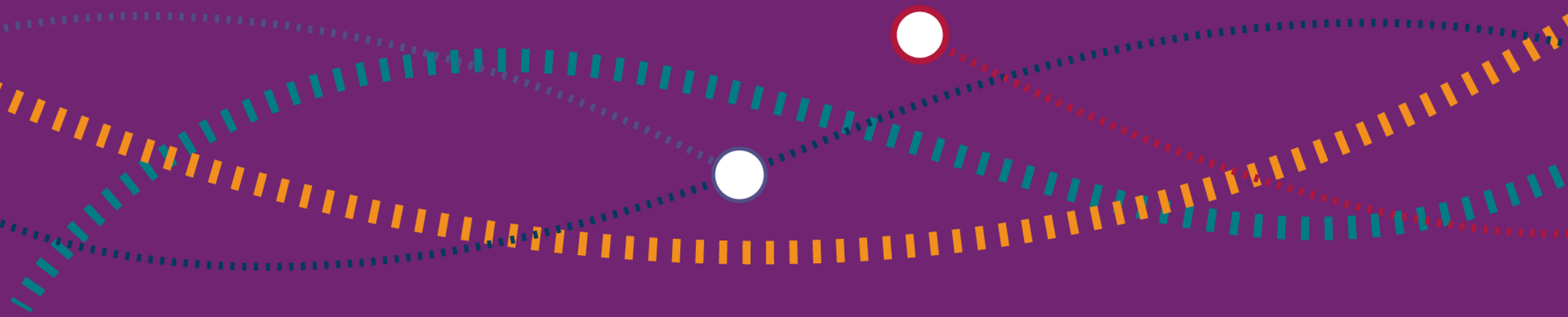


Periodic Review 2023 (PR23)

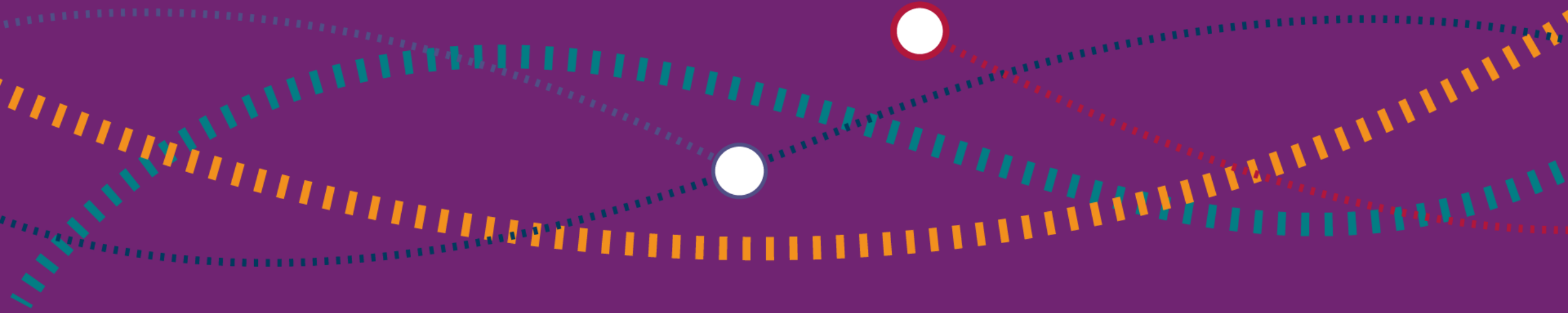
ORR's final determination for Scotland



Agenda

Item	Presenter	Timings
Introduction	Stephanie Tobyn/Will Godfrey	12:30
Overview: Train performance (including Q&A)	Matt Wikeley	12:40
Overview: Asset and environmental sustainability (including Q&A)	Steve Fletcher	13:00
Overview: Safety (including Q&A)	Sarah Shore	13:10
Overview: Expenditure, efficiency, inflation & risk (including Q&A)	Carl Hetherington	13:20
Overview: Charges (including Q&A)	Carl Hetherington	13:30
Overview: Incentives (including Q&A)	Carl Hetherington	13:40
Next steps, any remaining questions, & close	Will Godfrey	13:50

Introduction



Periodic reviews

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

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

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

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



Rail reform



Setting whole-industry expectations is challenging

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

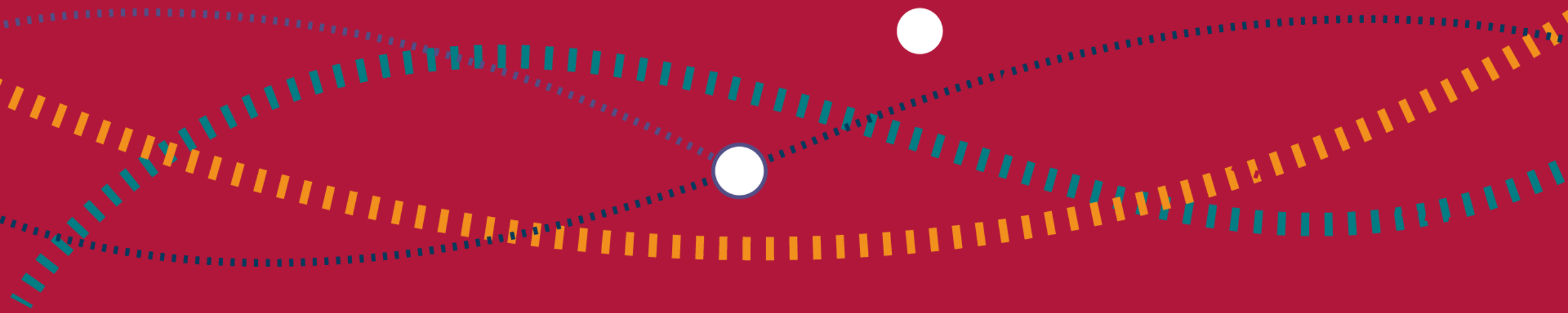
To enable ScotRail to achieve a performance target of 92.5% each year



