



**Addendum to annual  
efficiency and finance  
assessment of Network  
Rail 2015-16:**

**Route-level efficiency  
benefit sharing (REBS)  
payments 2015-16**

31 March 2017

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## Feedback

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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 2015-16 Annual Efficiency and Finance Assessment of Network Rail (published in August 2016) concluded our assessment of Network Rail's financial performance for 2015-16 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 2015-16 had not yet been finalised. Network Rail has notified us of the amounts that it considers payable and we are now publishing the payments due between operators and Network Rail for the 2015-16 financial year.
3. In 2015-16, Network Rail financially underperformed in all routes as set out in our Annual Efficiency and Finance Assessment.
4. As shown in the table below, 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<sup>1</sup>**

Operator	Payments from operator to Network Rail (£)	Payments from Network Rail to operator (£)
Chiltern Rail	-9	
Greater Anglia	-21	
Virgin East Coast	-1,787,034	
South West Trains	-3	
Caledonian Sleeper	-137,525	
Govia Thameslink Railway	-1,103,174	
London Midland	-5,832	
Southeastern	-10,102	
Virgin West Coast	-2	
First Hull Trains	-59,377	
<b>Total</b>	<b>-3,103,079</b>	<b>(nil)</b>

<sup>1</sup> 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 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. The financial information used to calculate the REBS payments is generated from Network Rail's regulatory financial statements, on which we commented in our 2015-16 annual efficiency and finance assessment (AEFA)<sup>2</sup>.

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 assumptions<sup>3</sup>. 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 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.

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<sup>2</sup> ORR, [Annual efficiency and finance assessment of Network Rail 2015-16](#)

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

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 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 guidance<sup>4</sup>.

## 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.

10. South West Trains was in a risk-sharing material alliance with Network Rail during 2014-15 on the Wessex route. These arrangements changed in May 2015<sup>5</sup> and we no longer regard them as being in a material alliance for the purpose of REBS.

11. There were no other material alliances in 2015-16.

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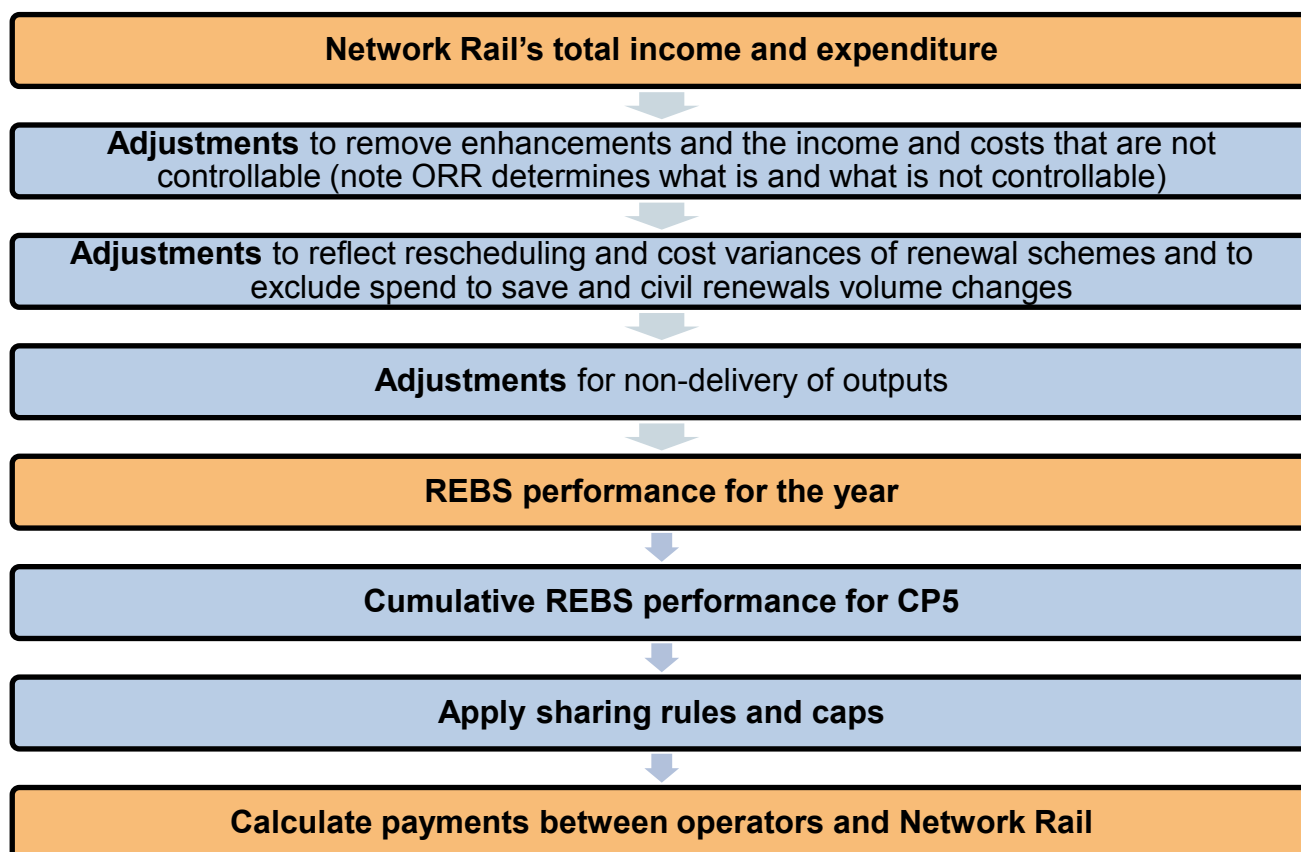
<sup>4</sup> ORR, [Route-level efficiency benefit sharing \(REBS\) mechanism](#)

