



**Addendum to annual
efficiency and finance
assessment of Network
Rail 2017-18:**

**Route-level efficiency
benefit sharing (REBS)
payments 2017-18**

31 January 2019

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Feedback

We welcome comments on the content of this report. These should be sent to:

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Summary

1. In our Periodic Review 2013 determination (PR13) for Control Period 5 (CP5) we introduced the route-level efficiency benefit sharing mechanism (REBS) to encourage train operators who were not in alliances to work with Network Rail to improve productivity, reduce costs and deliver better value for customers. Operators participating in REBS share in the risks and rewards of parts of Network Rail's financial performance.
2. Our 2017-18 annual efficiency and finance assessment of Network Rail (published in July 2018¹) concluded our assessment of Network Rail's financial performance for 2017-18 but it did not comment on Network Rail's performance under the REBS regime. At that time, Network Rail's assessment of the amounts payable between operators and Network Rail under the REBS mechanism for 2017-18 had not yet been finalised. Network Rail has subsequently notified us of the amounts that it considers payable and we are now publishing the payments due between operators and Network Rail for the 2017-18 financial year.
3. To assist with our review of the REBS payments for performance in 2017-18, we appointed the independent reporter, Arup, to review aspects of the calculation as an extension of their review of Network Rail's financial performance as reported in Network Rail's regulatory financial statements for 2017-18².
4. As examined in our annual efficiency and finance assessment, all of Network Rail's routes financially underperformed in 2017-18. As shown in Table 1, all participating operators will make payments to Network Rail. Net payments, excluding any VAT are due within 56 days of this publication.

¹ See <http://orr.gov.uk/rail/economic-regulation/regulation-of-network-rail/monitoring-performance/efficiency-and-finance-assessment>.

² See <https://cdn.networkrail.co.uk/wp-content/uploads/2018/07/NRIL-Regulatory-Financial-Statement-for-the-year-ended-31st-March-2018.pdf>.

Table 1: Summary of net payments between Network Rail and operators³

Operator	Payments from operator to Network Rail	Payments from Network Rail to operator
Arriva Rail North	- £20	nil
Caledonian Sleeper	-£116,781	nil
Eurostar	-£545	nil
First Hull Trains	-£56,225	nil
Govia Thameslink Railway	-£1,184,016	nil
Southeastern	-£6,792	nil
Virgin East Coast	-£1,658,493	nil
West Midlands Trains	-£142,081	nil
Total	-£3,164,953	nil

³ A positive number indicates a REBS payment from Network Rail to an operator; a negative number indicates a REBS payment from an operator to Network Rail. Payments exclude any VAT applicable.

Background

5. To provide context to the REBS payments listed in Table 1, we have provided some information below on the process for calculating REBS payments. The financial information used to calculate the REBS payments is generated from Network Rail's regulatory financial statements, on which we commented in our 2017-18 annual efficiency and finance assessment.
6. REBS was introduced in CP5 to incentivise train operators to work with Network Rail to improve both financial and network performance. REBS replaced the Efficiency Benefit Sharing Mechanism (EBSM) used in CP4 and has the following key features:
 - a. it operates at a Network Rail operating route level, rather than at a national (England & Wales and Scotland) level;
 - b. it is based on inflation-adjusted REBS baselines that were set by Network Rail for each of the nine England & Wales operating routes which reconcile, on a line-by-line and year-by-year basis to our national England & Wales PR13 income and expenditure assumptions⁴. As we had a separate determination for Scotland, our PR13 final determination income and expenditure assumptions provided the REBS route baselines for Scotland;
 - c. it provides operators with both upside (25% share) and downside (10% share) exposure to Network Rail's cumulative financial performance over the control period, rather than just upside as with the EBSM;
 - d. it has payments that are capped for both outperformance and underperformance. These caps were set at the start of CP5 relative to REBS baselines;
 - e. it provides train operators with an opt-out from the REBS mechanism (by route) at the start of CP5 and in certain circumstances during CP5;
 - f. it reflects the incentives that Network Rail faces in relation to its renewals expenditure; and
 - g. it covers many of Network Rail's costs in a similar way to the calculation of financial performance, including adjustments for non-delivery of outputs but excluding enhancements and financing costs.
7. REBS is based on Network Rail's ten operating routes as set out in our PR13 determination: Anglia, East Midlands, Kent, London North East, London North West, Sussex, Wales, Wessex, Western and Scotland. Since the determination, London

⁴ Network Rail, [REBS baselines](#), 31 March 2014. Baselines are adjusted annually for RPI inflation.

North East and East Midlands have merged, as have Sussex and Kent. However, we continue to monitor the routes in accordance with our determination.

8. Train operators (franchised passenger services, open access operators and freight) are opted in by default, unless they opt out. For newer franchises in England & Wales, train operators must have the consent of the Secretary of State to opt out. Operators may also opt out if a material alliance is formed on a route that they use. Further details on the background and process are set out in our REBS guidance⁵.

