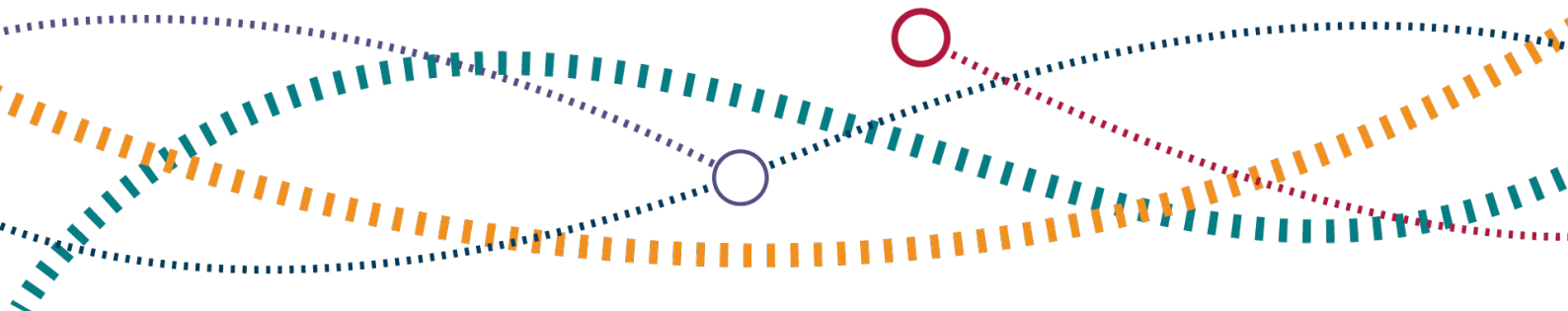




PR23 draft determination:

Overview – Scotland

15 June 2023



About this document

This document provides an overview of our draft determination of the 2023 periodic review (PR23) for Scotland.

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);
- 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: <ul style="list-style-type: none">• England & Wales• <u>Scotland</u>
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: <ul style="list-style-type: none">• Scotland• Eastern region• North West & Central region• Southern region• Wales & Western region• System Operator
Supporting documents	Technical assessments of: <ul style="list-style-type: none">• 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: <ul style="list-style-type: none">• 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 notices 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.

Context of the Network Rail Scotland strategic business plan

This draft determination settlement document is based on Network Rail Scotland's 'interim' strategic business plan (SBP), which was shared with ORR on 24 February 2023, and a limited amount of supporting information shared with us after that date.

This plan was considered 'interim' by Network Rail Scotland due to the short time it had to finalise its plans after the publication of the Scottish Ministers' High Level Output Specification (HLOS) and Statement of Funds Available (SoFA). The Scottish Ministers' HLOS and SoFA were shared with Network Rail and ORR on 27 January 2023, in line with the date set out in our review initiation notice and published shortly thereafter (on 3 February 2023).

In the time available, Network Rail Scotland was not able to fully align its plans to the HLOS and SoFA and the amount of funding Network Rail Scotland forecast it would spend was lower than that which the Scottish Ministers made available. Network Rail Scotland has worked on a 'final' SBP which it expects to publish after our draft determination.

Areas where we are aware notable changes have been made in the final SBP include the prioritisation of asset management funding and the forecasts for train performance in CP7. We will assess changes made in the published SBP alongside any responses received to this draft determination consultation in our final determination, which is due for publication by 31 October 2023.

Contents

About this document	1
Context of the Network Rail Scotland strategic business plan	4
1. Introduction	7
2. Key proposals	12
3. Outcomes with a focus on train performance	13
4. Asset performance and sustainability	18
5. Health and safety	22
6. Efficiency, headwinds, tailwinds, inflation and input prices	25
7. Other sources of income	27
8. Risk funding	28
9. Funding our proposals	29
10. Access charges	31
11. Incentives	33
12. Financial framework	35
13. Managing Change	37
Annex A: Affordability of the HLOS within the SoFA	39

Annex B: CP7 year 5 baseline trajectories for Scotland	40
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Annex C: Network Rail Scotland's proposed CP7 income and expenditure	42
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1. Introduction

Context

- 1.1 Periodic reviews like PR23 are one of the principal mechanisms by which ORR holds the infrastructure manager for the mainline rail network in Great Britain, Network Rail, to account and secures value for money for users and funders of the railway. The periodic review determines what 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.
- 1.1 PR23 is being conducted amid a complex and challenging context for the rail industry: the sector continues to recover from the pandemic against a backdrop of inflationary pressures, industrial action as well as declines in passenger and freight train performance. The sector must also meet the challenges of climate change by contributing to a low-emissions railway and planning for severe weather events. In recognition of this context, our approach to PR23 is designed to deliver a secure basis for Network Rail Scotland and its stakeholders to plan, invest and provide services.
- 1.2 We set out at the start of PR23 in our [June 2021 launch letter](#) that our focus during the process would remain on four objectives:
- **safety:** the rail network must be maintained in a safe condition for all 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.
- 1.3 There also remain considerable challenges to address, such as the impact of severe weather on the network. We will challenge Network Rail to deliver more for both current and future customers, drive further efficiencies and support the

effective operation of the whole railway, joining up our approach to economic, and health and safety regulation in doing so.

- 1.4 Network Rail is funded by the UK and Scottish governments for its activities in England & Wales and Scotland respectively. The UK and Scottish government's continued support for the railway allows for a real-terms increase in expenditure for operating, supporting, maintaining and renewing the network across Great Britain during CP7. This amounts to approximately £44.8 billion in total across the GB network (projected expenditure net of electricity traction costs, which are passed through directly to train operators). This compares to £42.7 billion in CP6 (expressed in 2023-24 prices).
- 1.5 In this document we provide an overview of our draft determination for Scotland. We provide an [overview for England & Wales in a separate document](#). The [Scottish Ministers' Statement of Funds Available](#) (SoFA) makes available £4.2 billion of funding for operating, supporting, maintaining and renewing the network in CP7. Accounting for all sources of funding, Network Rail Scotland's total expenditure is forecast to be £4.8 billion, which compares to £4.6 billion (expressed in 2023-24 prices, all net of electricity traction costs) during CP6. However, the available funding is constrained relative to the needs of the asset renewal cycle and it has had to make choices about how the available funding should be prioritised to deliver best value for the railway now and in the future.
- 1.6 The £4.2 billion SoFA is also £221 million greater than the planning assumptions Network Rail Scotland initially used to develop its CP7 proposals. In its interim strategic business plan, which we received on 24 February 2023 and have assessed for our draft determination, Network Rail Scotland has held this funding as contingent risk funding and advised that it will consider how this would be used as its plans evolve. Our draft determination refers to this funding as being unallocated and proposes how Network Rail Scotland could use it.
- 1.7 The UK and Scottish governments also set out High-Level Output Statements (HLOSs) detailing what they expect the available funding to deliver in the relevant nation. The [Scottish Ministers' HLOS](#) sets out the Scottish Government's requirements across a broad range of areas. This HLOS expects Network Rail Scotland to maintain a strong standard of safety, manage efficient costs and achieve value for money for taxpayers, while maintaining its focus on punctuality, reliability and asset sustainability. It also sets requirements for effective integration of Network Rail Scotland, ScotRail Trains Limited and other industry stakeholders, targeting investment to contribute towards increasing economic growth, climate change adaptation and the achievement of net-zero.

