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15<sup>th</sup> July 2020

Dear Richard,

### **Impact of Core Valley Lines divestment on the Wales & Western region**

I am writing to inform you of Network Rail's approach to assessing the impact of the divestment of the Core Valley Lines (CVL) on the CP6 regulatory benchmarks for the Wales & Western region, as required under ORR's Managing Change policy.

#### **Context**

CVL, 125 track-miles of operational railway in South Wales, was transferred from Network Rail to Transport for Wales (TfW) on 28 March 2020 by statutory transfer scheme made under a Transport & Works Act order. The network was subsequently leased to Amey Keolis Infrastructure Ltd (AKIL), who is now the Facility Owner and responsible for operations and maintenance of the assets. The transfer did not impact on the existing passenger and freight services. As part of the transfer, Network Rail engaged extensively with the Office of Rail and Road (ORR), the Department for Transport (DfT) and TfW to understand the implications of the transfer on CP6 regulatory and financial values.

ORR's Managing Change policy is applied where there is a change in a region's accountabilities or there is a change in the funding available to the region. The divestment of CVL meets both of these criteria. Following extensive consultation with your team, we concluded the divestment of CVL is a Level II change under the Managing Change policy. This requires Network Rail to discuss the change with ORR and relevant stakeholders before a decision is made. We have engaged with your colleagues and TfW since 2019 to allow full consideration of the change. It should be noted that no other Network Rail regions were impacted by the change.

#### **Changes to the CP6 financial settlement**

The CP6 Final Determination represents a baseline for the efficient delivery of the railway in the Wales & Western region at a 'steady state' and is an appropriate starting point from which to analyse the effect of changes. Our Strategic Business Plan and ORR's Final

Determination both included the CVL network and were developed based on no change, as there was no commercial certainty of divestment at the point of the Final Determination.

With the divestment of CVL, a proposed “Revision of the CP6 Final Determination” was produced, which built on DfT’s endorsement of a ‘cost avoided’ model for the re-baselining of financial requirements. We have transparently set out the work and costs that would be avoided by Network Rail following divestment of the CVL, and therefore what funding will no longer be required from DfT for the proportion of the Wales & Western region that is retained by Network Rail. This is calculated to be approximately £88.7m for the whole of CP6, had the CVL been divested on 1<sup>st</sup> April 2019.

A year-by-year breakdown for CP6 is given in the table below based on our calculations and the extensive feedback we have received during our consultation with the ORR and TfW:

(£m)	CP6 DP	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	CP6
Income group	1,838.9	-	0.3	0.3	0.3	0.4	1.3
Income Route	319.1	0.1	8.9	8.9	9.7	8.8	36.4
Schedules 4&8	-43.2	-	-0.4	-0.4	-0.4	-0.3	-1.5
<b>CP6 Income lost by divesting the CVL:</b>	<b>2,114.8</b>	<b>0.1</b>	<b>8.8</b>	<b>8.8</b>	<b>9.6</b>	<b>8.9</b>	<b>36.2</b>
Route operating expenditure	726.3	0.1	7.8	8.2	8.6	9.0	33.7
Route renewals expenditure	922.0	0.1	12.7	11.4	6.4	9.4	40.0
Central operating expenditure	185.6	-	0.5	0.5	0.5	0.6	2.1
Central renewals expenditure	128.6	-	0.3	0.4	0.6	0.4	1.7
Other industry costs	188.0	-	2.3	2.5	3.0	3.3	11.1
<b>Cost avoided by divesting the CVL:</b>	<b>2,150.5</b>	<b>0.2</b>	<b>23.6</b>	<b>23</b>	<b>19.1</b>	<b>22.7</b>	<b>88.6</b>
<b>Net reduction of funding requirement (cost avoided net of income lost):</b>	<b>35.7</b>	<b>0.1</b>	<b>14.8</b>	<b>14.2</b>	<b>9.5</b>	<b>13.8</b>	<b>52.4</b>

We are concluding our discussions with the DfT about the way our funding requirement in each year of CP6 will be reduced by the amount in the table (£52.4m in total for the control period). It is noted that some of the items in the £52.4m are treated on an emerging cost basis, so the final income/cost will not be known until the end of a year. For these items, a reconciliation process will take place in the following year to adjust the forecast to the actual income/cost for the year concerned.

## Changes to regulatory measures

In addition to the financial impacts, we worked closely with ORR to understand the impact of the CVL investment on Wales & Western’s performance metrics as set out in ORR’s Final Determination.

