



**Addendum to annual
efficiency and finance
assessment of Network
Rail 2014-15:**

**Route-level efficiency
benefit sharing (REBS)
payments 2014-15**

31 March 2016

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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 are 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 2014-15 Annual Efficiency and Finance Assessment of Network Rail (published in October 2015) included our assessment of Network Rail's REBS performance for its operating routes. At that time, Network Rail's assessment of the amounts payable between operators and Network Rail under the REBS mechanism for 2014-15 had not yet been finalised. Network Rail has confirmed that twelve operators participated in REBS and has concluded on which routes they participated. Network Rail has notified us of the amounts that it considers payable. We are now publishing the payments due between operators and Network Rail for the 2014-15 financial year.

3. For the routes where Network Rail has outperformed the REBS baselines, operators participating in REBS will share in that outperformance and will receive a payment from Network Rail. For the routes where Network Rail has underperformed in 2014-15, participating operators will make payments to Network Rail. Net payments, excluding any VAT, are as shown in Table 1 and are due within 56 days of this publication.

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

Operator	Payment from operator to Network Rail (£)	Payment from Network Rail to operator (£)
Chiltern Rail	14	
East Coast	1,491	
Virgin East Coast		16,987
ScotRail	16	
Govia Thameslink Railway	221,084	
First Capital Connect	483	
London Midland	2,222	
Northern Rail	12	
Southeastern	4,036	
Southeastern (direct award ¹)	3,460	
Virgin West Coast	30	
First Hull Trains		11,926
Total	232,848	28,913

¹ London & South Eastern Railway, trading as "Southeastern", was the train operating company for the South Eastern franchise, which ended during 2014-15. The company operated the franchise under a direct award from 12 October 2014.

Background

1. To provide context to the REBS payments listed in Tables 1 and 3, we have provided some information below on the process for calculating REBS payments and our conclusion on route-level efficiency benefit sharing performance for each route. This information is largely based on the REBS chapter in our 2014-15 annual efficiency and finance assessment².
2. 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 assumptions³. 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 EBSM;
 - d. it has payments that are capped for both outperformance and underperformance – the caps were set at the start of CP5 relative to REBS baselines;
 - e. it provides train operators with an opt-out from the 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 a large subset of Network Rail's costs in a similar way to the calculation of financial performance, including adjustment for non-delivery of outputs but excluding enhancements and financing costs.
3. 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,

² ORR, [Annual efficiency and finance assessment of Network Rail 2014-15](#), Chapter 5

³ Network Rail, [REBS baselines](#), 31 March 2014. Baselines are adjusted annually for RPI inflation.

Scotland, Sussex, Wales, Western and Wessex. Since the determination, LNE and East Midlands have merged, as have Sussex and Kent. However, we continue to monitor the routes in accordance with our determination. Under Network Rail's devolution process, Route Managing Directors run each route but overall policies are set centrally.

4. 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 guidance⁴.

Material alliances

5. 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.

6. South West Trains was in a pain/gain sharing material alliance with Network Rail during 2014-15 on the Wessex route. These arrangements changed in June 2015 but this will not affect payments for 2014-15⁵.

7. Abellio ScotRail and Network Rail's Scotland route have formed an alliance, known as "ScotRail"⁶. ScotRail wrote to us on 17 September 2015 to describe some of the arrangements for the alliance. However, the financial details of some of the commercial arrangements had not been finalised. We responded on 25 September 2015 that we were not able to determine at that time whether ScotRail was a material alliance as set out in our REBS guidance. We are awaiting further notification from ScotRail.