1.8 The Scottish Ministers' HLOS and SoFA were finalised later than anticipated. Consequently, Network Rail Scotland's plan for CP7 has been produced to challenging timescales and continues to evolve. Network Rail Scotland has developed a further iteration of its plan which it provided to us on 26 May and which it intends to publish. Our draft determination is based on the interim plan Network Rail Scotland provided to us on 24 February plus evidence subsequently received to support these proposals. We have worked closely with Network Rail Scotland and our draft decisions consider how we anticipated its interim plan was likely to evolve. Notable changes to its final SBP include the prioritisation of asset management funding and forecasts for train performance during CP7. We will assess these changes for our final determination. We are issuing our draft determination now so that we can obtain stakeholder views on our proposals. During the consultation period (which runs until 31 August 2023) we expect Network Rail Scotland to consider our proposals for how the available funding could be used and the outcomes that should be delivered in return. We expect its response to set out clearly:

- any new evidence that it considers we should take account of for our final determination, including evidence that was not provided in sufficient time for consideration ahead of our draft determination and which remains relevant;
- any changes to its proposals, supported by necessary evidence; and
- responses to the actions we have set in our draft determination.

Our assessment of Network Rail Scotland's plan and draft determination

1.9 We have carried out a detailed review of Network Rail Scotland's interim plan and challenged whether it:

- is consistent with the Scottish Ministers' HLOS and SoFA;
- makes appropriate choices between maintaining the network, renewing it to raise asset condition and spending to maintain the network to support the performance of passenger and freight operators in the near-term;
- includes a reasonable degree of stretch;
- provides a credible response to challenges which have emerged during CP6 (e.g. on weather resilience);

- is deliverable; and
 - enables Network Rail Scotland to continue to operate its network safely and meet its legal obligations.
- 1.10 Our assessment and subsequent draft decisions are consistent with our legal duties, including those set out in the Railways Act and the Equalities Act, and the guidance provided to ORR by Scottish Ministers.
- 1.11 Our assessment informs our draft determination which sets out for CP7:
- how the available funding should be used, what should be delivered in return (including on train performance) and how we will hold Network Rail to account for delivery of the outcomes specified in PR23;
 - changes to the charges and incentives framework (including the proposed infrastructure charges, incentive rates and performance benchmarks that will feature in track access contracts); and
 - settlement decisions for Scotland, Network Rail's regions in England & Wales and the System Operator (SO).

Structure of this document

- 1.12 In the following sections of this document, which considers Scotland, we provide our key messages on our PR23 draft determination followed by an overview of our determination in the following areas:
- outcomes;
 - asset performance and sustainability;
 - health and safety;
 - efficiency, headwinds, tailwinds, inflation and input prices;
 - other sources of income;
 - risk funding;
 - access charges;
 - incentives;
 - financial framework; and
 - managing change.
- 1.13 The draft decisions and proposals summarised in this document for Scotland and a separate document for England & Wales are combined in our PR23 draft determination: [consolidated list of decisions, proposals and actions document](#).

- 1.14 This document also includes three annexes. Annex A summarises our assessment of the affordability of Network Rail Scotland's interim plan within the funds available. Annex B sets out our proposed success measure baseline trajectories for Scotland in year 5 of CP7 in comparison to the forecasts in Network Rail's interim plan. Annex C presents the income and expenditure Network Rail proposes in Scotland during CP7.

2. Key proposals

2.1 Key proposals from our draft determination for Scotland are as follows:

- We use the Scotland train performance measure as the primary measure of performance in the CP7 outcomes framework and set a stretching baseline trajectory at 92.5% in each year of CP7 which is consistent with the Scottish Ministers' expectations. We expect Network Rail Scotland to play its part in delivering this significant improvement for rail users.
 - Increasing expenditure on renewals should be Network Rail Scotland's highest priority when considering how any unallocated funding is used.
 - We expect Network Rail to demonstrate its understanding of, and how it will manage the change in, the risk profile which results from conducting fewer renewals.
 - Network Rail Scotland has more work to do to demonstrate how it will deliver its efficiency target, but we anticipate that overall funding should allow Network Rail Scotland to deliver its CP7 commitments.
 - Network Rail Scotland faces potentially significant risks and we have identified potential opportunities to increase its risk provision to help manage these.
 - We will support freight growth ambitions while ensuring that rates move closer to being fully cost reflective.
 - Contractual incentives will be adaptable to material changes in circumstances and payment rates will be lower.
-

3. Outcomes with a focus on train performance

- 3.1 In this section we set out our key draft determination on outcomes and our CP7 success measures. We also provide more information on our assessment and decisions in the PR23 draft determination: [supporting document on outcomes](#).

Outcomes framework

- 3.2 The CP7 outcomes framework sets the requirements that Network Rail needs to deliver for the funding it receives. It will also be one of our key tools for monitoring Network Rail's compliance with its licence as set out in our proposed [Holding to Account Policy](#) for CP7.
- 3.3 We consulted on our [CP7 outcomes framework](#) in December 2022. Our draft determination proposes baseline trajectories for Network Rail Scotland for each 'success measure' in our framework (see Table 4.1).
- 3.4 The Scottish Ministers' HLOS (published on 3 February 2023) specifies a passenger performance target using the public performance measure (PPM) but includes a dispensation for delays caused by blanket speed restrictions implemented due to severe weather and those caused by connections held for late running trains and ferries. Our draft determination has included the train performance measure specified in the HLOS in the outcomes framework in recognition of its importance to Scottish Ministers. We refer to this as the 'Scotland train performance measure'. It will be the primary CP7 measure we will use to hold Network Rail to account for its contribution to passenger train performance.

