# PR23 draft determination:

## Settlement document for Scotland

**15 June 2023**

# About this document

This is one of six settlement documents of our draft determination for the 2023 periodic review (PR23).

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 during control period 7 (CP7), which will run from 1 April 2024 to 31 March 2029, and how the available funding should be best used to support this.

This strongly influences:

- the service that passengers and freight customers receive and, together with taxpayers, ultimately pay for; and

- the charges that Network Rail's passenger, freight and charter train operator customers pay to access its track and stations during CP7.

Our draft determination sets out:

- our review of Network Rail's strategic business plan (SBP); and

- decisions on its proposed outcome delivery and its planned expenditure to secure the condition and reliability of the network;

- changes to access charges and the incentives framework; and

- relevant policies on managing change and the financial framework.

In addition to **this document**, we have also published as part of our draft determination:

| Document type | Details |
| --- | --- |
| **Executive summaries of our determination** | Our key proposals from our draft determination for:<br>• England & Wales<br>• Scotland |

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| **Overviews of our determinations** | What Network Rail will need to deliver and how funding will be allocated in:<br><br>• England & Wales<br>• Scotland |
| **Consolidated decisions** | A summary of our draft decisions across Great Britain |
| **Introduction** | An overview of PR23 and background to our draft determination |
| **Settlement documents** | Detailed draft decisions for each of:<br><br>• **<u>Scotland</u>**<br>• Eastern region<br>• North West & Central region<br>• Southern region<br>• Wales & Western region<br>• System Operator |
| **Supporting documents** | Technical assessments of:<br><br>• Health and safety<br>• Outcomes<br>• Sustainable and efficient costs<br>• National Functions<br>• Other income |
| **Policy positions** | How we intend to regulate Network Rail during CP7 in relation to:<br><br>• Financial framework<br>• Access charges<br>• Schedules 4 & 8 incentives regimes<br>• Managing change |

# Responding to the consultation on our draft determination

We are consulting on our draft determination and welcome comments from stakeholders on any of our documents which form the draft determination on or before 31 August 2023.

Responses should be submitted in electronic form to our inbox: PR23@ORR.gov.uk. We request stakeholders provide their response using this proforma.

We intend to publish all responses on our website alongside our final determination in October 2023. Annex A to our proforma document sets out how we will treat any information provided to us, including that which is marked confidential.

# Next steps

After taking account of stakeholder responses, we expect to issue our final determination on Network Rail's delivery and funding for CP7 by 31 October 2023.

We expect to issue our review notices by December 2023 and, subject to Network Rail's acceptance, issue notices of agreement and review implementation notices. These will give effect to the decisions made during PR23 in time for CP7 to commence from 1 April 2024 and for Network Rail to develop its plans for delivery.

# Context of the Network Rail Scotland strategic business plan

This draft determination settlement document is based on Network Rail Scotland's 'interim' strategic business plan (SBP), which was shared with ORR on 24 February 2023, and a limited amount of supporting information shared with us after that date.

This plan was considered 'interim' by Network Rail Scotland due to the short time it had to finalise its plans after the publication of the Scottish Ministers' High Level Output Specification (HLOS) and Statement of Funds Available (SoFA). The Scottish Ministers' HLOS and SoFA were shared with Network Rail and ORR on 27 January 2023, in line with the date set out in our Review Initiation Notice and published shortly thereafter (on 3 February 2023).

In the time available, Network Rail Scotland was not able to fully align its plans to the HLOS and SoFA, and the amount of funding Network Rail Scotland forecast it would spend was lower than that which the Scottish Ministers made available. Network Rail Scotland has worked on a 'final' SBP which it expects to publish after our draft determination.

Areas where we are aware notable changes have been made in the final SBP include the prioritisation of asset management funding and the forecasts for train performance in CP7. We will assess changes made in the published SBP alongside any responses received to this draft determination consultation in our final determination, which is due for publication by 31 October 2023.

# 1.   Summary of Network Rail Scotland's key proposals

## Overview

1.1     Network Rail Scotland manages Scotland's rail infrastructure covering a large area from the Borders to Wick and Thurso in the far North East of Scotland. Network Rail Scotland has a particular challenge in managing a diverse network which includes busy intercity lines between Scotland's eight cities, as well as less-travelled and more remote lines in the highlands.