⁴ ORR, [Route-level efficiency benefit sharing \(REBS\) mechanism](#)

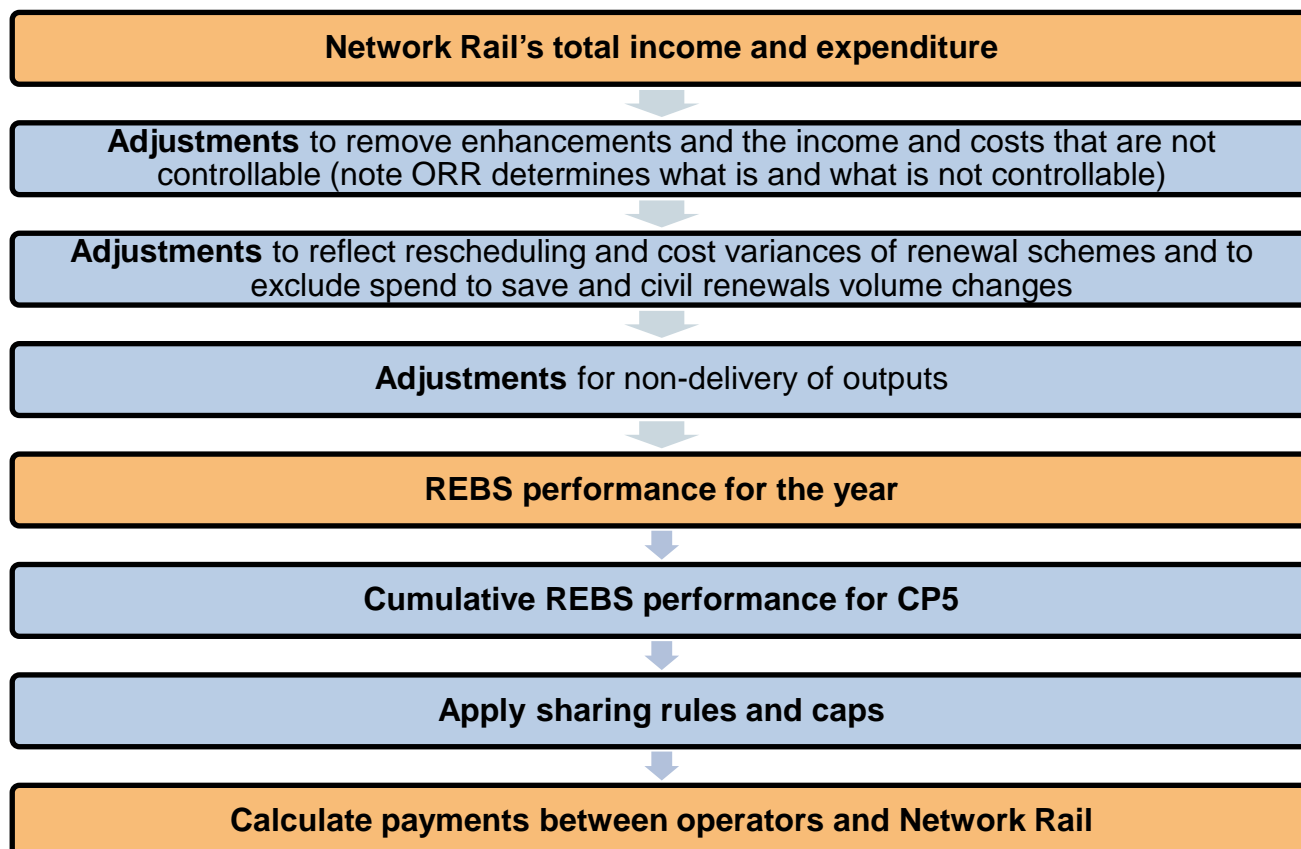
⁵ Network Rail, [New future for the South West Trains – Network Rail alliance](#), 12 June 2015 (press release)

⁶ Network Rail, [Alliances](#)

REBS performance in 2014-15

8. The overall calculation process is set out in Figure 1. Further details are set out in our published guidance.

Figure 1. REBS payment calculation process



9. REBS income and expenditure before our regulatory adjustments is published in each route's Statement 5d within Network Rail's regulatory financial statements⁷. We have made adjustments to Network Rail's numbers for:

