



**Addendum to annual
efficiency and finance
assessment of Network
Rail 2016-17:**

**Route-level efficiency
benefit sharing (REBS)
payments 2016-17**

6 April 2018

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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 2016-17 Annual Efficiency and Finance Assessment of Network Rail (published in October 2017) concluded our assessment of Network Rail's financial performance for 2016-17 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 2016-17 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 2016-17 financial year.
3. In 2016-17, Network Rail financially underperformed in all routes as set out in our Annual Efficiency and Finance Assessment.
4. As shown in the table below, all 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 operators¹

Operator	Payments from operator to Network Rail (£)	Payments from Network Rail to operator (£)
Chiltern Rail	-6	
Arriva Rail North	-3	
Virgin East Coast	-1,608,503	
Caledonian Sleeper	-131,710	
Govia Thameslink Railway	-1,273,156	
Southeastern	-8,249	
First Hull Trains	-55,176	
Eurostar	-758	
Total	-3,077,561	nil

¹ 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 2016-17 annual efficiency and finance assessment (AEFA)².

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 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. 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.

² ORR, [Annual efficiency and finance assessment of Network Rail 2016-17](#)

³ 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 guidance⁴.

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.

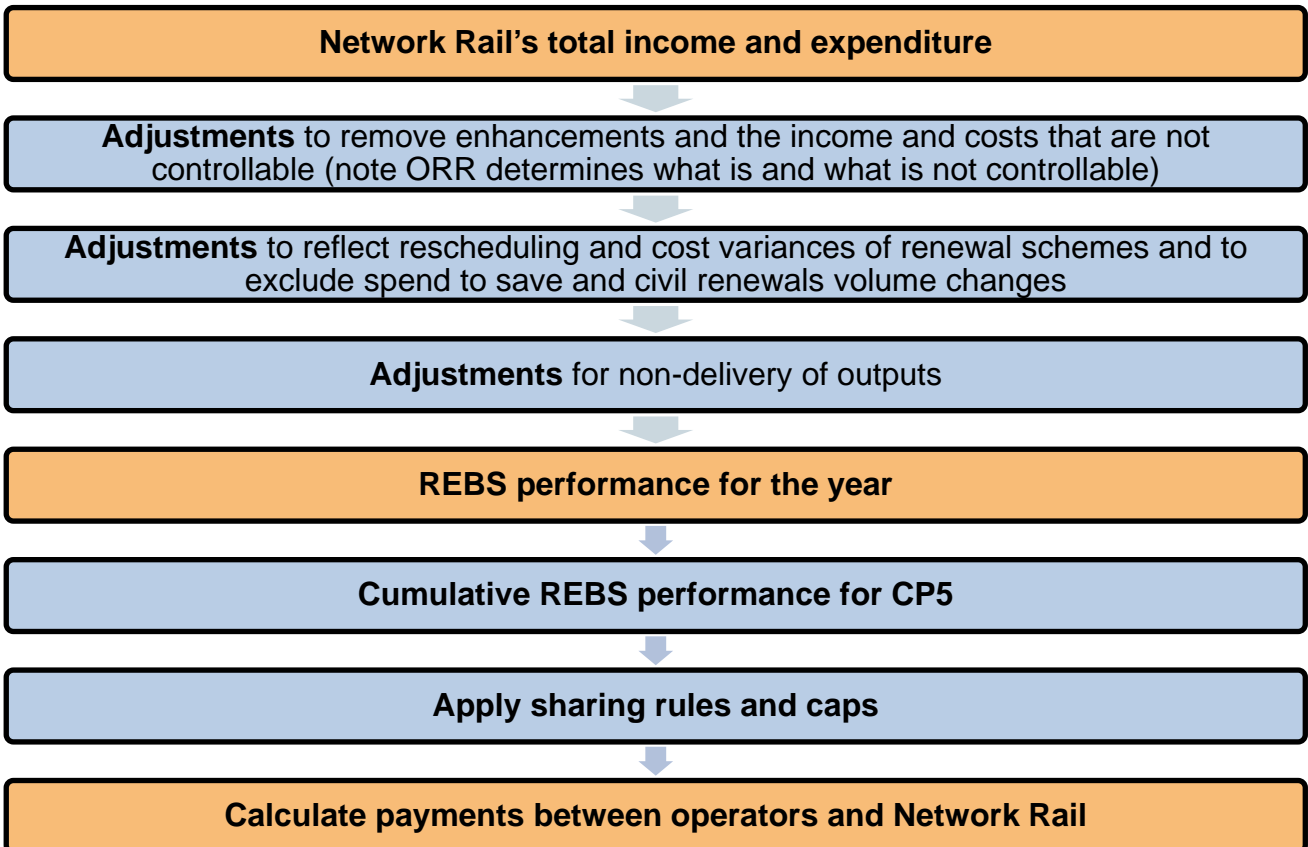
10. There were no material alliances in 2016-17.