1.2     Passenger rail services in Scotland are operated primarily by ScotRail Trains Limited (ScotRail), the publicly owned passenger operator in Scotland. Network Rail Scotland works closely with ScotRail and will need to collaborate closely with it in the development of its plans for CP7.

1.3     Other passenger operators running cross-border services into and out of Scotland include Serco Caledonian Sleeper, London North Eastern Railway (LNER), Avanti West Coast (AWC), Lumo, CrossCountry and TransPennine Express (TPE).

1.4     Several freight operators also run rail services both within Scotland and between Scotland and England. Focus on the development of freight capacity in Scotland is a key contributor to delivery of Scottish Ministers' net zero ambitions for Scotland.

1.5     The Scottish Ministers' High Level Output Specification (HLOS) and Statement of Funds Available (SoFA) documents for CP7 were published on 3 February 2023. Network Rail Scotland subsequently submitted an 'interim' SBP on 24 February 2023, based on planning assumptions it developed in August 2022. The Scottish Ministers' HLOS and SoFA were published later than expected in the original PR23 timeline so there were areas of this interim SBP which were not yet fully developed or did not fully align with the Scottish Ministers' HLOS and SoFA. We
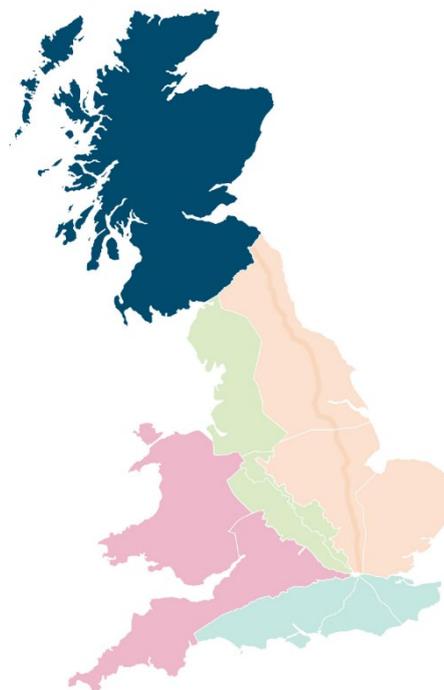
discuss the Scottish Ministers' HLOS requirements, and how these were reflected in Network Rail Scotland's interim SBP in more detail in Annex A.

1.6     The SoFA makes available £4.2 billion for CP7, which compares to approximately £4.2 billion of funding for operating, supporting, maintaining and renewing the network in CP6. Accounting for all sources of funding, Network Rail Scotland's total expenditure is forecast to be £4.8 billion in CP7, which compares to approximately £4.6 billion (expressed in 2023-24 prices, all net of electricity traction costs) in CP6. However, the available funding is constrained relative to the needs of the asset renewal cycle, and it has had to make choices about how the available funding should be prioritised to deliver best value for the railway now and in the future.

1.7     Our draft determination is based on Network Rail Scotland's interim SBP. Our view of Network Rail Scotland's published SBP (expected to be issued shortly) will follow in our final determination in October 2023.

1.8     In its interim SBP, Network Rail Scotland outlined the following key objectives for CP7:

- run a safe and reliable railway;

- reduce the net cost of the railway in Scotland in the long term;

- contribute towards delivery of the Scottish Government's net zero targets; and

- work more closely with train and freight operators.

1.9     The main features of Network Rail Scotland's interim SBP are summarised below.

## Safety

1.10    Network Rail Scotland outlined in its plan the safety framework it intends to implement in CP7 and initiatives it will undertake to support this. These include a stated focus on compliance with occupational health and safety requirements and targeted initiatives to improve the mental health and wellbeing of its workforce. It will measure delivery of its health and safety outcomes through the Fatalities and Weighted Injuries (FWI) measure, seeking improvements from control period 6 (CP6) exit levels, and Train Accident Risk Reduction (TARR) measure, which it expects to maintain at 95% through CP7.