Freight performance

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

Train Performance



ORR will introduce the Scotland train performance expectations aligned to Scottish Ministers' requirements

Scotland	CP6 exit %	ORR FD CP7 (every year) %
Scotland performance measure	90.3	92.5
Freight Cancellations and Lateness (FCaL)	6.1	5.5

ORR will hold Network Rail to account for its contribution to the Scottish Ministers' target of 92.5% for the Scotland train performance measure in each year of CP7. This is the main performance success measure for Scotland in ORR's CP7 outcomes framework. Delivery of this measure also requires contribution from ScotRail.

Network Rail Scotland will support freight growth of 8.7% over CP7. This is consistent with the challenge set by Scottish Ministers' and our final determination.

The final determination includes a Scotland targeted performance fund of £50 million



We recognise that there are some significant risks to the delivery of the 92.5% Scotland performance measure trajectory for each year of CP7.

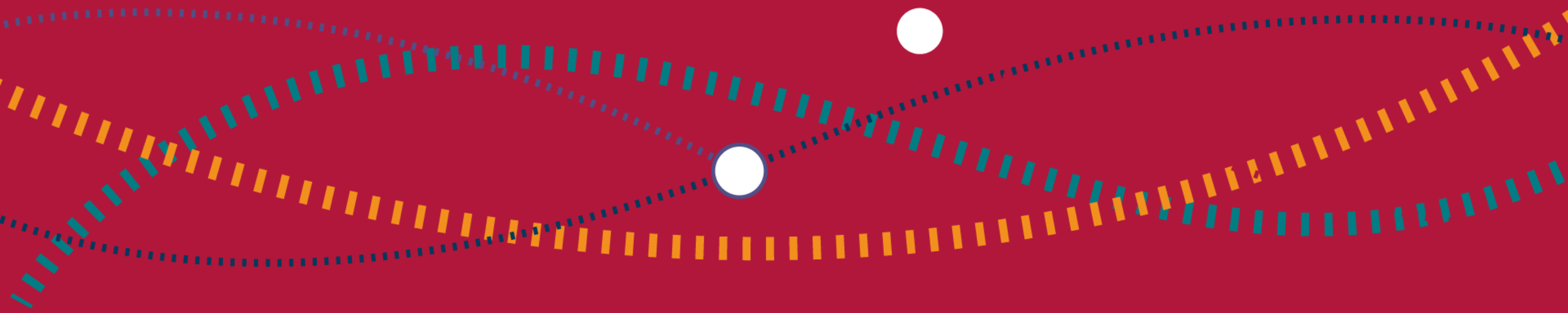


We will hold Network Rail Scotland to account for its contribution towards delivering this trajectory.

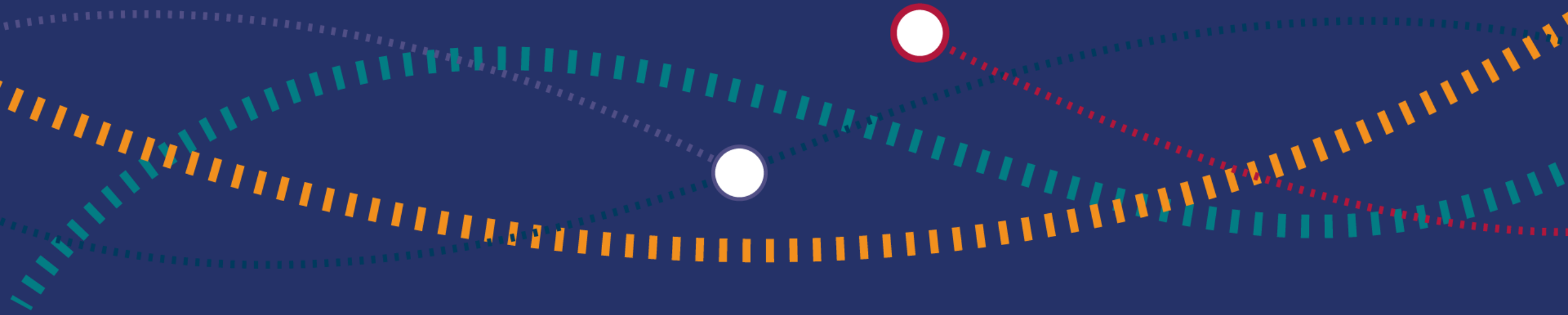


To support this, we include a Scotland targeted performance fund of £50 million. This fund will only apply to Scotland. Network Rail Scotland will establish governance arrangements for the fund which complies with its licence obligations.

Questions



Asset and environmental sustainability



Greater focus on core renewals

- The constrained funding requires Network Rail Scotland to prioritise its CP7 expenditure.
- Our draft determination asked Network Rail to further prioritise key assets susceptible to climate change.

