

19 December 2022

Dear Stakeholder,

Next steps on PR23

Periodic reviews like PR23 are one of the principal mechanisms by which ORR holds Network Rail to account and secures value for money for users and funders of the railway. PR23 will determine what the infrastructure manager for the national rail network, Network Rail, is expected to deliver with respect to its operation, support, maintenance, and renewal (OSMR) of the network and the level of funding that it will be provided with over the five-year period from 1 April 2024 (known as control period 7 (or CP7)). PR23 will also determine the framework for access charges for use of the rail network and the contractual performance and possessions regimes and how we hold Network Rail to account.

This periodic review is being conducted amid a complex and challenging context for the rail industry: the sector continues to recover from the pandemic against a backdrop of inflationary pressures, industrial action and rail reform. PR23 is designed to deliver a stable basis for Network Rail, its supply chain and train operators to plan, invest and provide services over the next five-year control period.

This letter provides an update on our review since we launched PR23 last summer and the next steps between now and the start of CP7 on 1 April 2024.

We are also issuing a set of documents alongside this letter, namely:

- our conclusions on the [policy framework](#) for how we intend to hold Network Rail to account in CP7;
- our conclusions on our [technical consultation](#) on the outcome measures for CP7; and
- a consultation on our [financial framework](#) for CP7.

The rail industry has made progress in recovering from the coronavirus (COVID 19) pandemic, as passenger volumes and revenues have begun to recover, as discussed in our recent [Rail Industry Finance](#) report. However significant economic challenges remain.

We also anticipate the implementation of the UK Government's plans for rail reform during the CP7 period. In recognition of these developments, and with the aim of providing regulatory stability, we have taken an incremental approach to the design of the policy frameworks for PR23. Our focus remains on the four objectives we outlined in our [PR23 launch letter](#) (safety, performance, asset sustainability and efficiency). We will implement our PR23 policy in a way that is adaptive to the changes anticipated from rail reform.



Overview of progress to date

PR23 has and will continue to be a collaborative, cross-industry process and, over the last 18 months, we have been working closely with funders (in England & Wales and in Scotland), Network Rail and industry stakeholders. Below we summarise some of that work.

Funding and outputs

Since launching PR23, we have provided advice to funders about Network Rail's funding requirements for its OSMR activities for CP7 and what it can deliver for that funding. This has drawn on our existing work to monitor and hold Network Rail to account, as well as our wider engagement with industry and specific work on key aspects of Network Rail's delivery.

On 1 December, the UK Government issued its decisions on the funding it will make available to Network Rail for its OSMR activities in England & Wales and what, in return, it needs to deliver for this.

The UK Government's [Statement of Funds Available](#) (or SoFA) envisages that Network Rail will spend £44,063 million for its OSMR work (as well as traction electricity) in England & Wales for the five years from 1 April 2024¹. This is supported by a network grant of £27,529 million.

The [High-Level Output Specification](#) (or HLOS) sets out the UK Government's requirements across a broad number of areas. These reflect and build on our PR23 objectives (e.g. the UK Government wants Network Rail to maintain a strong standard of safety, deliver cost efficiency, and maintain focus on punctuality, reliability and asset sustainability, including resilience to climate change), but also discusses requirements relating to security, system operation, stakeholder engagement, and financial management.

We continue to work closely with Transport Scotland as it develops the Scottish Ministers' SoFA and HLOS. As set out separately in the revised [Review Initiation Notice](#) we have issued today, in light of current circumstances, we recognise that the Scottish Ministers will require more time to provide their SoFA and HLOS. We have therefore extended the date for submission to 27 January 2023. This represents a further extension of the SoFA and HLOS deadlines for the Scottish Ministers of three weeks. Meeting this new deadline is critical to the success of completing our periodic review by the statutory deadlines, including to ensure appropriate funding is in place for Network Rail for CP7.

¹ In cash prices and excluding funding for British Transport Police

Based on these SoFA and HLOS decisions, Network Rail's Strategic Business Plan (SBP) will set out what it intends to deliver for CP7, including across its business units and outcome areas. We issued [guidance](#) to Network Rail in July 2022 about our requirements for its SBP. Reflecting that the delays to both governments' SoFA and HLOS documents have affected Network Rail's ability to develop its plans, we note that some information may need to be refined following 24 February 2023. We will continue to work closely with Network Rail to agree the approach to this. We expect that Network Rail will publish its SBP in spring next year, using this as a key input to its ongoing engagement with stakeholders on its CP7 planning.