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

## REBS performance in 2015-16

1. REBS performance is published for each route in Network Rail's regulatory financial statements<sup>6</sup>. 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**



2. The REBS income and expenditure for each route is published in Statement 5d of Network Rail's regulatory financial statements. We have made adjustments to Network Rail's numbers for<sup>7</sup>:

- variances in civils volumes, which are outside the scope of financial performance; and
- revised output adjustments for non-delivery of the punctuality outputs – the public performance measure (PPM) and cancellations and significant lateness (CaSL) – to reflect minor differences in methodology between the Network Rail approach and the methodology outlined in our guidance.

<sup>6</sup> If we disagree with Network Rail's calculations we will adjust them in our AEFA.

<sup>7</sup> In 2014-15, we adjusted for alliance payments, which were within the scope of financial performance but were excluded from Network Rail's calculation. In 2015-16, there were no alliance payments but the 2014-15 adjustments are included within the cumulative figures.

3. Capped route REBS performance figures are shown in Table 2. This shows actual performance relative to the baselines for each route.
4. Network Rail has confirmed that ten operators participated in REBS for 2015-16 and 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 2015-16 financial year.
5. 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.
6. REBS payments due in 2015-16 are adjusted for some operators, who were also in REBS in 2014-15, to correct for an error in Network Rail's accounting data, which was identified in our 2015-16 review. Across all train operators in REBS, the net value of this adjustment is less than £1,300.
7. We show our conclusion on Network Rail's cumulative capped route REBS performance in Table 2. Payments to be made by REBS participants, excluding any VAT applicable, are shown in Tables 1 and 3. Rows and columns may not sum due to rounding.
8. Payments between operators and Network Rail will be due within 56 days of the publication of this document.

