



PR23 final determination:

Supporting document - National Functions

31 October 2023



About this document

This technical assessment of Network Rail's National Functions is one of five supporting documents of our final determination for the 2023 periodic review (PR23).

PR23 determines 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 final determination sets out:

- our decisions on Network Rail's 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 the financial framework, managing change and holding to account.

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

Document type	Details
Summary of conclusions and overviews	<p>Our decisions on what Network Rail will need to deliver and how funding should be allocated:</p> <ul style="list-style-type: none">• Summary of conclusions and overview for England & Wales• Summary of conclusions and settlement for Scotland

Document type	Details
Consolidated decisions	A summary of our final decisions across Great Britain
Introduction	An overview of PR23 and background to our final determination
Settlement documents	<p>Detailed final decisions for the System Operator and each of Network Rail’s regions in England & Wales:</p> <ul style="list-style-type: none">• Eastern region• North West & Central region• Southern region• Wales & Western region <p>See our summary of conclusions and settlement document for detailed information for Scotland.</p>
Supporting documents	<p>Technical assessments of:</p> <ul style="list-style-type: none">• Health and safety• Outcomes• Sustainable and efficient costs• <u>National Functions</u>• Other income
Policy positions	<p>How we intend to regulate Network Rail during CP7 in relation to:</p> <ul style="list-style-type: none">• Financial framework• Access charges• Schedules 4 and 8 incentives regimes• Managing change• Holding to account <p>With the exceptions of managing change and holding to account, our policy position documents include our assessment of stakeholder views on our proposals. Stakeholder views for managing change and holding to account are published in a separate document.</p>

Document type	Details
Impact assessments	A consolidated set of assessments of the impact of our final policies on access charges and contractual incentives on affected parties

Next steps

We will now implement our final determination. Implementation is the process through which we amend operators' track and station access contracts to give effect to new access charges and incentives (such as Schedule 8 benchmarks and payment rates) determined through the periodic review. We expect to issue our review notices in December 2023 and, subject to Network Rail's acceptance, issue notices of agreement and review implementation notices in time for CP7 to commence from of 1 April 2024.

We expect Network Rail to publish a delivery plan for CP7 that is consistent with our final determination. We have published [a notice](#) alongside our final determination which sets out expectations for the scope and timing of the delivery plan.

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Executive summary

This document focuses on our expectations in CP7 of Network Rail's National Functions, which are central business units that operate in support of the five regions (four in England & Wales plus Scotland) and the System Operator.

Network Rail has projected spend (excluding non-controllable operational expenditure) of £5,338 million by the National Functions in its latest plans for CP7, which is a decrease of around 2% on control period 6 (CP6, running from 1 April 2019 to 31 March 2024).

In our draft determination, we identified £100 million of potential costs reductions to pre-efficient spend on technology projects. For our final determination, we have identified a further challenge for Network Rail's National Functions with scope for a further £100 million potential cost reduction to £5,238 million which would result in approximately 4% less expenditure than CP6.

Route Services (the largest of the National Functions) also needs to update us on its provision of the High Output service in CP7 ahead of the delivery plan. Any potential savings could be used to help fund core renewals and risk funding.

Our monitoring of the National Functions has increased as CP6 has progressed and by setting out our expectations for CP7 we intend to clarify our approach to holding them to account from the outset of the control period. This is in support of our regionally led regulation of Network Rail.

Our expectations centre on the National Functions having clear governance arrangements with the rest of the organisation, a stakeholder-needs focus to their activities and timely delivery of their core programmes. Where Network Rail's regions and System Operator, ORR or wider stakeholders have concerns about how they are performing against these expectations, we expect the National Functions to be transparent in how they are addressing them.

1. Network Rail's proposals for the National Functions and our final decisions

Background

1.1 The National Functions are central business units which provide support to Network Rail's five regions (Eastern, Southern, North West & Central, Wales & Western and Scotland) as well as Network Rail's System Operator. The National Functions consist of:

- **Route Services** which supply Network Rail's routes with services such as supply chain operations, engineering services, asset information services, some procurement and IT. These services are brought together into a single, service delivery directorate. This approach allows national co-ordination where appropriate, and for Network Rail to benefit from economies of scale and greater efficiency from specialised delivery.
- **The Technical Authority** which provides technical leadership in areas including health and safety, sustainability and managing quality and information, providing support and delivering assurance for the safe, reliable and effective functioning of infrastructure assets.
- **Corporate Services** which are business units that include areas such as the Chief Financial Officer (CFO) unit, human resources, communications and business transformation programmes. The CFO includes corporate finance, legal, Group property unit, and risk and assurance. The property unit provides advice on retail and rental strategy to each of the regions, which ultimately have accountability for their own property portfolios.