Table 3.1 Success measures – CP7 outcomes framework

Outcome area	Success measures
Train performance: passenger	Scotland train performance measure On Time Cancellations
Train performance: freight	Freight Cancellations
Asset sustainability	Composite Sustainability Index (CSI)
Efficiency and financial performance	Financial Performance Measure (FPM) (opex/capex split) Efficiency (£)
Environmental sustainability	Biodiversity Units Carbon Emissions scope 1 and 2
Freight growth	Freight net tonne kilometres moved

3.5 Our proposals for each success measure are informed by the forecasts Network Rail Scotland provided in its interim plan, analysis of historical data and our ongoing monitoring. Our proposals seek to ensure that Network Rail Scotland is held to account against challenging yet achievable baseline trajectories which are consistent with the aims set out in the Scottish Ministers’ HLOS.

Train Performance

3.6 In this section we set out our key draft determination proposals for train performance baseline trajectories for CP7.

3.7 Passengers and freight users expect trains to be reliable and run on time. The Scottish Ministers’ HLOS also includes a focus on performance and requires Network Rail Scotland to maintain the network in such a manner as to enable ScotRail Trains Ltd. to achieve a performance target of 92.5% in each year of CP7. This is a measure of whole industry train performance, which is important for maintaining and improving satisfaction for those using the railway and Network Rail Scotland must play its part in delivering this.

3.8 As well as including the Scotland train performance measure in the outcomes framework, we have set the baseline trajectory at 92.5% from year 1 of CP7, consistent with the requirement in the Scottish Ministers’ HLOS. We expect

Network Rail Scotland to deliver against its contribution to this target to the greatest extent reasonably practicable, having regard to all relevant circumstances. We recognise that there are risks to the delivery of this trajectory for each year of CP7. This is because it is stretching in comparison to historical levels of performance and so requires both Network Rail Scotland and train operators to play their part in delivering significant improvements to the passenger.

- 3.9 The Scottish Ministers' HLOS includes a target for Freight Cancellations and Lateness (FCaL) of 5.5% for every year of CP7. We will hold Network Rail Scotland to account for its delivery against this target and we expect it to include a forecast for this in its CP7 delivery plan.

Comparison of train performance with other Network Rail regions

- 3.10 We will use the 'Scotland train performance measure' and FCaL to publicly hold Network Rail to account in CP7. To provide an additional reputational incentive we will also use the 'On Time', 'Passenger Cancellations' and 'Freight Cancellations' measures in the CP7 outcomes framework to make regional comparisons across Great Britain.
- 3.11 In the PR23 draft determination: supporting document on outcomes we explain our analysis to determine the historical relationship between the 'Scotland train performance measure' and 'On Time'. We use this relationship to set a baseline trajectory for 'On Time' which aligns with Network Rail Scotland's forecast for the 'Scotland train performance measure'. The 'On Time' trajectory will also be used in setting the baselines for the incentives which encourage Network Rail Scotland and train operators to reduce the delays they cause to each other (see section 11 on incentives).
- 3.12 We are not satisfied that Network Rail Scotland's Passenger Cancellations success measure forecasts are sufficiently ambitious, especially when compared to historic performance. We are setting a more stretching trajectory of 2.3% for each year of CP7.
- 3.13 For the 'Freight Cancellations' success measure we propose that the baseline trajectory is set 5% below the recent historical average.
- 3.14 In Table B.1 in Annex B we set out each of our draft decisions on train performance trajectories in year 5 of CP7 compared to those forecast in Network Rail Scotland's interim plan.

Targeted performance fund

- 3.15 We propose a targeted train performance fund that will support Network Rail Scotland in making its contribution towards the Scottish Ministers' stretching performance target. This fund would only apply in Scotland. We propose this fund is split between asset renewals and operational interventions, for example, working collaboratively with train operators. For illustration, based on the 24 February interim plan we calculate that approximately £100 million could be available for a targeted train performance fund (see section 9 on funding our proposals). However, we anticipate this amount will change as Network Rail Scotland evolves its plans and as assumptions on available funding change (e.g. due to updated inflation forecasts).
- 3.16 We recognise that Network Rail Scotland continues to engage with ScotRail Trains Limited, Transport Scotland and us on the level of train performance it forecasts to deliver in CP7. We expect Network Rail Scotland to reflect our proposals for a targeted performance fund as it continues to evolve its plans and provide an update ahead of our final determination on how it proposes to contribute to the Scotland train performance measure baseline trajectory of 92.5%.

Success measures related to other HLOS priorities

- 3.17 The Scottish Ministers' HLOS also expects Network Rail Scotland to facilitate freight growth of 8.7% during CP7. The forecast baseline trajectory included in Network Rail Scotland's plan proposes to deliver on this ambitious target. We expect Network Rail Scotland to set out clear plans to work with the industry to facilitate delivery of this trajectory for freight growth, where we will monitor Network Rail Scotland's contribution.
- 3.18 The HLOS also sets out the Scottish Ministers' expectations for Network Rail Scotland to improve environmental outcomes by making progress towards net-zero and making environmental improvements where appropriate. We propose to accept Network Rail Scotland's forecast baseline trajectories for the carbon scope 1 and 2 emissions success measure. For the biodiversity units success measure, we are proposing a baseline trajectory which is aligned with forecasts for Network Rail's regions in England & Wales. This is higher than the forecast in Network Rail Scotland's interim plan.
- 3.19 We present our draft decisions for the Composite Sustainability Index (CSI), efficiency and financial performance success measures alongside in section 4 (on

asset performance and sustainability) and section 6 (on efficiency, headwinds, tailwinds and input prices respectively).

- 3.20 In Table B.1 in Annex B we set out each of our draft decisions on each success measure's baseline trajectory in CP7 in year 5 of CP7 compared to the forecasts in Network Rail Scotland's interim plan.

4. Asset performance and sustainability

- 4.1 In this section we explain our proposals on asset performance and sustainability. We provide more information on our assessment and proposals in the PR23 draft determination: [supporting document on sustainable and efficient costs](#).
- 4.2 The constrained funding environment means that, in comparison to CP6, Network Rail Scotland proposes to undertake fewer renewals of assets during CP7. In its interim plan it proposes to spend approximately £2.1 billion on asset renewals, which includes the allocation of renewals for National Functions. This is approximately 14% less than in CP6. In Table 5.1 we set out Network Rail's proposed expenditure on OSMR in Scotland during CP7 in comparison to CP6. Note core renewals covers: track, off-track, signalling, level crossings, earthworks, drainage, buildings, electrification and fixed plant, and telecoms. The difference between expenditure on core renewals and total renewals is due to expenditure on projects in National Functions and other capital spend, e.g. facilities and on-track plant.

