



Annual report and accounts 2022 to 2023

Strategic objective 3: Value for money from the railway

ORR works to ensure that the railway is run in the most efficient way for users and funders and holding Network Rail to account is a key role for us. We also regulate other significant elements of the national rail infrastructure, including High Speed 1 (HS1) and the UK portion of the Channel Tunnel. In addition, we have a number of roles that help secure a better deal for rail users now and in the future.

Our business plan for 2022-23 set out a number of priority areas for delivery during the year: carrying out various reviews of Network Rail's activities; consulting on the 2023 Periodic Review (PR23) and advising government on funding and outputs for the next Control Period (CP7) starting in 2024; consulting on our approach to the 2024 Periodic Review of High Speed 1; monitoring implementation of our recommendations on competition in the GB signalling market; and publication of official statistics.

Holding Network Rail to account

One of the ways in which we support value for money from the railways is by holding Network Rail to account for its efficient management of the rail network in Great Britain and its delivery to a wide range of stakeholders. We monitor how it is supporting a reliable and punctual train service, how it is maintaining and renewing its assets, and how it keeps the network safe and in good condition. We hold it to account against its obligations in its network licence and against its committed targets set for each five-year control period and in its business plan.

In July 2022 we published our Annual Assessment of Network Rail, which covered performance in

year three of Control Period 6 (CP6) (April 2021 to March 2022). We reported that overall performance was mixed. Network Rail helped keep the railway running safely and efficiently despite continued challenges from the coronavirus pandemic, with recent data confirming that Great Britain continued to have one of the safest railways in Europe. While train performance had worsened from the record levels of the previous year as the network became busier, it was generally at acceptable levels.

Most regions had met or exceeded their annual efficiency targets for the year, and overall Network Rail had reported £840 million of efficiency improvements for the year, ahead of its £830 million target. However, we warned that the company must carefully manage its financial risks, particularly in the context of rising inflation. We also highlighted that Network Rail needed to make improvements to how it manages its assets, with asset reliability varying across each of Network Rail's five regions. While Eastern and Southern regions achieved their asset reliability targets, North West and Central, Wales and Western, and Network Rail Scotland failed to achieve their targets for the year.

In September we published our Annual Assessment of Network Rail's stakeholder engagement, also covering year three of CP6. We reported that performance on stakeholder engagement remains strong overall, with evidence of some improvements that relevant business units have made in their approach. When we asked stakeholders to rate the overall quality of Network Rail's engagement, we found this has declined slightly from our year two assessment. We again recommended that Network Rail's Senior Leadership Team and Board drive forward a strong culture of stakeholder engagement whilst continuing to support locally tailored engagement across the relevant business units.

During 2022-23, we completed five Targeted Assurance Reviews (TARs), five independent reports and one consultant report looking at various aspects of the way Network Rail approaches the management of its assets.

Examples of the reports we have published include the following:

- the accuracy of recording of maintenance activities within Network Rail's Maintenance Delivery Units (MDUs), which found data quality weaknesses that required improvement.
- the effectiveness of structures examination compliance, where we identified the extent of non-compliance and prompted Network Rail to produce recovery plans to a compliant state.
- technology adoption, which led to Network Rail agreeing to put greater emphasis on

- change management, identified as an obstacle to the adoption of technology.
- management of depot plant assets, where we identified that the standards for maintenance were not being strictly adhered to and required Network Rail to improve its asset management process around depot plant.
 - management of vegetation assets, which required Network Rail to develop more robust plans for vegetation management; and
 - the effectiveness of Network Rail's contract management, where we identified some shortcomings but noted that a new framework had been developed and was yet to be fully embedded into the regions.

Beyond activities identified in our business planning we also undertook TARs on traction power modelling and capability, Network Rail's approach to maintenance, an IR on the transition from CP6 to CP7 and a Consultant Report on embedded risk.

Periodic review 2023

Work continued on preparing for the 2023 periodic review, which determines what Network Rail must deliver in Control Period 7 from 2024 to 2029 (CP7) and the funding it requires to do this. Periodic reviews are one of the principal mechanisms by which we hold Network Rail to account and secure value for money for users and funders of the railway, and this year we have continued our collaborative, cross-industry approach, working closely with funders (in England and Wales and in Scotland), Network Rail and industry stakeholders.

We provided formal independent advice to the UK and Scottish governments to inform their decisions on CP7 funding and outputs. On 1 December 2022, the UK Government issued its Statement of Funds Available (SoFA) and High-Level Output Specification (HLOS) for England and Wales. The Scottish Ministers' SoFA and HLOS followed on 3 February 2023. Both governments' HLOSs expect Network Rail to maintain a strong standard of safety, deliver cost efficiency and achieve value for money for taxpayers, maintain focus on punctuality, reliability, and asset and environmental sustainability, including resilience to claim to change. These requirements are consistent with our PR23 key objectives of safety, performance, asset sustainability, and efficiency.