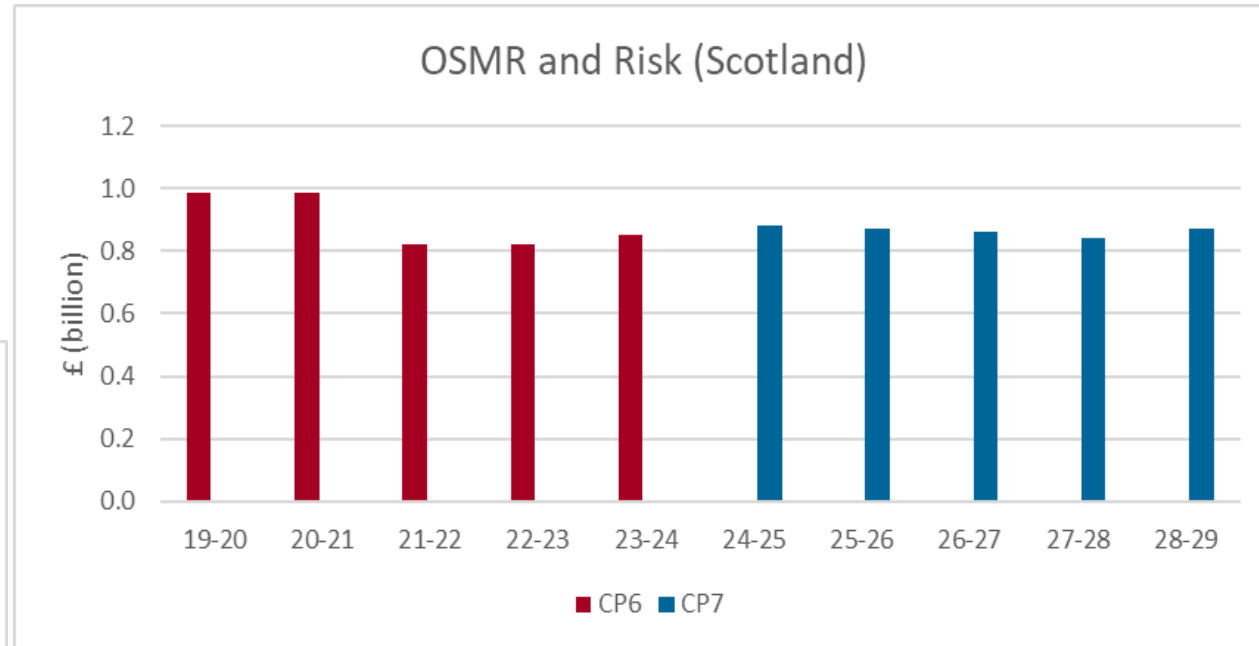
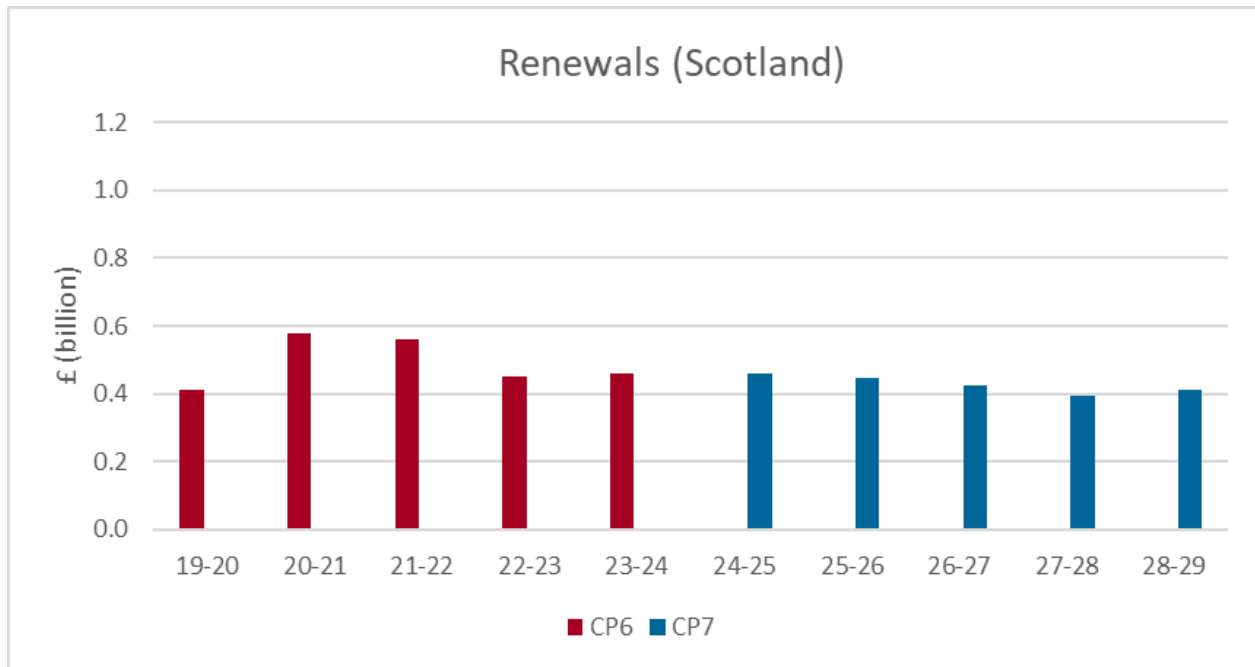
We welcome Network Rail Scotland's commitment to deliver additional core renewals to structures of £44m during CP7.



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

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



- Long-term forecasts show increased spending is required in CP8 – CP13 to address short-term decline in system asset remaining life in CP7.