Table 4.1 Network Rail Scotland's proposed OSMR expenditure during CP7 in comparison to CP6

	CP7 direct expenditure (£ billion, 2023-24 prices)	CP7 allocated expenditure (£ billion, 2023-24 prices)	CP7 total expenditure (£ billion, 2023-24 prices)	Change in total expenditure compared to CP6 (%)
Operations	419	-	419	18%
Support	116	360	476	-14%
Maintenance	1,041	62	1,104	8%
Renewals	1,942	188	2,130	-14%
<i>Of which core renewals</i>	1,939	25	1,964	-11%
Industry costs, rates, & traction electricity	-	629	629	59%

	CP7 direct expenditure (£ billion, 2023-24 prices)	CP7 allocated expenditure (£ billion, 2023-24 prices)	CP7 total expenditure (£ billion, 2023-24 prices)	Change in total expenditure compared to CP6 (%)
Risk provisions¹	428	-	428	n/a
Electricity for Traction (EC4T) income	-	-429	-429	76%
Total expenditure less EC4T	3,945	811	4,756	4%

- 4.3 We are satisfied that the constrained funding does not need to result in undue concerns for the safety of assets or performance during CP7, if risks are fully assessed and managed. However, the constrained funding does not allow Network Rail to take a lowest whole life cost approach to managing railway infrastructure. Consequently, returning to lowest whole life cost management will require additional expenditure beyond the CP7 level.
- 4.4 Network Rail Scotland proposes to manage the risks posed by the reduction in renewals by increasing its maintenance activities during CP7. It also proposes to use operational controls, such as speed restrictions to manage risks. Nevertheless, it still anticipates an increase in service affecting failures of assets towards the end CP7 and a decline in its overall measure of asset sustainability. We have sought to address these risks in our draft determination proposals, as we describe below.
- 4.5 Our assessment of Network Rail Scotland's interim plans, informed by our assurance reports and ongoing reporting and monitoring during CP6, has identified that the needs of some core assets in Scotland have not been sufficiently prioritised, particularly metallic structures. We anticipate that the deterioration in asset sustainability could, in turn, impact train performance in future years and present risks to the safe operation of the network. As described in section 3 on outcomes, we consider the Scottish Ministers' train performance target to be very challenging and an increase in service affecting failures further risks its delivery throughout CP7. Our assessment is consistent with the

¹ The £428 million includes £206 million of dedicated risk provision and the £221 million 'gap' between the interim plan and the Scottish Ministers' SoFA which was unallocated in the interim plan. All numbers in this table are prior to the proposed financial adjustments in our draft determination.

assessment conducted by Network Rail's own Technical Authority and included in Network Rail Scotland's interim plan.

4.6 In Comparison to Network Rail Scotland's interim plan, we consider that approximately £50 million of additional expenditure should be allocated to Network Rail Scotland's metallic structures. This would aim to mitigate potential risks to asset performance now and in future control periods.

4.7 Our assessment has also identified expenditure on some projects and programmes that is higher than we consider is necessary during CP7. The opportunities that we have identified could release additional funding. However, the total funding released will depend on how Network Rail profiles and prioritises expenditure, and its decisions may not impact Scotland. Up to £16 million may be released from:

£10 million could be saved by applying an efficiency challenge to Route Services is one of the national functions and supplies Network Rail Scotland with services that the national team is best placed to provide (e.g. centralised procurement and capital projects).

Route Services projects

Consistent with our [technology adoption targeted assurance report](#), we consider that this efficiency challenge would encourage better scope definition and control between Route Services and Network Rail Scotland to enable delivery.

£10 million represents 10% of our proposed £100 million Route Services challenge to Network Rail across Great Britain.

High output plant costs could be reduced by £4 million in CP7

The high output plant is a set of machinery which enables track renewals activity to be conducted mechanically, including the renewal of both rails, sleepers and ballast, with an associated efficiency saving.

Network Rail's CP7 plans have not been able to leverage efficiency from high output plant. To date, the regions have elected not to use the service in CP7. Network Rail must consider the best way of delivering a service in CP8 noting required volumes, service reliability, staff competence, equipment obsolescence, purchase lead times and value for money. Network Rail continues to consider use of high output in CP7 and we expect it to clearly set out its approach in its response to the draft determination.

£4 million represents approximately 10% of our proposed challenge to Network Rail on high output in England & Wales.

An efficiency challenge applied to the digital signalling programme could reduce expenditure by £2 million	<p>The digital signalling portfolio across the network in Great Britain includes infrastructure renewals, fleet fitment, enabling projects, research, development and innovation projects and CP6 legacy projects. Our assessment of these complex projects and programmes indicates likely delays to deliverability of digital signalling infrastructure renewals and a commensurate efficiency challenge should be applied across the portfolio to reduce unit rates. Our proposal is also informed by learning from the East Coast Digital Programme (ECDP) for which unit rates for digital signalling are lower than those forecast in Network Rail’s CP7 plans.</p> <p>Our estimate of £2 million is 10% of Scotland’s £20 million contribution to digital signalling during CP7. This includes a £10 million contribution to ‘Industry Partnership Digital Railway’ (which sits in Network Rail’s Eastern region) and £10 million of all digital signalling projects led by the Technical Authority.</p>
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- 4.8 It is for Network Rail Scotland to decide how it prioritises the constrained funds available for CP7. From our review of Network Rail’s programmes and other activity proposed for CP7, the phasing or efficiency with which these are delivered provides Network Rail with options to release a small amount of additional funding for CP7. Network Rail Scotland could use this plus other opportunities we have identified to increase its expenditure on core asset renewals (see section 9 on funding our proposals).
- 4.9 For our draft determination we have set the baseline trajectory for the CSI success measure using Network Rail Scotland’s forecast. We estimated our proposal to increase expenditure on renewals would not have an impact on Network Rail Scotland’s forecast CSI. See Table B.1 in Annex B for our proposed trajectory in in year 5 of CP7 compared to the proposal in Network Rail Scotland’s interim plan.