Consultation responses

1.2 In the responses received to our draft determination, there was general support for our approach to holding the National Functions to account.

1.3 Common themes in responses were around the need for our approach to be proportionate in the context of our regionally led regulation of Network Rail, whilst also ensuring the functions are being challenged to deliver as efficiently as

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possible by both us and Network Rail's regions. Respondents also supported the additional challenge we put on Network Rail in our draft determination.

1.4 We refer to the related parts of Network Rail's response in the following sections of this document.

Changes from draft determination

1.5 Since our draft determination, we have made updates to reflect the latest proposals for National Functions spend presented to us by Network Rail as part of its response to our consultation.

1.6 This document also summarises the conclusions of our analysis of its response and the actions we have set out for Network Rail to complete in advance of producing its delivery plan.

1.7 Our expectations of National Functions in CP7, are set out at the end of Chapter 2 of this document and remain unchanged from our draft determination.

Projected expenditure

1.8 Table 1.1 below shows Network Rail's projected costs for the National Functions in its draft determination response for CP7. These are total operations, support, maintenance and renewal (OSMR) expenditure figures, excluding industry costs and rates. These are presented in comparison to equivalent figures for control period 6 (CP6) and as a percentage of Network Rail's total GB OSMR.

Table 1.1: Total National Functions CP7 costs proposed by Network Rail (excl. industry cost and rates expenditure) (£ million, 2023-24 prices)

National Function	CP7 DD response	% Change on CP6	% of OSMR
Route Services	4,097	+1.4%	10.3%
Technical Authority	618	-16.6%	1.6%
Corporate Services	623	-8.5%	1.6%
Total	5,338	-2.3%	13.4%

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1.9 The below table presents the amendments we are making to these costs in our final determination.

Table 1.2: Total National Functions CP7 costs in our final determination (excl. industry costs and rates expenditure) (£ million, 2023-24 prices)

National Function	CP7 FD	% Change on Table 1.1	% Change on CP6	% of OSMR
Route Services	3,997	-2.4%	-1.1%	10.1%
Technical Authority	618	0.0%	-16.6%	1.6%
Corporate Services	623	0.0%	-8.5%	1.6%
Total	5,238	-1.9%	-4.1%	13.2%

1.10 A more detailed assessment of the costs and the potential reductions is made in our final determination is covered separately in our [PR23 final determination: supporting document - sustainable and efficient costs](#). We also cover Network Rail's methodology for allocating National Functions costs to each of the regions in that document. Below we summarise our final decisions on Network Rail's plans for the National Functions.

Our final decisions

1.11 We have reviewed the National Functions' CP7 plans and met with each function to discuss its plans through a series of challenge sessions.

1.12 Our assessment of the National Functions plans found that the proposed costs for the Technical Authority and Corporate Services were broadly reasonable.

1.13 For Route Services, we have concluded that the proposed costs for the function remain too high, particularly in the context of constrained funding and, in our view (which Network Rail now agrees with), a shortfall in spend on Network Rail's core renewals. The requirements for core renewals are discussed in our sustainable and efficient cost document.

1.14 We are maintaining the challenge from our draft determination that Route Services should reduce its pre-efficient renewals spend on technology projects by 10% or £100 million, which was not taken forward in Network Rail's consultation response.

1.15 In our sustainable and efficient cost document we set out a menu of options for Network Rail to choose from in order to release funding for core renewals and risk

funding. One of these is for Route Services to reduce expenditure by a further £100 million across its plan. This is in addition to the £100 million reduction on technology projects set out above.