Environmental sustainability

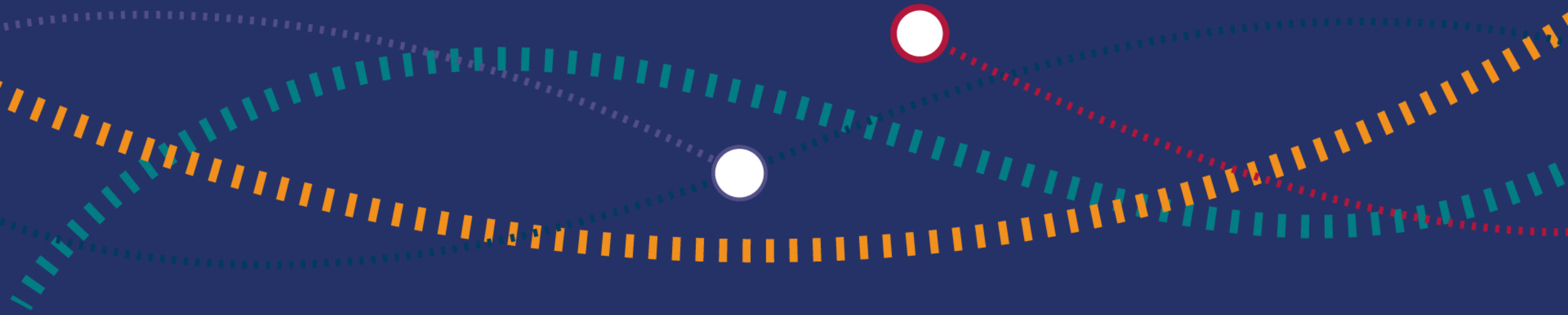
We will hold Network Rail Scotland to account in delivering improved environmental outcomes by tracking its delivery against the success measures we specify in our final determination.

Scotland	Network Rail's 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

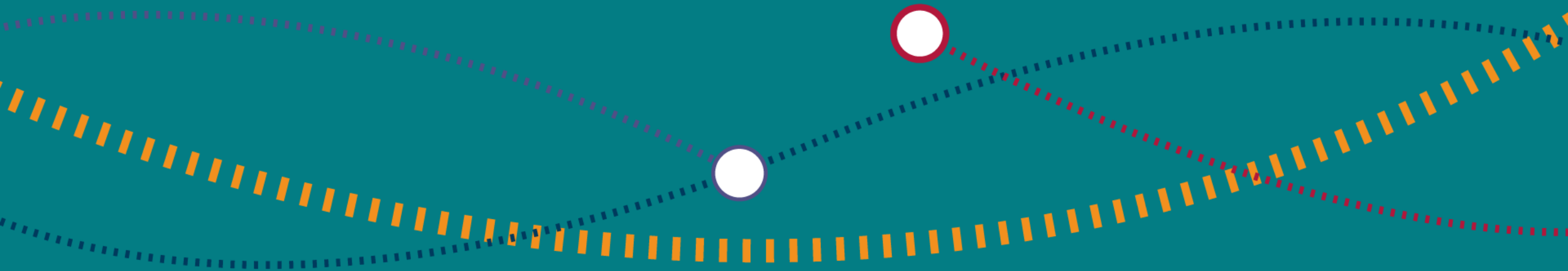
We expect Network Rail Scotland's carbon emissions to fall by more than 21 percentage points over CP7.

Network Rail Scotland is also expected to conserve and enhance biodiversity. We have set a specific target for it to improve by 4 percentage points.

Questions



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

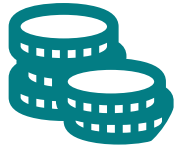


- Our main concerns at draft determination were about the proposed reduced levels of core renewals and anticipated increase in the volume of maintenance activities
- We sought evidence that Network Rail could demonstrate its understanding of the change in risk profile and how it will manage the application 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 consider that the additional expenditure on core renewals that Network Rail has committed to is sufficient to address the main safety vulnerabilities we identified in our draft determination



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

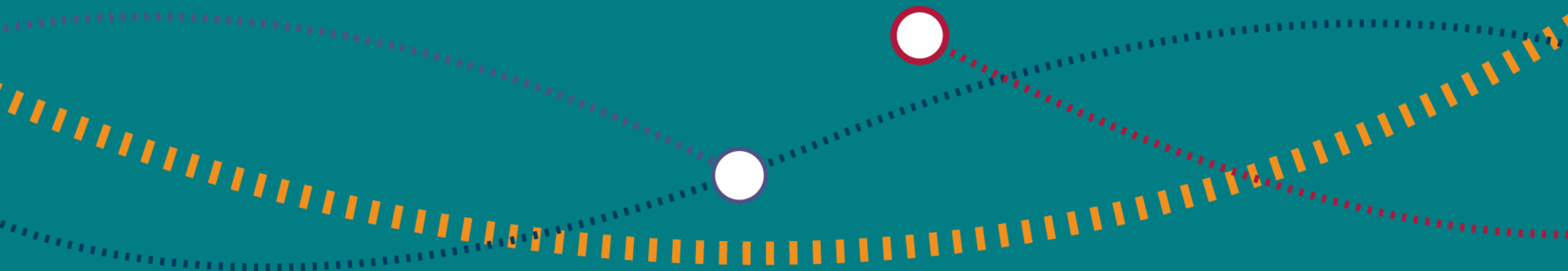


We will work with Network Rail on the delivery of priority programmes for safety management, particularly on infrastructure monitoring and the electrical safety delivery programme (ESD)