5. Health and safety

- 5.1 A key consideration in our assessment of Network Rail Scotland's interim plan is whether the proposals will allow Network Rail to continue to operate safely and in line with its legal requirements. It is not ORR's role to determine what is reasonably practicable or advise Network Rail how it should meet its legal obligations. In this section we summarise our draft determination findings regarding health and safety. We also provide more information on our assessment and proposals in the PR23 draft determination: [supporting document on health and safety](#).
- 5.2 We recognise that the constrained funding available requires Network Rail Scotland to conduct fewer renewals and more maintenance during CP7 in comparison to CP6. However, our assessment (supported by the findings of Network Rail's own Technical Authority) identified insufficient demonstration of mitigations to manage the increase in risk posed from some core assets.
- 5.3 We consider that the additional expenditure we propose on structures renewals (relative to Network Rail Scotland's interim plan) in section 4 on asset performance and sustainability ought to address the main vulnerabilities. We do, however, anticipate that Network Rail Scotland will still need to conduct more maintenance than it has done during CP6.
- 5.4 Network Rail Scotland must continue to assess and manage its risk exposure throughout CP7. We will also monitor risk exposure during CP7 through our monitoring and inspection work. For our final determination we expect Network Rail Scotland to provide evidence of how it will manage the change in risk profile which results from conducting fewer renewals, accounting for any increase in core renewals that it plans to take following our proposal.
- 5.5 We also expect it to demonstrate that its proposed maintenance plans are sufficient to support the increased demand on its maintenance function due to:
- renewals deferred from CP6;
 - delivering the action plans which implement the recommendations on weather resilience and climate change made in reports by Lord Mair and Dame Slingo on managing rail infrastructure in more frequent extreme weather (following the derailment of a passenger train at Carmont, Aberdeenshire in August 2020) ;

- increased freight traffic;
- managing risks posed by ash dieback;
- the proposed decrease in renewals during CP7; and
- any maintenance backlog which remains following industrial action during 2022 and 2023.

5.6 The success of Network Rail Scotland's proposed approach is reliant on implementing its 'modernising maintenance' programme without losing knowledge, capability and expertise in many asset safety areas and safety specific advice roles. We are supportive of this programme but require Network Rail to demonstrate that it will deliver the necessary efficiencies within the resources available and sustain the required capability to maintain the assets.

5.7 We also expect Network Rail Scotland to pay particular attention to the renewals and maintenance needs of earthworks and associated drainage. Earthworks and drainage failures can have catastrophic consequences, for example the Carmont derailment. Our assessment of Network Rail Scotland's interim plan found that:

- the plan has a clear focus of activity and funding on climate change resilience and in particular the Mair/Slingo actions; and
- it proposes to significantly increase resources for the range of activities needed to address the effects of climate change.

5.8 For the final determination we expect Network Rail to provide more details of its proposals regarding earthworks and drainage, to demonstrate how it is implementing the action plans developed following the Carmont investigations.

5.9 Finally, our assessment also identified specific recommendations for Network Rail Scotland's proposed health and safety programmes during CP7. Ahead of our final determination, we expect Network Rail Scotland to:

- demonstrate how its strategic objectives for employee occupational health will be achieved;
- demonstrate how asbestos management will be assured during CP7;
- provide delivery plans and milestones for the ongoing investment in track worker safety to consolidate gains made during CP6 and improve longer term

sustainability plans for the delivery of expenditure to sustain and improve track worker safety; and

- demonstrate plans and necessary expenditure to deliver the next phase of its fatigue improvement programme.

5.10 In summary, through the actions identified above we expect Network Rail to demonstrate how its proposals for CP7 manage health and risk so far as is reasonably practicable.

6. Efficiency, headwinds, tailwinds, inflation and input prices

- 6.1 In this section we set out our key draft determination proposals on efficiency, headwinds, tailwinds, and input prices. We provide more information on our assessment and draft determination proposals in the PR23 draft determination: [supporting document on sustainable and efficient costs](#).

Efficiency

- 6.2 One of our core objectives for PR23 is to encourage Network Rail to deliver as efficiently as possible. Our assessment is informed by a range of information, such as targeted assurance reviews, benchmarking, comparisons with similar industries and evidence from our ongoing CP6 monitoring.
- 6.3 Network Rail Scotland is proposing to deliver £429 million of efficiencies during CP7 (£380 million of efficiencies delivered by Network Rail Scotland and £49 million of efficiencies allocated from national functions). This includes targeting delivery of 10% efficiencies on operating expenditure and 15% on capital expenditure by the end of CP7, measured relative to the end of CP6. To deliver the efficiency challenge, Network Rail Scotland has stated that £186 million of its efficiencies will come from “transformational” initiatives, but little evidence has been provided as to how these will be delivered. Our econometric analysis, also suggests that delivery of the required efficiencies will be challenging.
- 6.4 While we note the risks to the deliverability of Network Rail Scotland’s CP7 efficiency target, we nevertheless include its proposed £429 million target in our draft determination and use it as the baseline trajectory for the efficiency success measure.
- 6.5 Ahead of our final determination we expect Network Rail Scotland to review its efficiency proposals and demonstrate that they are deliverable.

Headwinds and tailwinds

- 6.6 Headwinds and tailwinds are, respectively, uncontrollable increases and reductions in Network Rail’s expenditure. Network Rail Scotland has not identified any material tailwinds. Its interim plan includes £82 million of headwinds, comprising of £56 million included in Network Rail Scotland’s plan plus £26 million

associated with allocated costs from national functions. Our assessment has not identified concerns with the headwind assumptions Network Rail Scotland has included in its interim plan.

Input prices and general inflation

- 6.7 Network Rail Scotland's interim plan includes £162 million of input price inflation (i.e. inflation in excess of general price inflation). We commissioned Europe Economics to review Network Rail's input price assumptions. Europe Economics' review identified a number of issues with Network Rail's approach, for example that it is inconsistent with precedents used in comparator sectors and uses a measure of inflation (RPI) which is no longer recognised by the Office for National Statistics. Europe Economics also recommended an approach to calculating input prices which has been successfully applied in comparable sectors. As described in the PR23 draft determination: supporting document on sustainable and efficient costs, our draft determination applies Europe Economics' input price recommendations for staff, materials and contractor costs. Our adjustment reduces Network Rail Scotland's input price assumptions to £90 million, which would release £72 million of funding.
- 6.8 The interim plan Network Rail Scotland provided to us in February uses the Office for Budgetary Responsibility's (OBR's) November 2022 general inflation forecasts. In March the OBR updated its inflation forecast. We estimate that the latest forecast adds £68 million of additional expenditure to Network Rail Scotland's proposals which must be allocated from within the SoFA.
- 6.9 Our proposed adjustments to input prices offsets the anticipated increase in costs driven by the latest general inflation forecast. We summarise in section 9 of this document how we propose this net surplus and other available funding we have identified should be used during CP7.

7. Other sources of income

- 7.1 In this section we set out our key draft determination proposals on ‘other income’. Other income excludes the network grant received from funders and income from track and station access charges by train operators. It largely consists of property income but a proportion is made up of income from other sources, for example leasing stations to train operators, depots and facilities. We provide more information on our assessment and draft determination proposals in the PR23 draft determination: [supporting document on other income](#).
- 7.2 It is important that Network Rail Scotland generates the most efficient level of income that it receives from ‘other income’. This is because, all things being equal, if Network Rail Scotland increases other income, it reduces the demand on external funding and, more generally, the level of external funding that it requires.
- 7.3 Network Rail is forecasting approximately £3.9 billion of revenue from other sources of income in CP7 across Great Britain. This is around £0.5 billion (12%) lower than CP6. £0.2 billion of this income is forecast in Scotland. We consider that Network Rail Scotland’s forecast other income in CP7 is too low and that it should be able to achieve an additional £10 million in other income in CP7 which could be used for other activities. We consider this is achievable if Network Rail Scotland reconsiders its:
- *Managed stations income:* Network Rail Scotland should update its forecasts for the latest rail industry passenger demand forecasts which show a growth in demand.
 - *Property sales:* Our draft view is that Network Rail Scotland has been overly cautious in this area, and that there are more opportunities which it could consider. We expect further opportunities to be included.
 - *Revenue generating expenditure:* We consider that Network Rail Scotland will have opportunities for further stretch than currently indicated.