- variances in civils volumes, which are outside the scope of financial performance;
- alliance payments, which are within the scope of financial performance but were excluded from Network Rail's calculation; and
- revised output adjustments for non-delivery of the punctuality outputs – the public performance measure (PPM) and cancellations and significant lateness. Network Rail's figures initially used provisional delay minutes data, whereas our revised process uses finalised "number of trains on time" data, as defined by the PPM and

⁷ Network Rail, [Regulatory financial statements 2014-15](#)

CaSL metrics. Our approach more closely reflects the underlying substance of the adjustments.

10. Final capped route REBS performance figures are shown in Table 2. This shows actual performance relative to the baselines for each route.

11. Network Rail has confirmed that twelve operators participated in REBS and has concluded on which routes they participated. Network Rail has notified us of the amounts that it considers payable. We are now publishing the payments due between operators and Network Rail for the 2014-15 financial year.

12. 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 negligible VUCs, which translate into very small payments. It will be for Network Rail to decide whether to recover these small amounts.

13. Payment amounts, excluding any VAT applicable, are shown in Tables 1 and 3. Payments between operators and Network Rail will be due within 56 days of the publication of this document.

Table 2: REBS route performance (£'000)

sign convention: out / (under) performance	REBS route performance									
	Anglia	E. Mids	Kent	LNE	LNW	Sussex	Wales	Wessex	Western	Scotland
REBS performance per Network Rail regulatory financial statements 2014-15, 2014-15 prices:										
Income										
Variable usage charge	1,107	-757	-631	1,036	-1,540	687	1,091	-1,332	308	1,216
Capacity charge	-1,033	841	-1,951	6,052	-1,197	- 440	775	-1	-1,191	1,405
EAUC ⁸	-37	49	-87	-2	-291	40	-	126	-74	127
Property income	3,736	-258	-2,674	-4,476	2,155	4,392	-159	339	-278	-217
Expenditure										
Network operations	-7,316	-6,492	-5,241	-2,922	8,301	-12,171	-3,997	-2,832	-8,138	-3,402
Support costs	5,195	3,540	8,325	8,666	7,990	3,660	2,075	5,136	1,374	2,481
RSSB and BT Police	-1,134	-680	-611	-1,995	-2,795	-258	-2,813	-313	1,382	-1,471
Maintenance	-14,638	-6,937	-12,318	-818	-30,576	-2,938	853	-9,782	135	-2,699
Schedule 4 & 8 costs	-13,401	-4,805	-20,833	16,370	-25,451	-21,027	9,536	-23,373	-20,940	3,421
Renewals	-17,826	-10,236	-16,404	-17,437	-42,379	-13,394	-14,145	-26,988	-16,352	-10,770
REBS performance before adj.	-45,347	-25,736	-52,424	4,475	-85,783	-41,448	-6,783	-59,021	-43,775	-9,910
Less adjustments for under-delivery of outputs and reduced sustainability										
PPM	-7,993	-3,825	-9,119	-1,167	-8,172	-17,237	-1,415	-9,702	-7,372	-3,750
CaSL	-2,543	-1,217	-2,901	-371	-5,484	-2,600	-450	-3,087	-2,346	-
Total adjustment for under-delivery of outputs and reduced sustainability	-55,882	-30,778	-64,444	2,937	-108,505	-52,221	-8,648	-71,810	-53,492	-13,660
ORR adjustments 2014-15, 2014-15 prices										
Regulatory reporting adjustments										
Material alliance receipts	-	-	-	-	-	-	-	1,405	-	-
Material alliance payments	-	-	-	-	-	-	-	-2,367	-	-
Civils volume adjustment	118	-	-	-	-	-	365	750	-	2,435
Output adjustments										
PPM	3,421	-413	-8,405	614	9,265	-9,847	1,415	-142	1,041	1,151
CaSL	-1,058	-85	-949	-75	4,188	-2,993	450	616	542	-36
Freight delivery metric (FDM)	-	-	-	-	-	-	-	-	-	-
Asset sustainability	-	-	-	-	-	-	-	-	-	-
Asset management (AMEM)	-	-	-	-	-	-	-	-	-	-
Data quality	-	-	-	-	-	-	-	-	-	-
ORBIS milestones	-	-	-	-	-	-	-	-	-	-
Network availability PDI - Passengers	-	-	-	-	-	-	-	-	-	-
Network availability PDI - Freight	-	-	-	-	-	-	-	-	-	-
Network capability	-	-	-	-	-	-	-	-	-	-
Total ORR adjustments	2,481	-498	-9,354	539	13,453	-12,839	2,229	263	1,583	3,550
Net REBS performance for 2014-15	-53,401	-31,276	-73,798	3,476	-95,052	-65,060	-6,419	-71,547	-51,910	-10,109
Share mechanism and upside and downside caps										
25% upside share	-	-	-	869	-	-	-	-	-	-
10% downside share	-5,340	-3,128	-7,380	-	-9,505	-6,506	-642	-7,155	-5,191	-1,011
Upside cap	4,864	2,940	3,992	7,904	11,387	2,246	3,913	3,735	5,194	6,111
Downside cap	-1,946	-1,176	-1,597	-3,162	-4,555	-898	-1,565	-1,494	-2,078	-2,445
Capped route REBS performance	-1,946	-1,176	-1,597	869	-4,555	-898	-642	-1,494	-2,078	-1,011