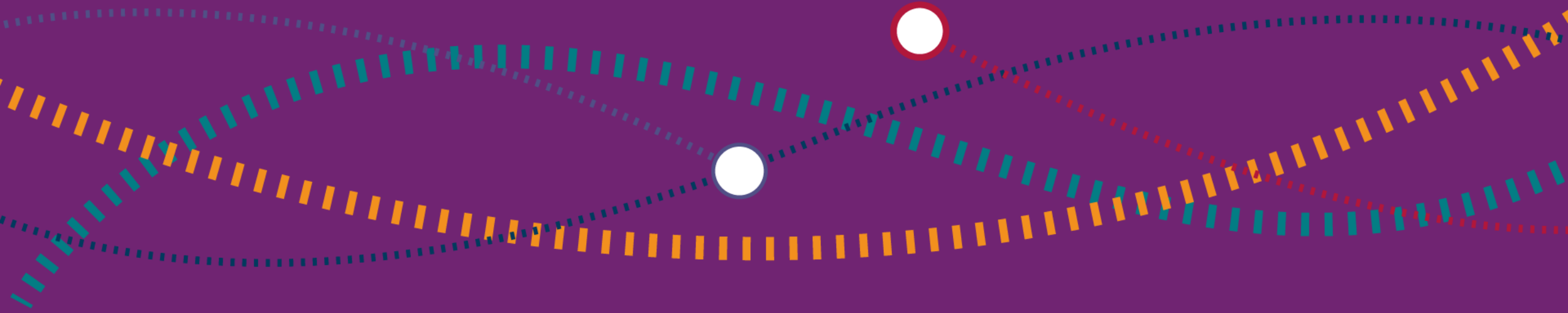


We will continue to progress ongoing Worker Health and Safety programmes (including occupational health and fatigue management)

Questions



Expenditure, efficiency, inflation and financial risk



Expenditure in CP7 and movements from CP6

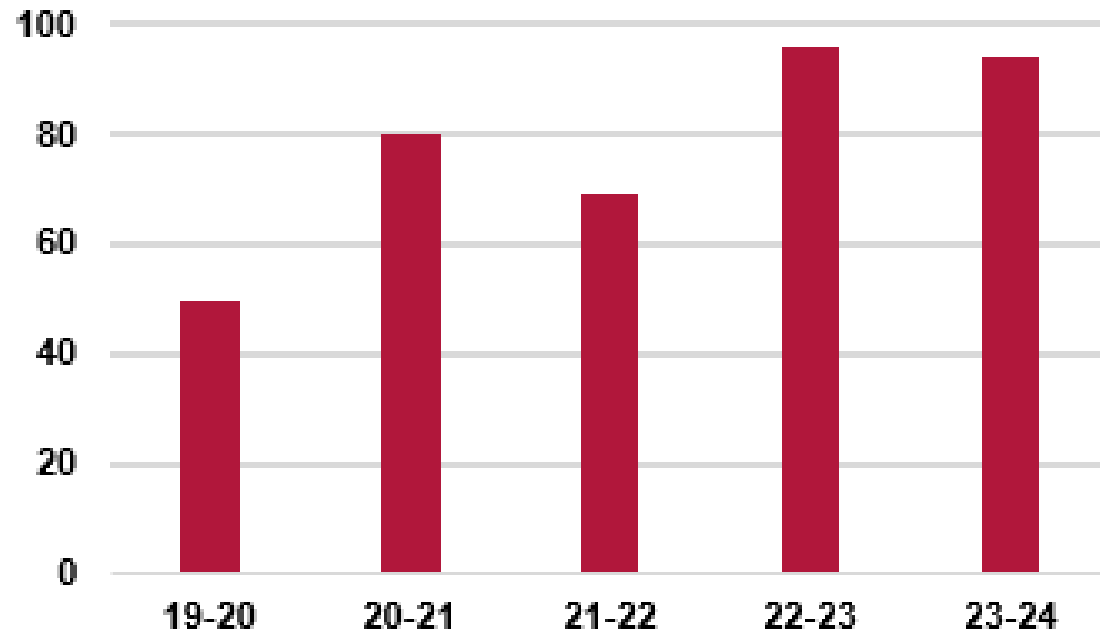
Expenditure	CP6	CP7	CP7 vs CP6 %
Scotland	4.6	4.55	-1%
Great Britain	43.5	43.1	-1%

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

Expenditure in Scotland in CP7 is approximately 1% lower than in CP6. The main movements are:

- Base spend (i.e. at CP6 efficiency levels) increases from CP6 by £116 million
- £214 million increase in input price inflation in CP7 since publication of Network Rail Scotland's SBP
- £34 million of headwinds in CP7
- £410 million of efficiency in CP7

