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3 April 2024

Dear Stakeholder,

Conclusion of the 2023 periodic review of Network Rail

This letter marks the conclusion of ORR's 2023 periodic review (PR23) and the launch of control period 7 (CP7) – which sets the funding, outcomes, charges and incentives for Network Rail over the five year period which started on 1 April 2024.

In this letter I also set out our approach to resetting passenger train performance trajectories for England & Wales for years 3-5 of CP7 (our CP7 Passenger Performance Reset) and preparatory work on reviewing the access charges framework for the 2028 periodic review (PR28).

The next five years marks a critical time for the rail sector in Great Britain given the economic challenges and other uncertainties which have confronted the industry since the pandemic. The sector must also meet the challenges of climate change by contributing to a low-emissions railway and planning for severe weather events.

Throughout PR23, our focus has been on the four objectives we outlined in our [launch letter](#) published in June 2021: **safety, performance, asset sustainability and efficiency**. We recognise that delivering on these objectives and the other requirements set out by the [UK](#) and [Scottish Governments](#) in their High-Level Output Specifications (HLOS) will be challenging. However, those challenges cannot mean a relaxing of the outcomes we want to see from the rail network. Our [final determination](#) published in October 2023 made clear the measures we will use in the next five years to hold Network Rail to account across ORR's four objectives and the other requirements set out by funders in their respective HLOS documents.

Our approach for CP7 provides the charging, performance and incentive regime that is designed to deliver those outcomes over the next five years by the infrastructure manager – whether that is Network Rail as currently incorporated or whether that is an integrated rail body¹ as proposed in the [Rail Reform Bill](#). Our five-year funding and regulatory settlement for CP7 provides stability and a platform for the industry to plan and invest. This is important, not just for Network Rail, but also for passenger

¹ Further reference to Network Rail also applies to the integrated rail body proposed in the Rail Reform Bill.

and freight operators, their customers, Network Rail's supply chain and wider stakeholders.

Concluding the formal basis for CP7

In order to give effect to the decisions in our final determination, we issued [review notices](#) to Network Rail and train operators on 20 December 2023. These set out the contractual terms for the charges, performance incentives and benchmarks that will govern the track and station contracts between Network Rail and those that use its network.

On 13 March, we issued [review implementation notices](#), which was the final step in the implementation of PR23. The notices confirmed the changes to track and station access agreements set out in our review notices and directed train operators and Network Rail to amend their contractual agreements. The relevant changes took effect on and from 1 April 2024.

Delivery plan and holding Network Rail to account

Following our final determination, Network Rail produced its CP7 delivery plan, setting out what the company will deliver for its customers and funders over control period 7 (CP7). Network Rail's delivery plan required approval from the Secretary of State.

We reviewed the delivery plan to provide assurance to the Secretary of State. Our overarching assessment is that Network Rail's delivery plan is consistent with the priority outcomes and budgets set out through the periodic review. Nevertheless, as we noted in our final determination, funding for CP7 is constrained, reflecting wider fiscal conditions. Network Rail has had to make choices about how expenditure should be prioritised to deliver best value for the railway now and in the future. Constrained funding means that Network Rail will be spending less on renewals and more on life-extending repairs and maintenance in CP7 than in CP6. As such, Network Rail forecasts a small reduction in the residual life of its assets, which will require effective risk mitigations to be identified and implemented.

While there is a link between delivery of renewal volumes and performance, this is a lagged effect. Network Rail previously forecast that it will take until at least CP11 to recover asset condition to CP6 levels, assuming funding is available in future control periods. However, this is an estimate which will need careful scrutiny and challenge ahead of the next periodic review.

Throughout CP7 our focus will remain on the outcomes from the network for passengers and freight customers. We will hold Network Rail to account for delivery of the outcomes it has committed to in response to our final determination – across safety, performance, asset sustainability and efficiency. Alongside this letter, we have published a letter which sets out our approach to monitoring Network Rail's performance against the regulatory requirements set in our final determination.

The Secretary of State, with consideration to the views of Scottish Ministers, approved the delivery plan in March, and the plan was published on 28 March.

Our focus will now turn to holding Network Rail to account for delivery against our PR23 final determination and its delivery plan. Should we identify an area of potential concern, we will adopt a staged approach of review, investigation and escalation, which could include launching investigations or enforcement against Network Rail's licence.

We will report publicly on the company's performance across the CP7 success measures in our Network Rail Annual Assessment and our Annual Efficiency and Finance Assessment.

Passenger performance reset

In our final determination, we set five-year baseline train performance measures, but committed to reset the passenger train performance measures and trajectories for years 3-5 of CP7 in recognition of the challenges during PR23 around setting expectations for whole industry performance.

This approach ensures that the train performance expectations we set for the end of CP7 remain realistic in a changing political and economic environment for the rail industry. We will also reset the Schedule 8 train performance regime, which provides incentives and compensates train operators in relation to unplanned service disruptions.

This mid-control period reset for train performance measures will only apply to passenger measures and not to freight train performance or other outcome measures from our final determination. Further, it will not apply to the Scotland train performance measure.