- 1.16 Network Rail has not completed its plans for High Output in CP7. The renewals assumptions in the regional plans in the Strategic Business Plan (SBP) did not include High Output work but did include the costs of Network Rail completing the work using conventional approaches. It is not clear that providing specific funding for High Output would double count some of that expenditure as High Output work should be more efficient overall. We need Network Rail to update us on its provision of the High Output service in CP7 ahead of the delivery plan.
- 1.17 Our assessment remains that Project Reach (a workstream proposed by Network Rail to deploy high-capacity fibre optic cables across England & Wales, using the rail corridor) represents a lower priority for use of OSMR funding in CP7 than the additional core asset renewals identified in our sustainable and efficient cost document. Although we note Network Rail's continued commitment to Project Reach and acknowledge that other avenues are likely to be preferred by Network Rail to release funding for core renewals and risk funding.
- 1.18 In reviewing the plans, we have assessed the level of stakeholder engagement that has been undertaken in developing them. Overall, there is evidence to suggest that external engagement (e.g. with the supply chain and industry bodies) has taken place where appropriate and, with the exception of High Output, that the requisite internal engagement (e.g. with the Network Rail regions and the System Operator) has been undertaken. We consider that National Functions have matured and improved with regard to the way stakeholder engagement has been conducted compared to CP6.

2. Our expectations of national functions in CP7

- 2.1 Network Rail's licence sets out clear expectations about the responsibilities of the regions and the System Operator. It also places a number of specific requirements on Network Rail as an organisation to ensure that the regions and the System Operator have appropriate autonomy to carry out their responsibilities so that they can be meaningfully held to account. These include a requirement to enable regions and the System Operator to choose how to procure the goods and services they need, including those provided by National Functions (unless Network Rail demonstrates this would be inconsistent with the licence or another legal requirement).
- 2.2 In monitoring the National Functions, we apply a greater focus on the 'core' functions, which are Route Services and the Technical Authority. Although, for the most part, the services they provide do not directly deliver outcomes for rail users, these are functions which have a significant impact on the efficiency of, and delivery by, the regions and the System Operator. For example, the Technical Authority provides an internal assurance function to the regions on rail engineering matters.
- 2.3 The intention of our monitoring approach to the National Functions is for it to be measured and proportionate given our regionally led regulation of Network Rail, while also ensuring we have sufficient oversight and assurance on spend and responsibilities that remain centralised and, likewise, on associated risks.
- 2.4 We have enhanced our monitoring of the National Functions as CP6 has progressed and Network Rail's new organisational structure has been established, to be able to assess how this is working in practice. This has included understanding their governance arrangements with the regions, reviewing their functional business plans and assessing internal scorecard performance.
- 2.5 Due to the regulatory framework for CP7 being outcomes-based, it focuses on measures of delivery by the regions and System Operator. The responsibilities of the National Functions do not therefore explicitly feature in the success or supporting measures set out in this framework.
- 2.6 Nevertheless, the National Functions are important in supporting the provision of a safe, sustainable, performing and efficient railway. As a result, we have identified a

set of expectations for CP7 in relation to the National Functions. This will enable us to continue our approach of engaging with National Functions on their spend and activity and the extent to which they are held accountable to support the delivery of outcomes by the regions and System Operator.

2.7 Our approach to holding the National Functions to account in CP7 will be based on assessing the extent to which they are operating in line with these expectations. More detail on our approach is provided in our Holding to Account policy.

Table 2.1 Expectations of National Functions in CP7

Expectation	Comments
Clear governance arrangements which facilitate customer engagement and internal holding to account	<p>Lines of engagement between the National Functions and the regions should be transparent and structured.</p> <p>The regions should have means by which they can challenge the National Functions and ensure their views are taken into account in decision making by the National Functions.</p>
Transparency around their activities and how they are assessing and delivering against the needs of stakeholders	<p>We expect to be provided with clarity on, for example, the business plans, priorities and challenges for the National Functions.</p> <p>As stakeholder engagement has supported the development of their SBPs, we expect this engagement (and delivery against the outcomes from this) to be a continued focus for the National Functions across CP7.</p>
Timely and efficient delivery of core programmes on behalf of the regions	<p>In CP7, the National Functions have responsibility for some organisation-wide programmes.</p> <p>Timely and efficient delivery of these is key for the benefits (e.g. performance, safety, asset management) of these to be realised.</p> <p>Clear measurement and reporting of the benefits delivered by the programmes.</p>
Clarity over how they are responding to concerns raised by Network Rail’s regions and System Operator, ORR or wider stakeholders	<p>We expect to be provided with assurance that these concerns are being prioritised and addressed in a timely fashion.</p> <p>Our approach here will be in accordance with our Holding to Account policy.</p>



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