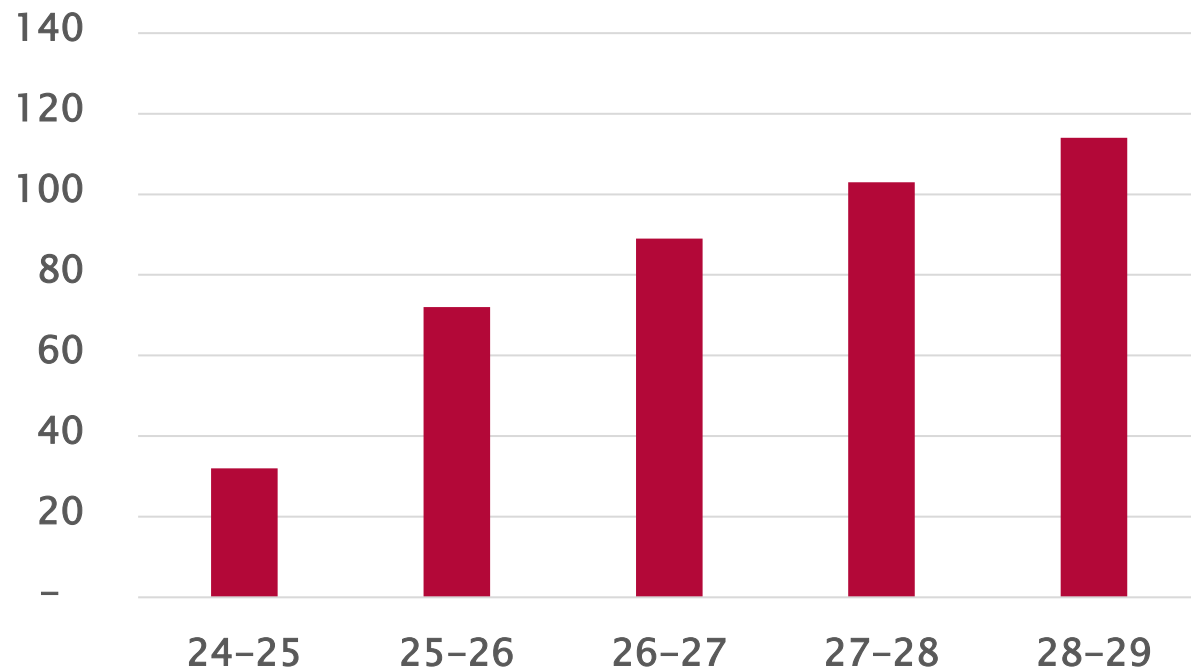
Efficiency in CP6



£million (cash prices)

- 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 in CP5 was lower than our determination for CP6
- For CP6, Network Rail is on course to deliver £389 million of savings, similar to our PR18 determination for CP6
 - £341 million of which will be delivered by Network Rail Scotland.
 - £47 million allocated from National Functions.

Efficiency targets for CP7 are challenging but deliverable



£million (2023-24 prices)

Network Rail Scotland should deliver £410 million of efficiencies during CP7:

- £361 million of which will be delivered by Network Rail Scotland.
- £49 million allocated from National Functions.

Financial risk

- Like most companies, Network Rail needs appropriate provisions in place to efficiently manage the financial risks it faces – inflation, cost shocks and adverse events, such as flood damage.
- 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.
 - November 2022 forecast of CPI (used for initial SBP) implied very low inflation in CP7 (approx. 0% per year over CP7)
 - May 2023 forecast (used for our determination) is higher than November 2022 (approx. 2% per year over CP7).
 - Overall increase in forecasts of general inflation since Network Rail's original plans is £0.1 billion in Scotland – which we have recognised in our final determination.

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



We set out in our final determination risk funding in Scotland of £225 million.

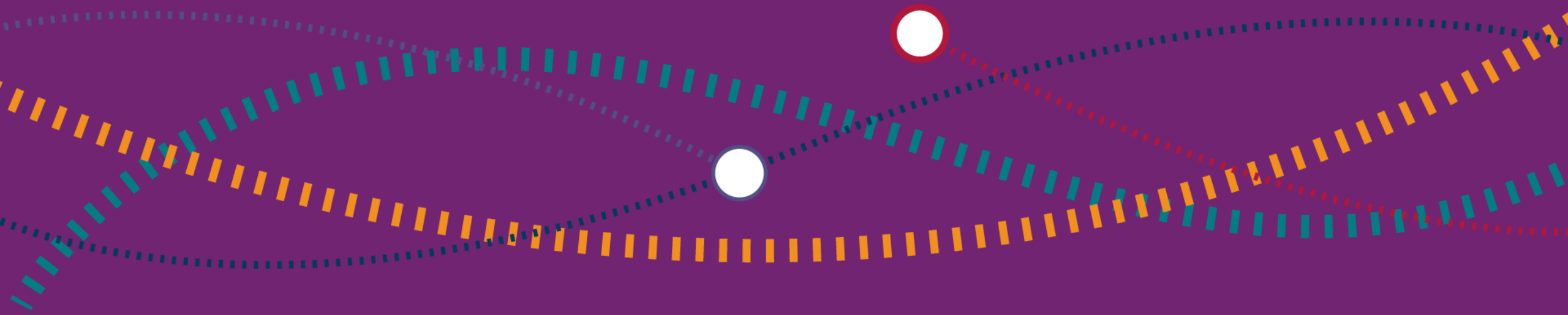


Network Rail Scotland may be particularly exposed to financial risk during CP7 because of its stretching efficiency target.