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

REBS performance in 2016-17

1. REBS performance is published for each route in Network Rail’s regulatory financial statements⁵. 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 cumulative REBS calculation for⁶:

- variances in civils volumes, which are outside the scope of financial performance; and
- revised output adjustments for ORBIS, as well as for non-delivery of the punctuality outputs – the public performance measure (PPM) and cancellations and significant lateness (CaSL) – to reflect minor differences in methodology

⁵ If we disagree with Network Rail’s calculations we will adjust them in our AEFA.

⁶ 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 2016-17, there were no alliance payments but the 2014-15 adjustments are included within the cumulative figures.

between the Network Rail approach and the methodology outlined in our guidance.

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 eight operators participated in REBS for 2016-17 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 2016-17 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. 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.
7. 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)⁷

2016-17 prices, £'000	REBS route performance									
	Anglia	East Midlands	Kent	London North East	London North West	Sussex	Wales	Wessex	Western	Scotland
Cumulative (2014-15 to 2016-17) REBS performance per Network Rail regulatory financial statements										
Income										
Variable usage charge	9,479	(1,600)	(388)	(17,330)	(10,698)	1,212	891	(3,824)	(103)	(3,255)
Capacity charge	(2,085)	3,055	(5,183)	18,873	(4,461)	(3,214)	2,560	(46)	(1,319)	4,620
Electricity asset utilisation charge	(86)	274	(7)	(10)	(967)	78	0	451	(231)	317
Property income	5,719	3,092	(7,408)	10,722	68,884	(6,211)	961	10,009	12,164	(9,419)
Expenditure										
Network operations	(25,752)	(25,912)	(32,542)	(31,418)	(17,749)	(69,094)	(15,032)	(14,173)	(28,392)	(16,373)
Support costs	24,838	15,639	60,960	27,242	38,495	10,030	7,263	17,821	31,049	9,150
RSSB and BT Police	(4,019)	(2,246)	(2,162)	(6,504)	(10,104)	(1,721)	(6,018)	(2,301)	435	(5,791)
Network maintenance	(43,426)	(17,012)	(44,937)	(34,123)	(130,641)	(22,899)	(5,469)	(35,720)	(11,747)	977
Schedule 4 and Schedule 8 costs	(60,826)	(23,925)	(89,094)	10,140	(77,135)	(118,039)	18,039	(88,860)	(70,222)	(18,597)
Renewals	(65,678)	(35,546)	(57,811)	(91,330)	(164,657)	(32,891)	(58,101)	(60,730)	(65,243)	(38,057)
Total REBS performance	(161,835)	(84,182)	(178,571)	(113,738)	(309,033)	(242,748)	(54,905)	(177,371)	(133,609)	(76,427)
Less adjustments for under-delivery of outputs and reduced sustainability										
PPM	(27,844)	(12,225)	(56,088)	(10,364)	(43,267)	(113,948)	(3,389)	(37,612)	(21,241)	(2,684)
CaSL	(12,775)	(4,339)	(16,545)	(1,134)	(4,729)	(44,596)	(1,158)	(11,771)	(5,594)	(337)
ORBIS	(3,849)	(2,228)	(2,764)	(6,325)	(9,661)	(2,646)	(2,167)	(3,695)	(3,979)	(4,137)
Total adjustment for under-delivery of outputs and reduced sustainability	(206,303)	(102,974)	(253,967)	(131,561)	(366,690)	(403,937)	(61,618)	(230,449)	(164,424)	(83,585)
Cumulative ORR adjustments, 2014-15 to 2016-17 (2016-17 prices, £'000)										
Regulatory reporting adjustments										
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	122	0	(0)	0	(0)	0	376	775	0	2,515
Output adjustments										
PPM	28	14	31	(7)	19	157	6	39	(288)	(0)
CaSL	11	10	(54)	0	(29)	134	(8)	(44)	(20)	(0)
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	(9)	(25)	61	(246)	(217)	171	153	121	270	(279)
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
Total ORR adjustments	152	(0)	38	(253)	(227)	462	527	855	(38)	2,235
Net cumulative REBS performance to 2016-17 (A)	(206,151)	(102,974)	(253,929)	(131,815)	(366,917)	(403,475)	(61,092)	(229,595)	(164,462)	(81,350)