Material alliances

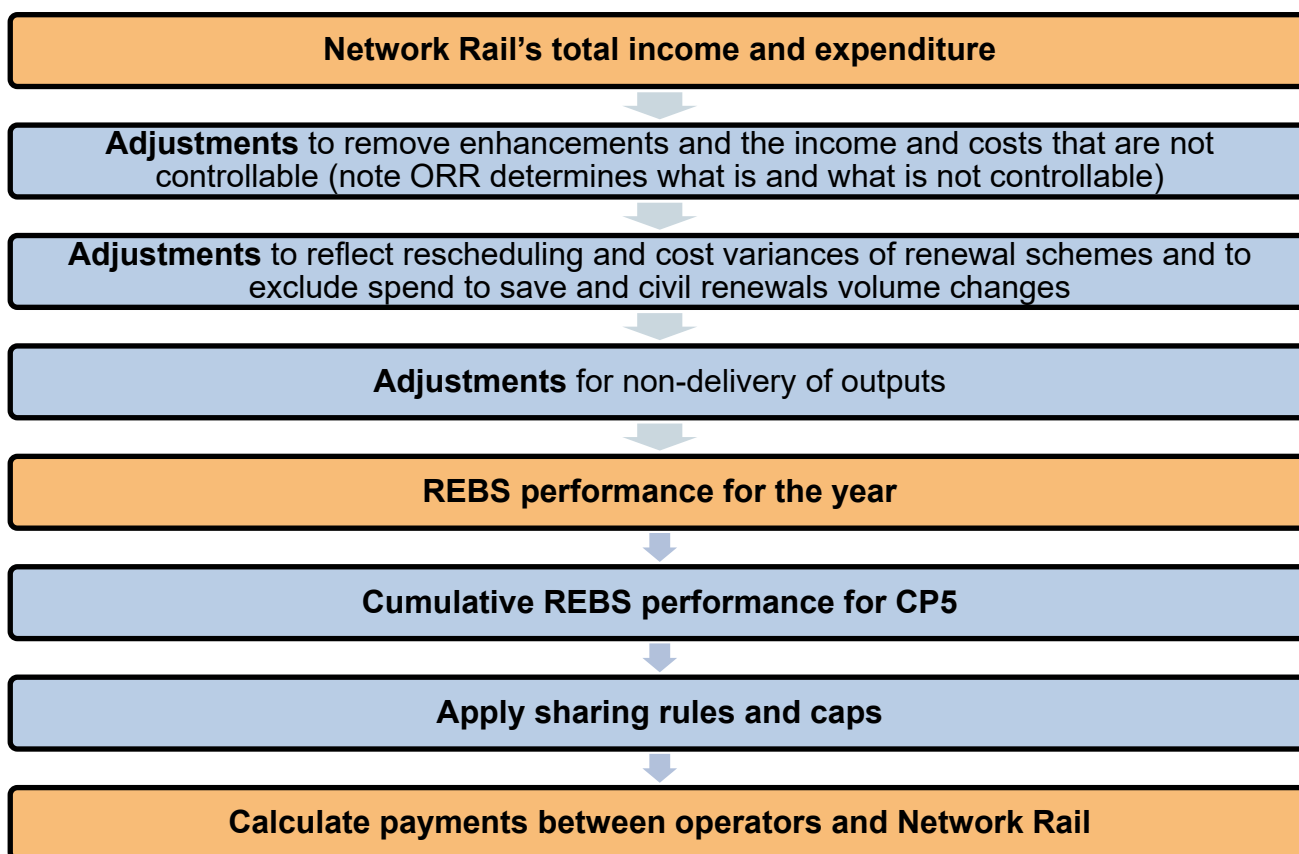
9. Material alliances formed between Network Rail and operators are essentially an enhanced version of REBS and therefore any payments between the alliance partner and Network Rail are netted off from the route's REBS performance. As part of our REBS assessment we confirm the status of material alliances as their existence has implications for other REBS participants in the routes that the alliance operates⁴.
10. There were no material alliances in 2017-18.

REBS process

11. Figure 1 shows the process for determining REBS payments.

⁵ ORR, [Route-level efficiency benefit sharing \(REBS\) mechanism](#)

Figure 1. REBS payment calculation process



12. Network Rail has confirmed that twelve operators participated in REBS for at least one route, and five operators participated in REBS for all routes for 2017-18. Network Rail has notified us of the amounts that it considers payable. We are now publishing the payments due from operators to Network Rail for the 2017-18 financial year. We have used the Independent Reporter Arup to validate the payments that are to be made to Network Rail by operators that opted to participate in REBS in 2017-18.
13. The share of capped route REBS performance is allocated to operators based on their share of variable usage charges (VUC) on that route and, for part-year participants, on the timing of their operator contract commencing or expiring. Some of the REBS participants either did not incur any charges on routes for which they were in REBS, or operated only for diversionary, training or ancillary purposes and therefore incurred small amounts of VUCs, which translate into very small REBS payments. It will be for Network Rail to decide whether to recover these amounts.
14. Further information about the REBS mechanism is available at <http://orr.gov.uk/rail/publications/guidance/route-level-efficiency-benefit-sharing>.



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