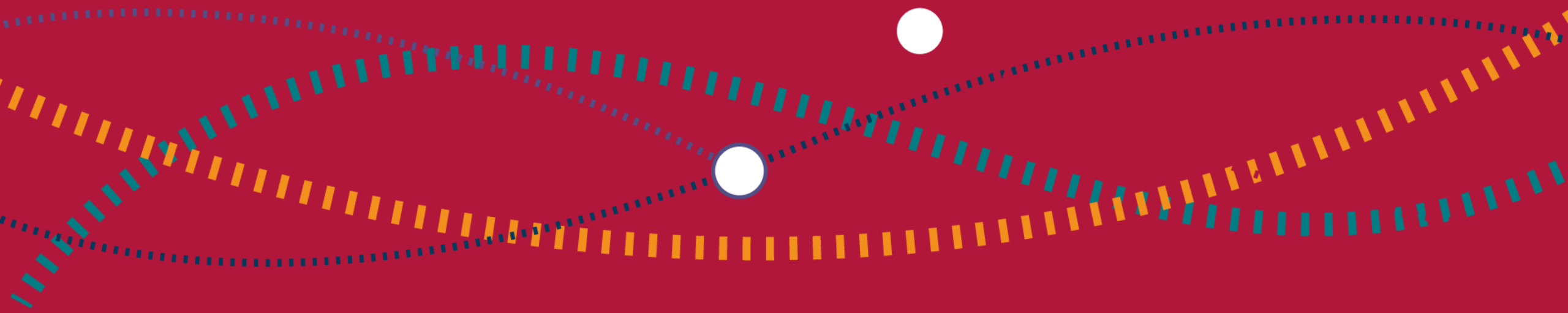


We consider that this risk fund should be reasonable if governed effectively, using the risk principles for CP7, which build on lessons learnt from CP6. We will update our CP7 Managing Change Policy to reflect the risk principles for CP7.

Questions



Charges



Access charges represent one half of Network Rail's income

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 £2.5 billion (in 2023–24 prices) from access charges during CP7, which constitutes around 50% of total income.

Decisions on access charges



Passenger operators

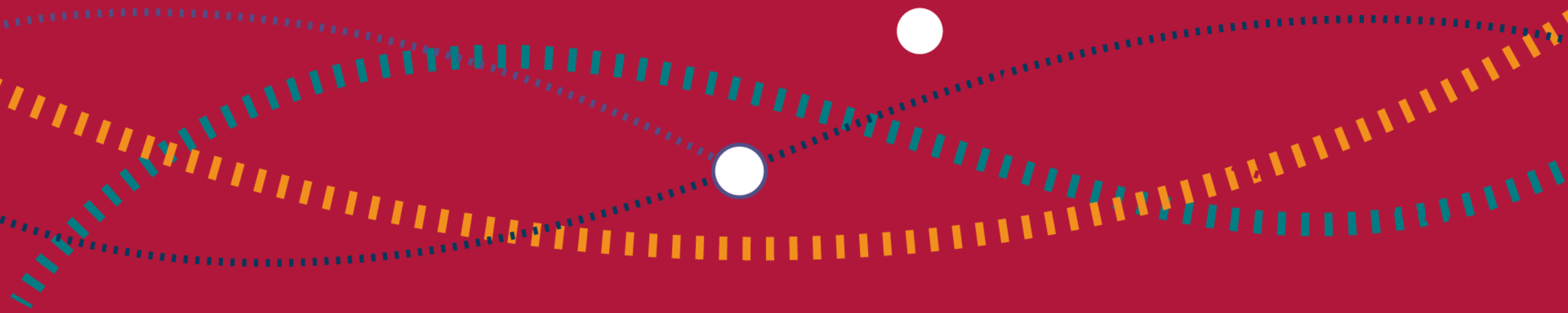
- Variable charges will **remain fully cost-reflective**, increasing 3% in year 1 of CP7 and flat thereafter in real terms
- Infrastructure cost charges for open access operators will be held constant in real-terms (£5 per train mile)



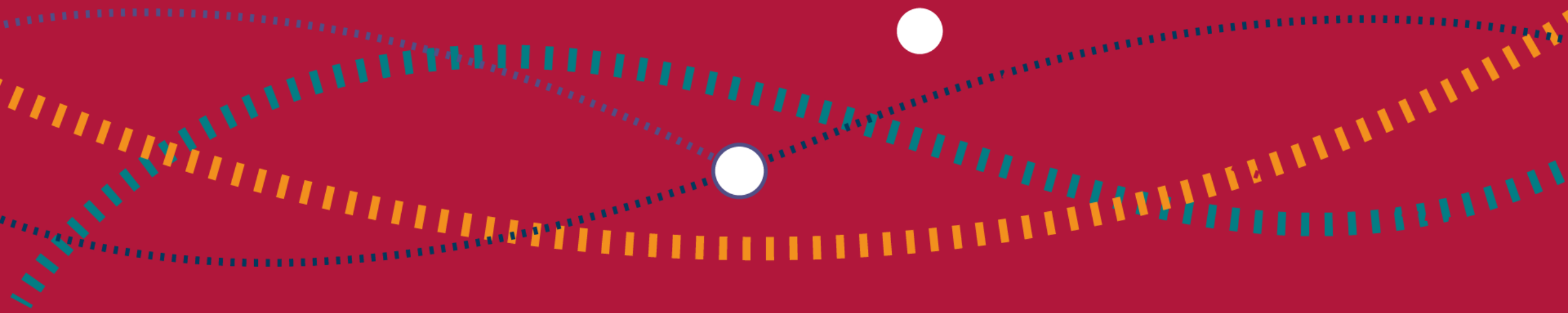
Freight operators

- 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 freight operators £1.3 million in Scotland (£33 million in GB) in 2023–24 prices.
- Existing **infrastructure cost charges for commodities will reduce or be held constant**, likely savings for freight operators < £1 million in Scotland (£12 million in GB).

Questions



Incentives



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.