Holding to account

We have engaged with stakeholders to conclude on two key policy areas with a specific focus on the:

- **Policy framework** – In our July 2022 consultation [PR23 policy framework: A consultation on outcomes, infrastructure performance and managing change](#), we set out the policy framework on how we propose to hold the infrastructure manager to account for the outcomes it must deliver for the funding it receives for CP7. We are not proposing significant changes to the way we hold the infrastructure manager to account for CP7, as confirmed in our [Policy framework conclusions](#) published today. Our policy approach for CP7 has been to refine our Control Period 6 (CP6) approach given that we consider it, on the whole, fit for purpose in the current context. We have reflected lessons learnt from CP6, while seeking to align (to the extent possible within the current legislation) with the direction of rail reform. We plan to consult on the specific and more detailed Holding to Account and Managing Change policies in spring next year.

Outcomes framework – We published our [technical consultation on the measures we are proposing in our CP7 outcomes framework](#), alongside our policy framework consultation in July 2022. We are [concluding on the success measures](#) that we will use to monitor and hold Network Rail to account during CP7. These include a small number of changes to our supporting measures. We will also be pursuing development work on our monitoring approach in the outcome areas of system operation, network capability, network availability and possession management, and accessibility. We will confirm the final framework of CP7 outcome measures in our draft determination, planned for June 2023.

Financial framework for CP7

In addition, we are publishing a consultation on the proposed [financial framework for CP7](#). This seeks stakeholders' views on our approach to aspects such as the policy for rebates of any unused funds to governments and the management of



financial risk. Our proposals largely follow the financial framework that we established in CP6, recognising that there are some differences for CP7, including the expected creation of Great British Railways (GBR).

Charges and incentives

This work refers to the framework for the contractual charges (reflected in Schedule 7 of the track access contracts) and the performance and possessions regimes (Schedule 8 and Schedule 4 respectively) that will apply in CP7. We concluded in October 2022 on the following:

- **Review of access charges** - We confirmed in our [October 2022 conclusions document](#) which changes we would make to the overall charging framework. This covered the scope and structure of the charges that are paid by train operators, as well as aspects of how some charges are calculated and billed. We have decided to implement a limited number of changes which are primarily intended to simplify this framework and ensure that it remains effective as the planned transition from Network Rail to GBR takes place.
- **Review of Schedules 4 & 8** - We concluded in our [October 2022 publication](#) that we will introduce an opt-out mechanism for Schedule 4, providing operators with the flexibility to respond to changes in the industry, while maintaining protections for those that require them. For Schedule 8, we are proposing that, if current legal requirements for a performance scheme are changed, ORR may remove the majority of requirements for Schedule 8 payments for GBR's contracted operators. The regime would not change for non-GBR operators. In addition, we are proposing to add flexibility to Schedule 8 in CP7 by allowing for the regime to be recalibrated during the control period under unexpected and material changes in circumstances.

Forward look

Looking forward to the remainder of the periodic review, we will continue to work with Network Rail, funders and the industry to enable the upcoming milestones to be met:

- We expect to receive Scottish Ministers' HLOS and SOFA on 27 January 2023.
- Network Rail is developing its SBP and will submit this to ORR by 24 February 2023, followed shortly by other information required for our draft determination.
- Network Rail will publish key aspects of its SBP in Spring 2023.



- We expect to consult on our draft determination in June 2023, seeking stakeholders' views on our review of Network Rail's SBP, including the proposed funding and outputs decisions for CP7.
- Having consulted with stakeholders, we expect to issue our final determination by 31 October 2023, which will set out our decisions on Network Rail's delivery and funding for CP7.
- We expect to issue our Review Notice by December 2023 and (assuming that Network Rail does not object to the Review Notice) our subsequent Notices of Agreement and Review Implementation Notices which will give effect to the decisions made in time for CP7 to commence from 1 April 2024.

Next steps

The next few months will focus on the submission and assessment of Network Rail's SBP. In parallel, we will continue to work with Network Rail and wider industry on the recalibration of charges and Schedule 4 and Schedule 8 parameters for CP7. We will also develop the trajectories for the CP7 outcome measures. We will consult on the full package of our PR23 decisions through our draft determination planned for June 2023.

