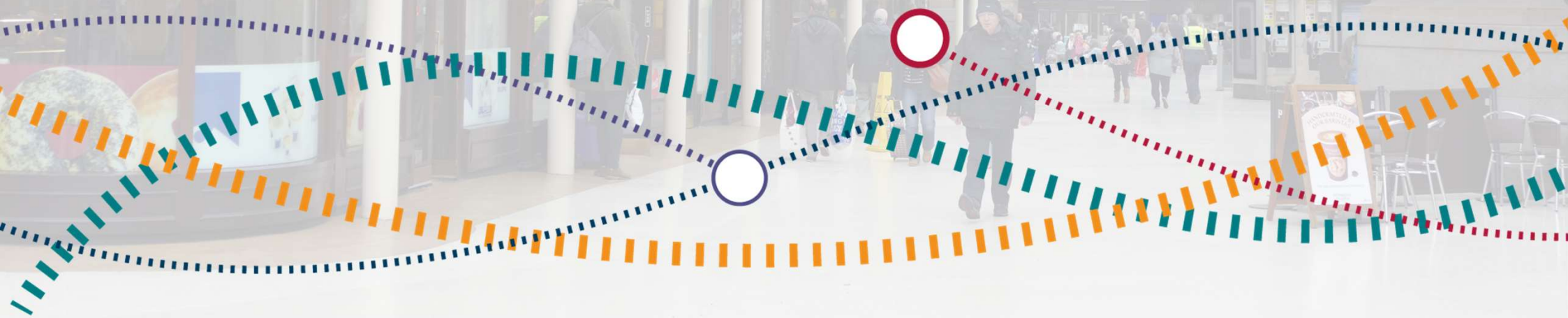
# Network Rail Scotland's expenditure in CP7

Network Rail Scotland's expenditure

(£ million, 2023–24 prices)	CP6 total expenditure	CP7 total expenditure	Change compared to CP6 (%)
Operations	354	419	18%
Support	551	476	−14%
Maintenance	1,019	1,104	8%
Renewals	2,468	2,130	−14%
Of which core renewals*	2,217	1,964	−11%
Industry costs, rates, & traction electricity	395	629	59%
Risk Provision	10	206	n/a
Additional funding not yet allocated		221**	n/a
Electricity for Traction (EC4T) income	(243)	(429)	76%
Total expenditure less EC4T	4,553	4,756	4%

* Core renewals covers: track, off–track, signalling, level crossings, structures, earthworks, drainage, buildings, electrification and fixed plant and telecoms.
** There was a £221m difference between the interim SBP and the SoFA.

Network Rail CP7 expenditure – Scotland

Renewals
2,130
47%

Maintenance
1,104
24%

Support
476
11%

Operations
419
9%
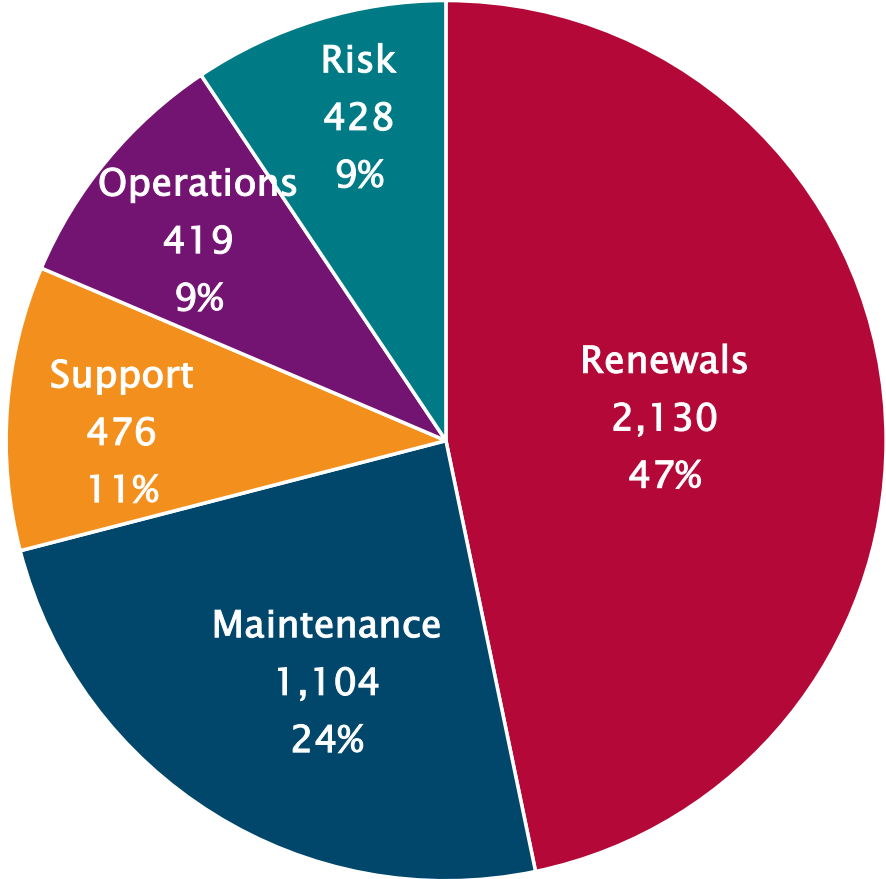
Risk
428
9%

£m (2023–24 prices)