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



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

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

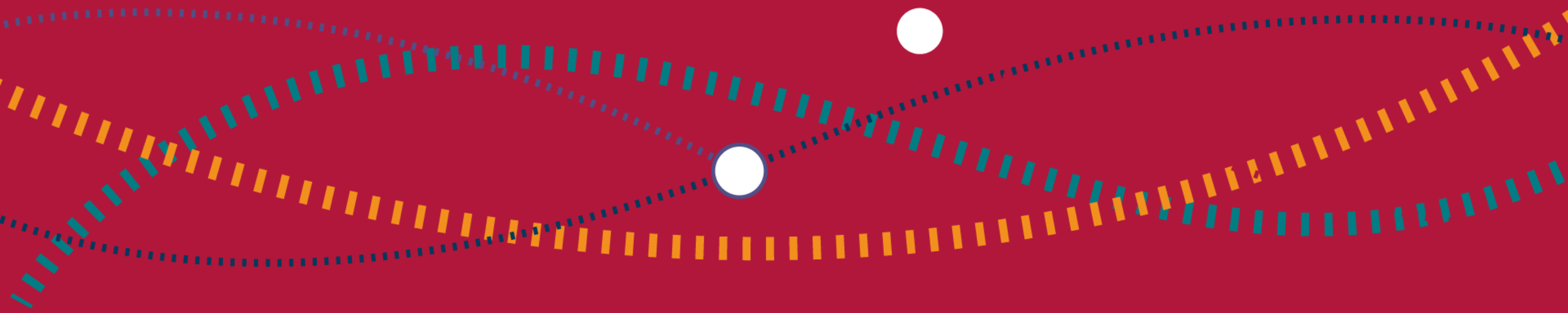
Decisions on scope and flexibility

- 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. This however doesn't apply to Scotland.
- 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. This will not affect the Scotland train performance measure we set at 92.5% for each year of CP7, but may impact On Time and Cancellation baselines, and therefore contractual performance benchmarks (which are based on these measures).

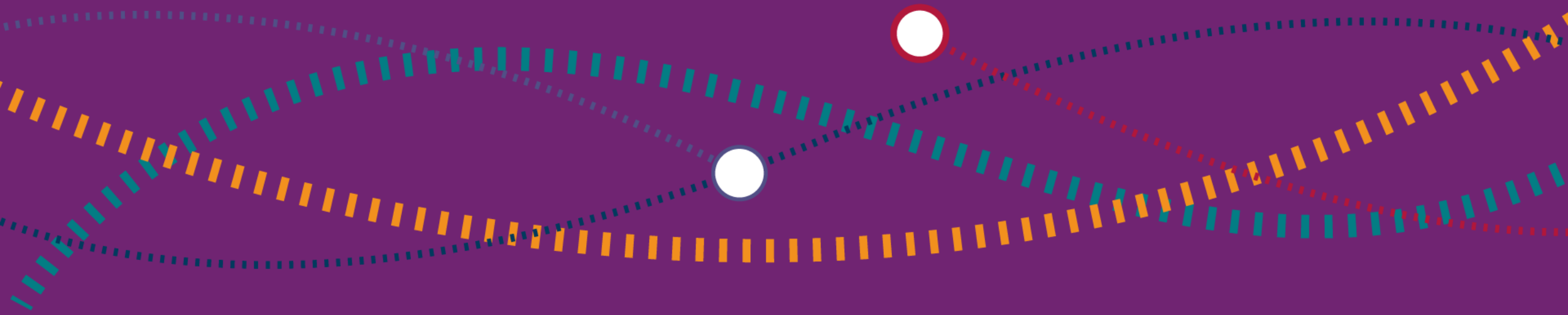
Decisions in 'recalibration' ahead of CP7

- 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

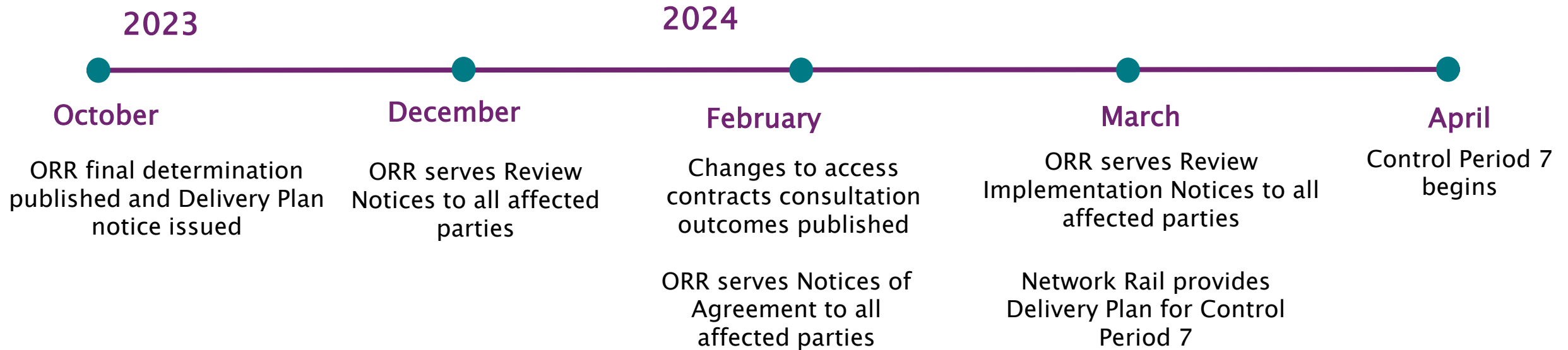
Questions



Next steps



Implementation and delivery plan



- **Implementing** the final determination requires changing station and track access agreements for CP7. We set these out as instructions through **review notices**. By 20 December, we will send paper copies to all affected parties
- 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