There is more information on the wider programme, publications and timeline available [on our website](#). If you have any views on the information set out in this letter, please contact us via pr23@orr.gov.uk.

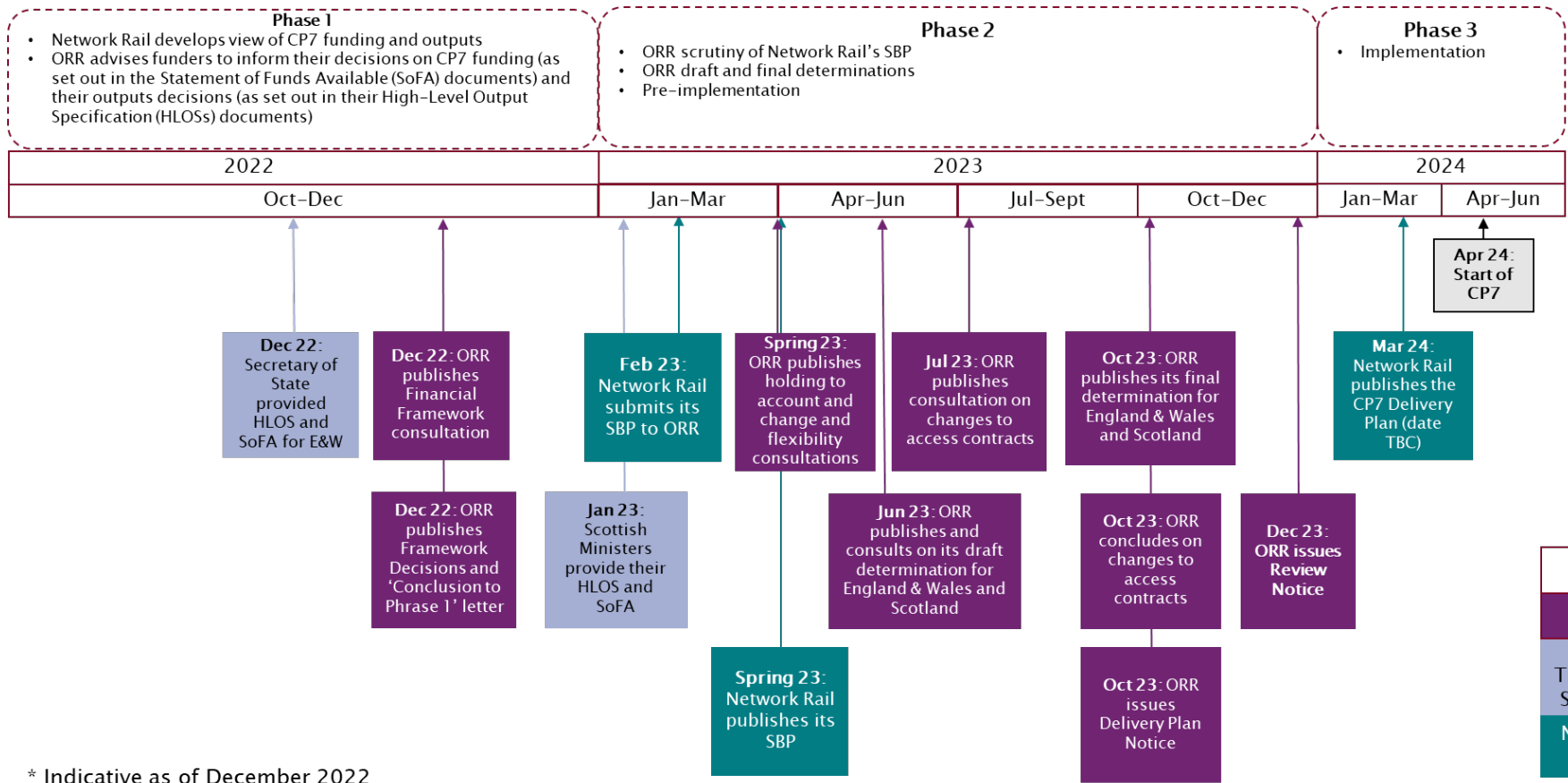
We look forward to working with you over the year ahead.

Yours faithfully

A handwritten signature in black ink, appearing to read 'W Godfrey', written over a horizontal line.

Will Godfrey

Annex 1 – Indicative PR23 timeline



* Indicative as of December 2022
 ** Timeline may change to adapt to changes to the programme