8. Risk funding

- 8.1 In this section we set out our proposals related to Network Rail Scotland's CP7 risk fund. We provide more information on our assessment and draft determination proposals in the PR23 draft determination: [supporting document on sustainable and efficient costs](#).
- 8.2 Network Rail Scotland's interim plan proposed a £206 million risk fund. We consider Network Rail Scotland's proposal to be insufficient for CP7. This is based on experience from CP6 during which the £329 million (cash prices) risk fund has, on its own analysis, been exceeded due to unforeseen risks. The COVID-19 pandemic was a significant factor driving the high use of risk funding in CP6 and Network Rail Scotland has recognised shortcomings in, and worked to improve, its governance over how its risk provision is spent. Adequate risk provision will help Network Rail Scotland to manage unforeseen risks and avoid it having to cancel planned renewals to free up funding. Given the challenging economic environment in CP7, the efficiency stretch noted above and that Network Rail Scotland is planning a lower level of renewals, there is limited scope to reduce any planned renewals.
- 8.3 To manage exposure to financial risk, we propose that Network Rail Scotland increases its provision using a proportion of the funding which remains once it has prioritised our proposed increase on core renewals. It should also reflect an appropriate balance between provisioning for risk and further funding for performance (which we describe above). Based on the values in the 24 February interim plan the provision could be increased by up to approximately £100 million.

9. Funding our proposals

9.1 We anticipate the overall funding will be adequate for Network Rail Scotland to deliver its commitments across the network in CP7. Based on the interim plan we received on 24 February we have identified several sources that Network Rail Scotland could use to fund the increases in expenditure proposed in our draft determination. These have a net value of up to approximately £251 million, comprised of:

- £221 million of funding which is included in the SoFA but was not anticipated when Network Rail Scotland developed its interim plan;
- up to £16 million resulting from choices Network Rail could make to reprofile and reprioritise its expenditure in its national functions; and
- approximately £14 million which is the net value of adjustments we propose to its financial assumptions (i.e. to input prices, forecast property income and to account for the anticipated cost of the latest Office for Budgetary Responsibility (OBR) inflation forecast).

9.2 We summarise the adjustments we propose in our draft determination in Table 9.1 below. We consider £50 million should be prioritised for core renewals. The balance of any remaining funding should be allocated to providing more adequate risk provision (i.e. closer to the amount set aside in CP6) and a targeted train performance fund. For illustration, based on the 24 February interim plan the amount for risk funding would be approximately £100 million and there would be approximately £100 million for a targeted train performance fund. However, we anticipate these amounts will change as Network Rail Scotland evolves its plans and as assumptions on available funding change (e.g. due to updated inflation forecasts).

Table 9.1 Our proposed adjustments to Network Rail Scotland’s level of expenditure based on its interim plan

Draft determination proposal	£m, 2023-24 prices
Difference between planning assumptions and SoFA	221
Financial adjustments	14
Reduced expenditure on projects and programmes	16
Additional expenditure for core renewals	(50)
Additional expenditure for risk provision	(101)
Additional expenditure for targeted train performance fund	(101)
Net position	-

10. Access charges

- 10.1 Around a third of Network Rail's income comes from regulated access charges. As part of PR23, we determine the specific charges that train operators will pay to Network Rail for use of its track and stations during CP7.
- 10.2 We [concluded](#) on the structure of Network Rail's charges last autumn. We confirmed that we would largely retain the existing charging framework in its current form, while making a limited number of changes to simplify this framework and ensure that it remains effective if the planned transition from Network Rail to Great British Railways takes place. This framework applies across the national rail network, in both England & Wales and Scotland.
- 10.3 Our draft determination presents our draft decisions on the outstanding issues related to access charges. Some of these have been informed by Network Rail's recalibration exercise, which it concluded in May. This recalibration indicates that variable and station charges are set to increase in real terms in CP7, compared to CP6. In light of this:
- We have reconsidered our existing phasing-in policy for the variable usage charge (VUC) paid by freight and charter operators. We intend to keep increases in these VUC rates on broadly the existing trajectory that was set in PR18, rather than increasing to the new cost-reflective levels as determined through Network Rail's PR23 recalibration. Under this approach, the average annual increase in the VUC over CP7 will be 3.3% for freight and 2.1% for charter operators in real terms (18% and 11% respectively, over the whole of CP7).
 - We consider this policy will continue to support the freight sector and funders' wider objectives for the sector, while ensuring that VUC rates move closer to recovering the direct costs on the network (as required by relevant legislation). VUC rates for passenger operators would continue to be set on a fully cost-reflective basis.
 - We will maintain the open access Infrastructure Cost Charge (ICC) levied on interurban services broadly in real terms, which is equivalent to £5 per train mile (in 2023-24 prices). This is based on our revised assessment of what level of ICC interurban services can bear, and consideration of our wider statutory duties.

- 10.4 We are also confirming our decisions to simplify the administration of the traction electricity (EC4T) charge, by removing the partial fleet metering charging approach; and by streamlining the use of modelled consumption rates from the start of CP7. This will encourage greater use of metering, which is the most accurate approach to charging for traction electricity.
- 10.5 Our full set of draft decisions for Network Rail's access charges is set out in our PR23 draft determination: [policy position on access charges document](#).
- 10.6 Network Rail will publish draft price lists for these charges in July 2023, taking account of the draft decisions set out above, as well as other decisions in this document which affect the level of charges e.g. in respect of Network Rail's spending on maintenance and renewals during CP7. We will continue to work with Network Rail during the rest of PR23 as it completes its recalibration exercise, in advance of the publication of final price lists (following our final determination) in December 2023.