## Consistent Regional Measure – (Passenger) Performance (CRM-P)

CRM-P measures the delay minutes caused by Wales & Western, for every 100km of train travel. As part of the CP6 Final Determination, ORR set baseline trajectories for CRM-P and regulatory minimum levels ('floor') in the Wales & Western region. Following the CVL divestment, the calculation of CRM-P was revised to exclude CVL train services. This split was relatively simple except for the few services using the City Line between Cardiff Central and Radyr via Ninian Park. These services will require systems to be introduced in the December 2020 timetable, and we will be undertaking a review to confirm the transfer will not materially influence the region's outputs.

Analysis showed that the change to the CRM-P in Wales & Western due to the CVL divestment was minimal – CRM-P in 2019-20 increased by 0.38 % after excluding CVL services from the calculation. As this impact was so small, no changes to the CRM-P baseline trajectory or the floor are proposed due to the CVL divestment.

However, we note Network Rail's 5 June 2020 proposal to ORR<sup>1</sup> regarding an update to the train mileage data used for calculating CRM-P, which impacts all regions, including Wales & Western.

## Regional Freight Delivery Metric (FDM-R)

FDM-R measures the percentage of commercial freight services that arrive at a planned destination within 15 minutes of their booked arrival time, or with less than 15 minutes of Network Rail or passenger operator delay, within a region. A review of the number of trains and delay events on the CVL highlighted a minimal impact on FDM-R in Wales & Western following divestment – FDM-R in 2019-20 decreased by less than 0.1 percentage points – and as a result no changes are proposed to the FDM-R baseline trajectory or the floor. However, National FDM includes all FDM failures that have occurred off network (including on the CVL), and consists of reactionary delay to incidents caused at locations such as end-user terminals, depots and yards.

Similarly to CRM-P, we will be writing to ORR to set out proposed changes to Network Rail's FDM-R baseline trajectories and floors as a result of improvements to train mileage data.

## Composite Sustainability Index (CSI)

In CP6, asset sustainability (the Composite Sustainability Index, CSI) is tested based on a defined level of change since the end of control period 4 (CP4). In the CP6 Final Determination, ORR set CSI targets for each Network Rail region, including Wales & Western.

Analysis of the data shows that the impact of removing the CVL track is 0.007 per cent, against a target change in CP6 of 0.9 per cent. This represents a five per cent change to the CSI measure. We propose to fix the CVL inventory and condition to what it was at the end of financial year 2019-20 and apply that figure to CSI declarations for the remainder of CP6. This will reflect the impact of Network Rail's management of the CVL up to the point of divestment but will have no further impact of the remainder of the control period. Similarly, we are not proposing any changes to the floor.

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<sup>1</sup> <https://orr.gov.uk/rail/economic-regulation/regulation-of-network-rail/holding-network-rail-to-account>

In summary, the following table outlines the regulatory measures for CRM-P, FDM-R and CSI over CP6 for the Wales & Western region.

Wales & Western region		19/20	20/21	21/22	22/23	23/24
CRM-P	Baseline trajectory (CP6 Final Determination)		1.84	1.68	1.64	1.64
	Network Rail's June 5 proposed changes*		1.78	1.70	1.63	1.60
FDM-R	Baseline trajectory (CP6 Final Determination)		93.4%	93.4%	93.4%	93.4%
CSI	Baseline trajectory (CP6 Final Determination)		-	-	-	0.2%

\* [https://orr.gov.uk/data/assets/pdf\\_file/0009/42993/letter-from-network-rail-on-proposals-to-revise-train-mileage-data-and-its-impact-on-crm-p-2020-06-05.pdf](https://orr.gov.uk/data/assets/pdf_file/0009/42993/letter-from-network-rail-on-proposals-to-revise-train-mileage-data-and-its-impact-on-crm-p-2020-06-05.pdf)

## Safety

Network Rail undertook an extensive internal process to assure itself of the safe operation of the CVL boundary following divestment, as well as our provision of services to AKIL on a transitional basis. Additionally, ORR assured AKIL's safety system for the continued operation of the CVL.

The safety approvals are outlined on ORR's website under track access at <https://orr.gov.uk/rail/access-to-the-network/track-access/core-valley-lines-cvl>.

## Summary

We have set out the 'cost avoided' financial impact to the divestment of the CVL, and note that no changes are proposed to Wales & Western region's CRM-P, FDM-R and CSI CP6 baselines as a result of the CVL divestment. If you have any further comments or questions, please do not hesitate to contact me.

Yours sincerely,



**Mark Langman**  
Regional managing director