We issued Network Rail with guidance in July 2022 about our requirements for its Strategic Business Plan (SBP). Following publication of the SoFA and HLOS decision, Network Rail issued its SBP to ORR in February 2023.

We issued several PR23 consultations during the year. In April 2022 we launched a consultation on charging frameworks, with conclusions published in October (when we also published the policy conclusions for the CP7 incentive regime). In July 2022 we published the policy framework for our approach to holding Network Rail to account, with conclusions published in December. Alongside this we published the consultation and conclusions on our technical consultation on the outcome measures for CP7. In December we consulted on our financial framework for CP7.

High Speed 1

In August we published our annual report on HS1 Ltd for the period April 2021 to March 2022. We noted continued operational outperformance and good progress in responding to recommendations made in our previous periodic review, PR19. Our report expressed concern about HS1 Ltd's ability to deliver its planned renewals for the control period 2020-2025 and asked that the company undertook more rigorous monitoring and assurance of its contractors' plans.

In October we consulted on our approach to PR24, our next five-yearly review and published our approach document in January 2023 setting out the increased scope of our duties to include stations on the route; and our intention to work with HS1 Ltd and its stakeholders to better understand and account for the uncertainty in the railway system following the coronavirus pandemic.

Promoting competition

We have continued our work monitoring and taking action to promote competition and tackle anti-competitive behaviour in railway markets.

Following recommendations made in our 2021 market study on GB signalling procurement, we have actively monitored Network Rail's progress towards implementation and in July 2022 published an update paper. This reported that progress has been made towards revising the approach to procurement and a new framework for CP7 and CP8 has been published. The update was followed by a final report on overall progress and next steps in April 2023.

We continued to monitor progress against the recommendations in our 2019 competition study into automatic ticket gates and ticket vending machines and published a monitoring update report in December 2022. In this we concluded that progress had been made in generating and improving

competition and innovation, although challenges remain, particularly in relation to access to TfL's network.

On the open access market and our commitment to monitor annually the impact of open access operators on the network, we published our third report in April 2022, and our latest report was published in May 2023. Our aim is to ensure that benefits for all rail users and funders are maintained. Our 2022 report found that despite the pandemic presenting significant challenges, open access operators see an important role for their services in supporting the re-growth of rail travel.

In addition to our own-initiative competition work, we have provided expert advice and support to the Competition and Markets Authority (CMA) throughout its merger inquiry into the proposed acquisition by Hitachi of Thales' ground transportation systems business. The CMA's inquiry was launched in October 2022 and the statutory deadline to conclude the inquiry is 11 August 2023.

Information and analysis

ORR is the primary producer of official statistics for the rail industry. The majority of our statistics have been assessed by the Office for Statistics Regulation and have been designated as 'National Statistics'. This means that they meet the highest standards of trustworthiness, quality, and value, as set out in the Code of Practice for Statistics.

During the year we continued to publish a range of quarterly and annual statistics on our data portal. These cover a range of key areas for rail, including safety, passenger experience, finance, emissions and our quarterly statistics on Passenger Rail usage and Passenger Rail Performance, which are an important and valuable tool for continuing to scrutinise the performance of operators and for elevating the focus on recent performance issues that have emerged in the industry. The data portal includes published summaries and a suite of data tables and interactive dashboards, used by a wide range of stakeholders including policymakers, passenger watchdogs, academia and consultants, media, and the public.

In November 2022 we published our Rail Industry Finance (UK) annual statistics, reporting income and expenditure for Network Rail, passenger operators and other sectors of the UK rail industry. We reported that the rail industry has made progress in recovering from the pandemic, as passenger volumes and revenues have begun to recover, but significant economic challenges remain. Total rail industry income in the latest year was £21.3 billion, a decrease of 0.9% when

adjusted for inflation, and including £13.3 billion of government funding. Total expenditure was £22.8 billion, up 3.9% largely because of increased finance costs.

As an accompanying report to our Annual Efficiency and Finance Assessment of Network Rail, we issued the Rail Industry Employment Cost Study, taking a whole industry approach. The study compared pay and total reward (which includes pension costs and other measurable benefits) of 64,459 rail industry workers. While the complexity of rail pay arrangements can make data capture and consistent comparisons difficult, the study found that in some areas of the industry, pay and conditions are favourable when compared with the wider market.