11. Incentives

- 11.1 Network Rail's possessions and performance regimes (Schedule 4 and 8 respectively) 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, and Schedule 8 places incentives on Network Rail and train operators to limit the disruption they cause and therefore to improve network performance.
- 11.2 As part of PR23, we have been reviewing the framework for these regimes. In October 2022, we published our [Schedule 4 & 8 conclusions](#) on the framework for the regime in CP7, which also included a consultation on outstanding matters. Overall, we have concluded that the frameworks for Schedule 4 and 8 should not significantly change in PR23, as set out in our October 2022 conclusions document.
- 11.3 The draft determination presents our provisional decisions on outstanding matters and provides updates on recalibration. This can be found in the PR23 draft determination: [policy position on the Schedules 4 and 8 incentives regimes document](#). The key proposals are as follows:
- Train operators will be able to opt out of Schedule 4, which will mean they do not pay an access charge supplement and do not receive Schedule 4 compensation.
 - We will proceed with a proposal to allow for the removal of relevant Schedule 8 payments between Great British Railways and its contracted operators, if it is established and if there is sufficient legislative change to permit the removal of payments. This will not apply to operators funded by the Scottish government but, if legislative amendments remove the requirement for a performance scheme from these operators, the mechanism could be extended to them.
 - We will proceed with a new provision to allow for the update of Schedule 8 parameters during the control period. This will allow ORR to initiate recalibration of Schedule 8 in the event that there is a material change in circumstances.
- 11.4 In addition, we will implement a proposal to extend the Schedule 8 sustained poor performance mechanism to open access operators in CP7, providing the ability for them to claim additional compensation when lateness and cancellations exceed a set threshold.

- 11.5 The processes to recalibrate Schedules 4 and 8 are now underway. During the PR23 recalibration we have made important choices, in consideration of the impact of the pandemic and the availability of new evidence on how passengers respond to service disruption. These will impact the Schedule 8 passenger regime in particular: one impact is a significant expected fall in Network Rail payment rates, due to the adoption of new evidence which shows that demand is less responsive to disruption than had been previously estimated. Our policy position document provides more details. Parameters from the recalibrations are being released and approved in a phased way between May and November 2023.

12. Financial framework

- 12.1 In December 2022 we consulted on Network Rail's CP7 financial framework and, having reviewed the responses received, have decided to retain most features of the existing CP6 financial framework. More detailed information relating to our decisions on Network Rail's CP7 financial framework can be found in our PR23 draft determination: [policy position on the financial framework document](#).
- 12.2 Network Rail recovers a proportion of its fixed costs through direct network grants from funders, which is in lieu of fixed track access charges (FTACs) paid by passenger operators on concession-style agreements. We will continue to seek provisional confirmation of the profile and level of network grant payments from funders before our final determination. Network Rail's Schedule of Fixed Charges will be set to be consistent with this. Written confirmation of finalised network grant documentation (including payment amounts) would then be submitted to ORR by December 2023.
- 12.3 To strengthen Network Rail's protection against an unexpected shortfall in grant funding compared to the provisional amounts set out in our draft determination (should this ever occur) we will, as part of our forthcoming consultation on changes to model access contracts, consult on amending the existing network grant dilution provisions in Schedule 7 of operators' track access contracts. This would shorten the delay in any shortfall in grant funding occurring and an increase in FTAC payments.
- 12.4 Given the increased complexity of the financial risks that Network Rail Scotland is likely to have to manage in CP7, we intend to increase our scrutiny of and, transparency around its management of financial risks in CP7.
- 12.5 We will specify cost of capital and cost of debt values for Network Rail in CP7 as part of our final determination. Whilst cost of capital and cost of debt are not necessary components of our PR23 determination of revenue requirements for CP7, the values and our approach to them are relevant for some contractual purposes e.g. calculating facility charges payable by third parties who have promoted enhancements financed by the governments through Network Rail. Our view is that the real (i.e. CPI inflation adjusted) pre-tax weighted average cost of capital (WACC) for Network Rail is 3.88% in CP7 and that the real pre-tax cost of debt for Network Rail is 2.33%. In CP6 these values were 4.15% and 2.45% (in CPI real terms). We will review the WACC values for CP7 to take account of any material changes in capital markets ahead of our final determination.

12.6 Scottish Ministers are keen to retain the 10% budget flexibility in place during CP6 for CP7. Network Rail Scotland's business comprises large capital expenditure programmes as well as the operation and maintenance of the network for a five-year period in return for relatively fixed funding. Therefore we see advantages in the flexibilities currently in place. In particular, in relation to supporting stable business planning and management of uncertainties. However, funders' budgetary processes are not a matter for ORR to decide. To ensure transparency around the factors that affect Network Rail Scotland's financial framework, we will continue to engage with Transport Scotland about its budgetary processes for CP7 and set these out as part of our final determination.

13. Managing Change

- 13.1 We introduced a Managing Change Policy at PR18 for CP6. It is the mechanism by which ORR exercises change control over the delivery plans Network Rail is required to produce by the Department for Transport's Framework Agreement and its licence (before agreeing to the delivery plan for Scotland the Department will consult with, and take into account the views of, Scottish Ministers). Our Managing Change Policy defines different categories of change, how we should be informed of those changes by Network Rail and the actions that we might take in response.
- 13.2 Together with our holding to account policy on which we consulted in April, as well as our periodic monitoring and reporting of Network Rail's delivery against its agreed plans, our Managing Change Policy is an integral part of how we ensure a robust regulatory framework. It ensures that the regulatory framework starts from a position of stability over the control period – which is important for investment and other incentive reasons – but is not so fixed as to risk becoming decoupled from market circumstances and ultimately sending distorted incentives to the infrastructure manager and/or train operators.
- 13.3 In July 2022 we consulted on our PR23 policy framework, which included key elements of the future of the managing change policy. Stakeholders were broadly supportive of continuing to use our managing change policy and we are consulting in our draft determination on an improved and updated policy for CP7.
- 13.4 We set our proposals in full in our PR23 draft determination: [policy position on managing change document](#). We propose to retain the majority of the existing policy as we consider it fit for purpose and are proposing minor changes which we consider will improve clarity and reduce complexity.
- 13.5 The only exceptions (i.e. more significant changes) to the policy are the two noted below:

Consolidating the levels of change and renaming them

In the existing policy there are four levels of change and we have consolidated these into three in the updated policy:

Notified changes will be less significant changes. Network Rail must notify ORR after the change has been made via a periodic submission of a change log. This is equivalent to the existing level one change in the current policy.

Consulted changes will be more significant changes. Network Rail must notify us before making the change. This will allow us to publish an opinion and notify funders. This merges level two and level three changes in the current policy.

Exceptional changes are consulted changes which risk undermining the settlements for Network Rail's business units. These allow us to add conditions or direct Network Rail not to make a change. This is consistent with the current policy.