**Table 2: Cumulative REBS route performance (£'000)<sup>8</sup>**

2015-16 prices, £'000	REBS route performance									
	Anglia	East Midlands	Kent	London North East	London North West	Sussex	Wales	Wessex	Western	Scotland
<b>Cumulative (2014-15 to 2015-16) REBS performance per Network Rail regulatory financial statements</b>										
<b>Income</b>										
Variable usage charge	4,980	(390)	(20)	(5,841)	(5,102)	801	1,392	(2,433)	348	(685)
Capacity charge	(1,477)	2,438	(2,628)	12,866	(1,717)	(995)	1,775	369	(844)	2,803
Electricity asset utilisation charge	(55)	152	(5)	20	(566)	44	0	282	(152)	187
Property income	(3,803)	(97)	(7,503)	330	57,608	(1,462)	485	3,811	10,160	(3,648)
<b>Expenditure</b>										
Network operations	(15,524)	(15,429)	(15,190)	(16,500)	(5,160)	(32,792)	(9,049)	(7,354)	(17,380)	(11,952)
Support costs	12,210	8,595	36,913	15,188	17,808	4,557	6,555	8,239	14,990	777
RSSB and BT Police	(1,998)	(1,238)	(989)	(3,473)	(5,057)	(517)	(5,496)	(657)	2,787	(3,022)
Network maintenance	(27,385)	(9,715)	(27,547)	(7,592)	(73,454)	(11,406)	(1,099)	(24,149)	(2,250)	136
Schedule 4 and Schedule 8 costs	(25,802)	(10,346)	(59,219)	18,076	(54,798)	(62,464)	13,993	(46,526)	(40,139)	(4,620)
Renewals	(39,320)	(19,261)	(34,891)	(48,253)	(107,232)	(23,022)	(38,951)	(39,454)	(46,690)	(23,859)
<b>Total REBS performance</b>	<b>(98,174)</b>	<b>(45,290)</b>	<b>(111,080)</b>	<b>(35,179)</b>	<b>(177,669)</b>	<b>(127,258)</b>	<b>(30,396)</b>	<b>(107,871)</b>	<b>(79,169)</b>	<b>(43,883)</b>
<b>Less adjustments for under-delivery of outputs and reduced sustainability</b>										
PPM	(15,122)	(6,713)	(38,351)	(7,953)	(21,523)	(47,910)	(816)	(20,566)	(11,974)	(2,626)
CaSL	(7,247)	(2,129)	(9,804)	(1,780)	(2,221)	(15,653)	(329)	(6,040)	(3,283)	(321)
<b>Total adjustment for under-delivery of outputs and reduced sustainability</b>	<b>(120,544)</b>	<b>(54,131)</b>	<b>(159,235)</b>	<b>(44,912)</b>	<b>(201,413)</b>	<b>(190,821)</b>	<b>(31,541)</b>	<b>(134,477)</b>	<b>(94,426)</b>	<b>(46,830)</b>
<b>Cumulative ORR adjustments, 2014-15 to 2015-16 (2015-16 prices, £'000)</b>										
<b>Regulatory reporting adjustments</b>										
Alliance receipts	0	0	0	0	0	0	0	2,356	0	0
Alliance payments	0	0	0	0	0	0	0	(2,392)	0	0
Civils volume adjustment	119	0	(0)	0	(0)	0	368	758	0	2,461
<b>Output adjustments</b>										
PPM	(253)	928	(3,599)	1,460	603	1,882	33	239	(243)	(0)
CaSL	(97)	433	(1,718)	671	129	899	14	83	(140)	20
Freight delivery metric	0	0	0	0	0	0	0	0	0	0
Asset sustainability	0	0	0	0	0	0	0	0	0	0
Asset management (AMEM)	0	0	0	0	0	0	0	0	0	0
Data quality	0	0	0	0	0	0	0	0	0	0
ORBIS milestones	0	0	0	0	0	0	0	0	0	0
Network Availability PDI - passengers	0	0	0	0	0	0	0	0	0	0
Network Availability PDI - Freight	0	0	0	0	0	0	0	0	0	0
Network capability	0	0	0	0	0	0	0	0	0	0
<b>Total ORR adjustments</b>	<b>(230)</b>	<b>1,361</b>	<b>(5,318)</b>	<b>2,131</b>	<b>732</b>	<b>2,781</b>	<b>416</b>	<b>1,044</b>	<b>(382)</b>	<b>2,480</b>
<b>Net cumulative REBS performance to 2015-16 (A)</b>	<b>(120,774)</b>	<b>(52,771)</b>	<b>(164,553)</b>	<b>(42,781)</b>	<b>(200,681)</b>	<b>(188,040)</b>	<b>(31,125)</b>	<b>(133,434)</b>	<b>(94,809)</b>	<b>(44,350)</b>

<sup>8</sup> The sign convention used in this document is that positive values indicate outperformance by Network Rail and negative values underperformance.