- Network Rail Scotland's interim plan proposes £206m of risk funding

- The funding available in Scottish Ministers' SoFA is £221 million greater than the planning assumptions Network Rail Scotland used to develop its CP7 interim plan

- Network Rail Scotland has held this amount as contingent risk funding in the interim plan and advised that it would consider how this would be used as its plans evolved

- Our assessment indicates that there is room within the budget to increase the £206m in risk funding by c.£101m, on the basis of the interim plan

PR23 success measures summary
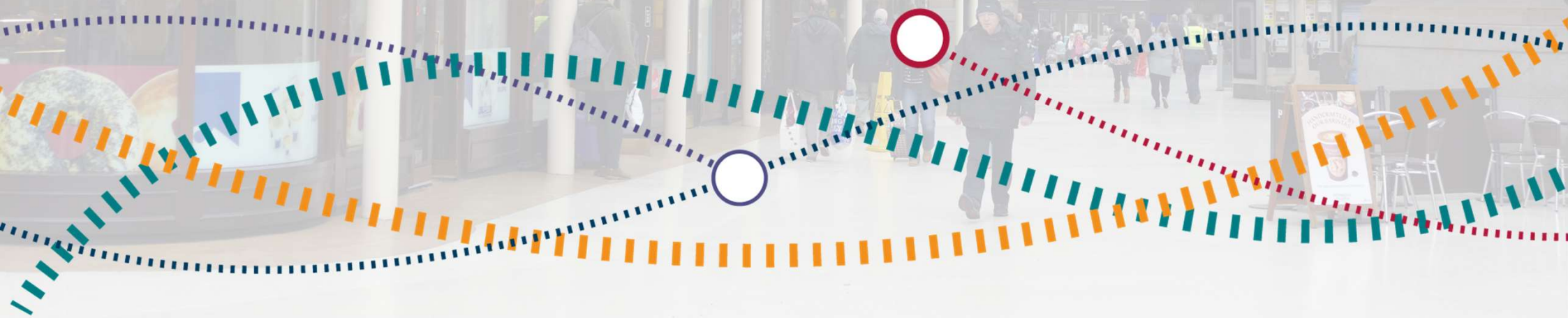
Network Rail Scotland's key outcome requirements

| Success measure	Scotland SBP forecast	ORR trajectory (by end CP7 unless indicated)
Scotland train performance measure	91.5% (year 1) 92.5% (year 5)	92.5% (every year)
Passenger cancellations	3.0% to 3.3%	2.3% (every year)
Passenger On Time	67.5% (year 1) 68.0% (year 5)	72.6%
Freight cancellations	2.0% to 2.2%	1.3% (every year)
Composite sustainability index	−3.4	−3.4pp
Biodiversity units	0.5pp to 2.5pp	4pp
Carbon emissions scope 1 and 2	−46.2pp	−21.2pp
Freight growth (Freight net tonne km moved)	3.8% (year 1) 8.7% (year 5)	8.7%

Weblinks to additional draft determination information
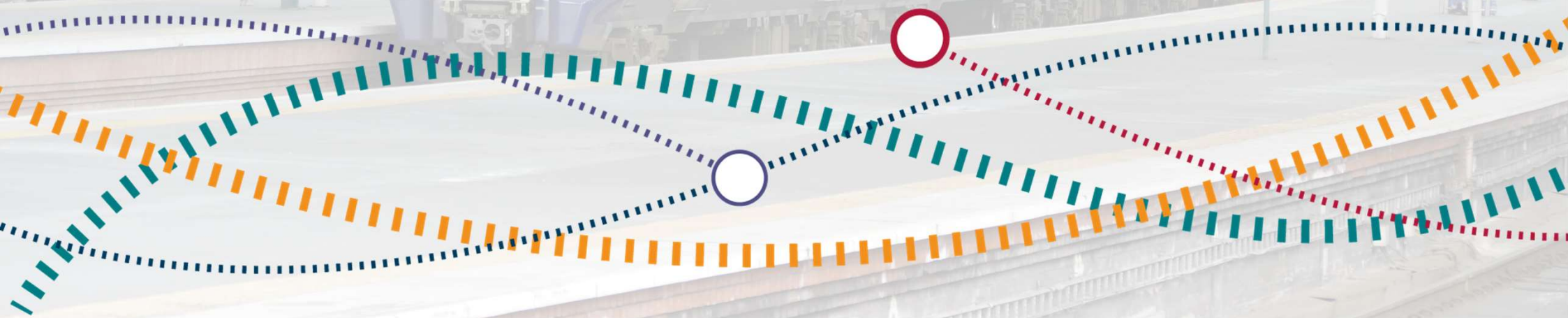
- Periodic review 2023: draft determination

- PR23 draft determination: executive summary – Scotland
- PR23 draft determination: overview – Scotland
- PR23 draft determination: settlement document for Scotland
- PR23 draft determination: consolidated list of decisions, proposals and actions - England & Wales and Scotland

- PR23 draft determination: supporting document – health and safety
- PR23 draft determination: supporting document – outcomes
- PR23 draft determination: supporting document – sustainable and efficient costs
- PR23 draft determination: supporting document – National Functions
- PR23 draft determination: supporting document – other income

- PR23 draft determination: policy position – financial framework
- PR23 draft determination: policy position – access charges
- PR23 draft determination: policy position – schedules 4 and 8 incentives regimes
- PR23 draft determination: policy position – managing change

PR23 draft determination consultation response proforma