Change control process for success and supporting measures, success measure baseline trajectories, and supporting measure forecasts

Our proposed managing change process will apply to: headline success measure baseline trajectories where there is a material change in circumstance; definitions or calculation methodology of headline success measures; addition or removal of headline success measures; supporting measure forecasts, definitions or calculation methodologies; and addition or removal of a supporting measure.

Material changes in circumstances for baseline trajectories will be defined as those: not anticipated in Network Rail's forecasts or the baseline trajectories set in our determination; which are likely to be outside of Network Rail's control; and which lead to a sustained change in performance expectations in future years.

Changes to supporting measure forecasts will be classified as notified changes. All other changes will be consulted or exceptional changes.

Annex A: Affordability of the HLOS within the SoFA

- A.2 The interim plan Network Rail Scotland submitted to us on 24 February 2023 was informed by the Scottish Ministers' SoFA and detailed HLOS published on 3 February 2023.
- A.3 The short timeframe between the publication of the HLOS and SoFA and the submission of the interim plan means that some output requirements are not included or fully costed in the interim plan we have assessed for our draft determination.
- A.4 We anticipate the overall funding available will be adequate for Network Rail Scotland to deliver its commitments across the network in CP7. Based on the interim plan we received on 24 February we have identified several sources Network Rail Scotland could use to fund the increases in expenditure proposed in our draft determination.
- A.5 In Annex A of the PR23 draft determination: [settlement document for Scotland](#) we provide an assessment of those requirements in the Scottish Ministers' HLOS which require measurable outputs from Network Rail Scotland.
- A.6 We expect to update our assessment for our final determination having considered the latest iteration of Network Rail Scotland's plan.

Annex B: CP7 year 5 baseline trajectories for Scotland

B.2 This overview document for Scotland summarises our draft decisions for success measure trajectories. The table below sets out our proposals for these trajectories in year 5 of CP7 (i.e. the final year of control period 7) in comparison to Network Rail Scotland's forecasts for the same year. See our PR23 draft determination: [supporting document on outcomes](#) for further information on our draft decisions on baseline trajectories.

Table B.1 Draft determination success measure trajectories compared to Network Rail Scotland's forecasts, CP7 year 5

	ORR's draft determination (CP7 year 5)	Network Rail Scotland's forecast (CP7 year5)
Scotland train performance measure	92.5%	92.5%
On Time	72.6%	68.0%
Passenger cancellations	2.3%	3.0%
Freight cancellations	1.3%	2.0%
Freight growth	8.7%	8.7%
Carbon scope 1 and 2 emissions	-21.2pp	-46.2pp ²
Biodiversity units	4.0pp	2.5pp
Composite sustainability index	-3.4pp	-3.4pp
Financial performance measure	£0	£0
Efficiency	£429 million	£429 million

² Network Rail Scotland's forecast was presented relative to 2018/19. Our trajectory is presented as 'CP7 change' on CP6 exit (relative to 2018/19) and the level of stretch is the same.

B.3 Table B.2 below demonstrates how our draft determination compares to Network Rail Scotland’s current and forecast train performance.

Table B.2 Comparison of our draft determination decisions on train performance compared to Network Rail Scotland’s current and forecast train performance

	Current performance Period 1, 2023-24, MAA	Network Rail Scotland’s CP7 year 1 forecast	Network Rail Scotland’s CP7 year 5 forecast	ORR’s draft decision for CP7 year 5
Scotland Train Performance	89.1%	91.5%	92.5%	92.5%
On Time	69.0%	67.5%	68.0%	72.6%
Passenger Cancellations	2.9%	3.3%	3.0%	2.3%
Freight Cancellations	6.0%	2.2%	2.0%	1.3%

Notes on Table B.2: 1) Passenger Cancellations performance data by region is currently in development. Current performance for Passenger Cancellations in Scotland uses data from the Cancellations by train operator official statistics dataset as a proxy. 2) Scotland train performance measure performance data is currently in development. Current performance for Scotland train performance measure uses ScotRail Public Performance Measure (PPM) data as a proxy. Scotland train performance measure is an adjusted version of ScotRail PPM. Network Rail Scotland’s February interim plan estimates that the Scotland train performance measure may be up to 1 percentage point higher than ScotRail PPM.

Annex C: Network Rail Scotland's proposed CP7 income and expenditure

C.2 The tables below set out the income and expenditure Network Rail Scotland proposes in its interim plan for CP7. They are representative of the interim plan and do not account for any of the proposals in our draft determination.

Table C.1: Network Rail's Scotland's proposed CP7 income and expenditure

£m (2023-24 prices)	CP6		CP7					CP7 total	% vs CP6
	2023-24	CP6 total	2024-25	2025-26	2026-27	2027-28	2028-29		
Operations	67	354	83	83	84	84	85	419	18%
Support	107	551	95	95	95	96	95	476	-14%
Maintenance	183	1,019	227	220	220	219	217	1,104	8%
Renewals	458	2,468	444	443	430	397	415	2,130	-14%
Industry costs, rates, & traction electricity	90	395	142	136	127	113	111	629	59%
Risk provisions ³	10	10	20	51	81	111	164	428	n/a
Gross Revenue requirement	915	4,797	1,011	1,029	1,037	1,020	1,088	5,185	8%
Other income	(52)	(218)	(45)	(45)	(45)	(45)	(45)	(226)	4%
Net revenue requirement	863	4,579	966	984	992	975	1,042	4,959	8%
Fixed Track Access Charge income	(372)	(1,704)	(377)	(377)	(377)	(377)	(377)	(1,884)	11%

³ The £428 million includes £206 million of dedicated risk provision and the £221 million 'gap' between the interim plan spend and Scottish Ministers' SoFA which was unallocated in the interim plan. All numbers in this table are prior to the proposed financial adjustments in our draft determination.

Office of Rail and Road | 2023 periodic review: overview - Scotland

£m (2023-24 prices)	CP6		CP7					CP7 total	% vs CP6
	2023-24	CP6 total	2024-25	2025-26	2026-27	2027-28	2028-29		
Variable Charges	(53)	(309)	(60)	(60)	(60)	(60)	(60)	(301)	-2%
Electricity for Traction (EC4T) income	(56)	(243)	(105)	(99)	(85)	(71)	(69)	(429)	76%
Schedule 4 and 8	40	253	17	17	17	16	16	82	- 68%
Schedule 4 access charge supplement	(12)	(73)	(15)	(15)	(15)	(14)	(15)	(75)	3%
Network grant	(409)	(2,503)	(426)	(449)	(471)	(468)	(538)	(2,352)	- 6%
Total SoFA related income	(863)	(4,579)	(966)	(984)	(992)	(975)	(1,042)	(4,959)	8%
Gross revenue requirement less EC4T	859	4,553	907	930	952	949	1,018	4,756	4%



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