⁸ EAUC is the electricity asset utilisation charge.

Table 3: REBS payments at operator level (£)

REBS payment by operator	Periods in REBS ⁹	Anglia	E.Mids	Kent	LNE	LNW	Sussex	Wales	Wessex	Western	Scotland	Total REBS payment
Chiltern Rail	13	-7	-6	0	0	0	0	0	0	0	0	-14
East Coast	12	-287	-1,028	0	0	-177	0	0	0	0	0	-1,491
Virgin East Coast	1	-24	-86	0	25,584	-15	0	0	0	0	-8,473	16,987
ScotRail	13	-14	0	-2	0	0	0	0	0	0	0	-16
Govia Thameslink Railway	7	-20,596	-118,024	-33,015	26,586	-50	-75,472	0	-514	0	0	-221,084
First Capital Connect	6	0	0	0	0	-43	0	0	-441	0	0	-483
London Midland	13	0	-35	0	0	0	0	-2,187	0	0	0	-2,222
Northern Rail	13	0	0	0	0	0	0	0	0	0	-12	-12
Southeastern	7	0	-38	0	0	0	-3,998	0	0	0	0	-4,036
Southeastern Direct Award ¹⁰	6	0	-33	0	0	0	-3,427	0	0	0	0	-3,460
Virgin West Coast	13	-30	0	0	0	0	0	0	0	0	0	-30
First Hull Trains	13	-314	-50	-0	12,429	0	0	0	0	-137	0	11,926
Total REBS payments for participants		-21,273	-119,300	-33,017	64,599	-284	-82,896	-2,187	-955	-137	-8,485	-203,935
Non-participant capped REBS performance		-1,924,260	-1,056,509	-1,563,848	804,498	-4,554,446	-815,330	-639,698	-1,493,060	-2,077,607	-1,002,416	14,322,681
Total capped REBS performance		-1,945,534	-1,175,809	-1,596,866	869,097	-4,554,731	-898,227	-641,885	-1,494,016	-2,077,744	-1,010,901	-14,526,616

Note: 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.

⁹ These numbers identify how many periods of the year the operator was in REBS (there are thirteen railway periods in a financial year).

¹⁰ London & South Eastern Railway, trading as “Southeastern”, was the train operating company for the South Eastern franchise, which ended during 2014-15. The company operated the franchise under a direct award from 12 October 2014.



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