To reset the performance targets, we will undertake the following work with industry:

- Later this year we will **consult and decide on the train performance measures** we will use to monitor Network Rail's performance for years 3-5 of CP7;
- **Prepare for the recalibration** of the financial incentive regime – which will also begin this year;
- Next year, we will work with Network Rail and train operators to assess Network Rail's forecasts. We will **consult and then, by the end of 2025, publish our final baseline trajectories**;
- We will also **largely conclude our work on the financial incentive regime in 2025**; and

- We will work with Network Rail to **implement any changes in early 2026** to enable the train performance and incentives **reset to take effect from 1 April 2026**.

We include an indicative timeline setting out the train performance reset process in **Annex A**.

Preparation for the next access charges review

Central to a periodic review is the setting of charges that train operators pay to Network Rail to recover the costs of maintaining and renewing the network. In PR23, we took an incremental approach to changes to the charging framework.

Because of the complexity in setting access charges and some of the important policy choices that will be required for PR28, we are commencing work early on reviewing the access charges regime.

We will engage further with industry before presenting and consulting on options in early 2025. We will refine these options over 2025 to 2026, with a view to consulting and concluding on any proposed changes to the framework before the formal launch of PR28.

The level of future charges that follow from that framework will be set through PR28.

Further information

Information on PR23 and our publications is available [on our website](#). If you have any views on the information set out in this letter, please contact us via PR23@orr.gov.uk.

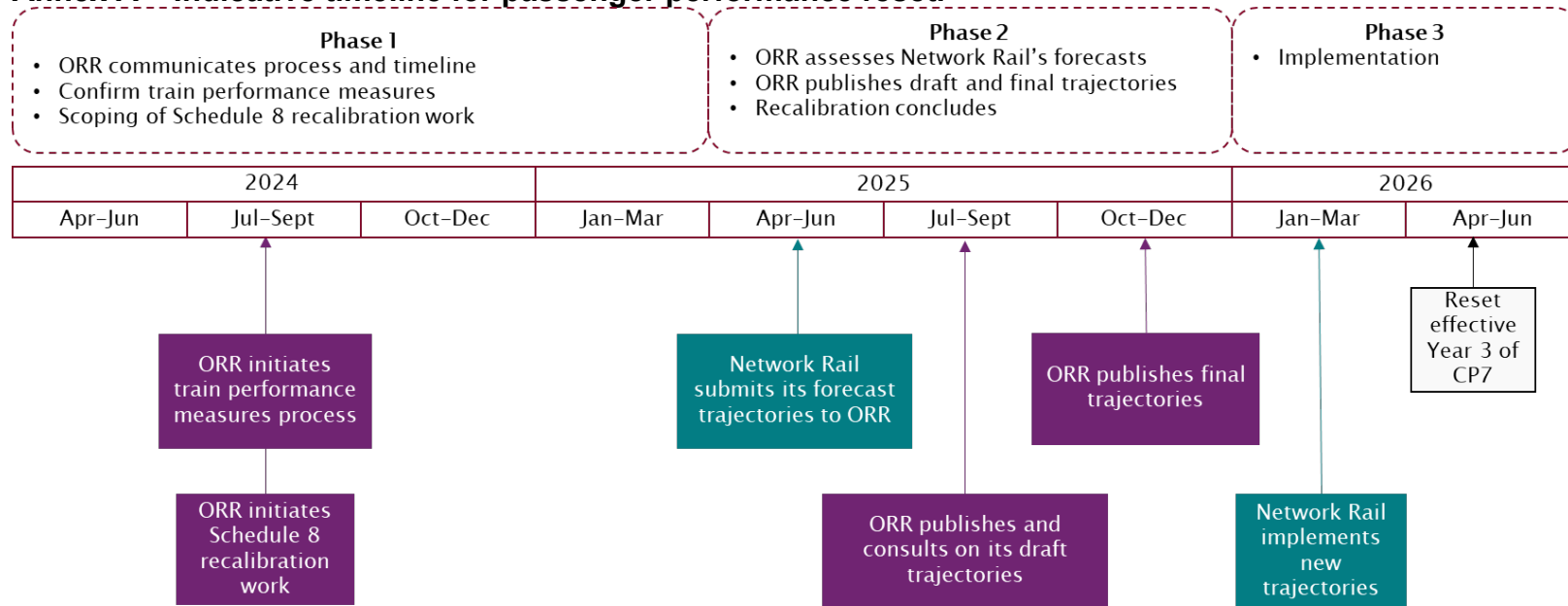
Finally, I would like to thank all of you who have contributed to PR23 through consultation responses, workshops, stakeholder events and beyond. Looking ahead to CP7 and further to PR28, a whole industry approach will be vital to securing the successful outcomes across safety, performance, asset sustainability and efficiency that passengers, customers and funders will expect.

We look forward to working with you to achieve this.

Yours faithfully

Will Godfrey

Annex A – Indicative timeline for passenger performance reset.



This timeline is subject to review. It sets out when we expect each activity for the reset to take place. We will share a more detailed timeline as the reset programme is developed.