⁷ The sign convention used in this document is that positive values indicate outperformance by Network Rail and negative values indicate underperformance.

Share mechanism and downside caps⁸

10% downside share (B = A x 10%)	(20,615)	(10,297)	(25,393)	(13,181)	(36,692)	(40,348)	(6,109)	(22,959)	(16,446)	(8,135)
Prior year share before cap ⁹ (C)	(12,342)	(5,393)	(16,816)	(4,372)	(20,508)	(19,217)	(3,181)	(13,636)	(9,689)	(4,532)
2016-17 (in year) share before cap (D = B – C)	(8,273)	(4,905)	(8,577)	(8,810)	(16,183)	(21,131)	(2,928)	(9,323)	(6,757)	(3,603)
Downside cap (E)	(2,050)	(1,031)	(1,429)	(3,015)	(4,246)	(687)	(1,458)	(1,508)	(1,836)	(2,518)
Capped route REBS performance (Lower of D and E)	(2,050)	(1,031)	(1,429)	(3,015)	(4,246)	(687)	(1,458)	(1,508)	(1,836)	(2,518)

⁸ We have not shown the 25% upward share and upside caps as Network Rail underperformed across all routes in the 2016-17 financial year.

⁹ These numbers have been uplifted for the movement in inflation from 2015-16 to 2016-17.

Table 3: REBS payments at operator level (£)

REBS payments by operator	Periods in REBS ¹⁰	Anglia	East Midlands	Kent	London North East	London North West	Sussex	Wales	Wessex	Western	Scotland	Total REBS payments
Chiltern Rail	13	-2	-4	0	0	0	0	0	0	0	0	-6
Arriva Rail North	13	0	0	0	0	0	0	0	0	0	-3	-3
Virgin East Coast	13	-970	-261	0	-1,274,896	-252	0	0	0	0	-332,125	-1,608,503
Caledonian Sleeper	13	-19	-4	0	-1,402	-46,291	0	0	0	0	-83,994	-131,710
Govia Thameslink Railway	13	-35,617	-188,938	-131,939	-224,123	-7,747	-637,235	0	-47,556	0	0	-1,273,156
Southeastern	13	0	-3	0	0	0	-8,242	0	-4	0	0	-8,249
First Hull Trains	13	-373	-4	-5	-54,596	0	0	0	0	0	-199	-55,176
Eurostar	13	0	0	0	0	0	-758	0	0	0	0	-758
Total REBS payments for participants												-3,077,561
Non-participant capped REBS performance¹¹												-16,700,735
Total capped REBS performance												-19,778,296

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. Numbers may not sum due to rounding.

¹⁰ These numbers identify how many periods of the year the operator was in REBS (there are thirteen railway periods in a financial year).

¹¹ 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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