**Share mechanism and upside and downside caps<sup>9</sup>**

<b>10% downside share (B = A x 10%)</b>	<b>(12,077)</b>	<b>(5,277)</b>	<b>(16,455)</b>	<b>(4,278)</b>	<b>(20,068)</b>	<b>(18,804)</b>	<b>(3,113)</b>	<b>(13,343)</b>	<b>(9,481)</b>	<b>(4,435)</b>
Prior year share before cap <sup>10</sup> (C)	(5,396)	(3,160)	(7,457)	878	(9,605)	(6,574)	(649)	(7,230)	(5,246)	(1,022)
<b>2015-16 (in year) share before cap (D = B – C)</b>	<b>(6,681)</b>	<b>(2,117)</b>	<b>(8,998)</b>	<b>(5,156)</b>	<b>(10,463)</b>	<b>(12,230)</b>	<b>(2,464)</b>	<b>(6,114)</b>	<b>(4,235)</b>	<b>(3,413)</b>
Downside cap (E)	(1,990)	(1,084)	(1,591)	(3,351)	(4,401)	(854)	(1,430)	(1,425)	(1,932)	(2,645)
<b>Capped route REBS performance (Lower of D and E)</b>	<b>(1,990)</b>	<b>(1,084)</b>	<b>(1,591)</b>	<b>(3,351)</b>	<b>(4,401)</b>	<b>(854)</b>	<b>(1,430)</b>	<b>(1,425)</b>	<b>(1,932)</b>	<b>(2,645)</b>

<sup>9</sup> We have not shown the 25% upward share and upside caps as Network Rail underperformed across all routes in the 2015-16 financial year.

<sup>10</sup> These numbers have been uplifted for the movement in inflation from 2014-15 to 2015-16.

**Table 3: REBS payments at operator level (£)**

REBS payments by operator	Periods in REBS <sup>11</sup>	Anglia	East Midlands	Kent	London North East	London North West	Sussex	Wales	Wessex	Western	Scotland	Total REBS payments
Chiltern Rail	13	-3	-4	0	-2	0	0	0	0	0	0	-9
Greater Anglia	13	0	-14	0	0	-6	0	0	0	0	0	-21
Virgin East Coast <sup>12</sup>	13	-560	-11,795	0	-1,438,285	-144	0	0	0	0	-336,250	-1,787,034
South West Trains	13	0	0	-3	0	0	0	0	0	0	0	-3
Caledonian Sleeper	13	-76	-41	-24	-6,789	-40,778	-1	0	0	0	-89,817	-137,525
Govia Thameslink Railway <sup>6</sup>	13	-36,150	-261,043	-127,365	-144,258	-9,040	-488,216	0	-37,101	0	0	-1,103,174
London Midland	13	0	-30	0	0	0	0	-5,802	0	0	0	-5,832
Southeastern	13	0	-6	0	0	0	-10,096	0	0	0	0	-10,102
Virgin West Coast	13	0	0	0	-2	0	0	0	0	0	0	-2
First Hull Trains <sup>6</sup>	13	-266	-582	0	-58,371	0	0	0	0	-158	0	-59,377
<b>Total REBS payments for participants</b>												<b>-3,103,079</b>
<b>Non-participant capped REBS performance<sup>13</sup></b>												<b>-17,601,191</b>
<b>Total capped REBS performance</b>												<b>-20,704,270</b>

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.

<sup>11</sup> These numbers identify how many periods of the year the operator was in REBS (there are thirteen railway periods in a financial year).

<sup>12</sup> The London North East payment for these TOCs additionally includes an adjustment for an error in Network Rail's 2014-15 accounting data.

<sup>13</sup> This is the REBS performance allocated to operators that are not participating in REBS, i.e. the difference between total route level REBS across all routes and the amount payable by operators.



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