1.11    Network Rail Scotland is planning to reduce the level of renewals it will undertake in CP7, which will require risk to be managed through increased refurbishment and maintenance of assets as well as operational controls (e.g. speed restrictions). It plans to deliver this without compromising the safety of passengers or railway workers.

1.12    Network Rail Scotland has also detailed in its plan the work it intends to undertake to improve climate change resilience and how it intends to deliver against the recommendations of the Lord Mair and Dame Slingo independent task forces, set up following the fatal derailment at Carmont in August 2020.

## Performance

1.13    In their HLOS, the Scottish Ministers specified a Scotland train performance measure of 92.5% PPM, less a derogation for delays caused by speed restrictions during severe weather and by trains delayed to permit connections from late running rail and ferry services. Network Rail Scotland submitted a forecast in its interim SBP to deliver against this target from year 4 of CP7. It anticipated a deterioration in asset condition due to lower investment and a consequential increase in service affecting failures (SAFs) which it stated will make achieving its performance forecasts in CP7 more challenging.

1.14    As part of an addendum to its interim SBP, Network Rail Scotland forecast a gradual upwards trend in its passenger On Time measure from an anticipated CP6 exit of 67.3% to 68.0% by the end of CP7. It also forecast an improving trend in Passenger Cancellations, from an anticipated CP6 exit of 3.4% to 3.0% by the end of CP7.

1.15    Network Rail Scotland did not submit a performance forecast for the Caledonian Sleeper Right Time Arrivals measure in its interim SBP. Right Time Arrivals measures the percentage of trains arriving early or within 59 seconds of their scheduled arrival time. No target for this measure was set in Scottish Ministers' CP7 HLOS, although it is expected that Right Time Arrivals will remain a performance measure for the Caledonian Sleeper service during CP7. This measure is not included in our outcomes framework and we do not propose to set a trajectory for this measure.

1.16    As explained our [PR23 draft determination: supporting document on outcomes](#), we will use Freight Cancellations as a success measure in CP7, with Freight Cancellations and Lateness (FCaL) as a supporting measure. Network Rail Scotland submitted a Freight Cancellations forecast to 2.0% by the end of CP7, an improvement on the anticipated CP6 outturn of 2.44%. Its CP7 FCaL forecast,

from an expected CP6 exit of 6.08%, showed achievement of the HLOS target of 5.5% from year 3 onwards, but not in every year of CP7, so it is not consistent with the corresponding HLOS requirement.

## Freight growth

1.17   Network Rail Scotland has submitted a forecast to deliver freight growth (freight net tonne kilometres moved) of 8.7% by the end of CP7. This is based on assumptions about potential new growth on existing routes without further investment, including areas where the number of wagons carried on some services could be increased, and projections for areas where further investment could increase growth potential on the network. Network Rail Scotland has balanced this forecast against the challenging environment the freight sector is operating in, with high fuel prices and material and demand shortages impacting on the rail freight being carried in CP6.

## Asset sustainability

1.18   Although Network Rail Scotland expected more assets to be "due" for renewal in CP7 than in CP6, to meet the cost challenge it has reduced its anticipated renewals spend by approximately 14% on CP6 levels, focussing on refurbishment and life extension rather than renewal of existing assets in CP7. Funding in its interim SBP has been focussed on earthworks and drainage in particular, with reductions in track, electrification & plant and signalling spend. It expects this to lead to an overall reduction in its Composite Sustainability Index (CSI) of 3.4 percentage points, an increase in SAFs and cost pressures in future control periods. The interim plan considers that maintaining forecast CP7 exit, asset condition would require an additional £0.9 billion spend on renewals across CP8 and CP9 combined. Additional funding of £0.6 billion would be required to recover the asset condition forecast to be lost in CP7, so Network Rail Scotland anticipated that the total spend required to reinstate assets to similar condition to CP6 would be £1.5 billion.

1.19   Network Rail Scotland is anticipating an increase in required maintenance in CP7 due to the reduction in renewals. It is making changes to its maintenance function through its modernising maintenance initiative and expects to optimise its maintenance activities in CP7 through deployment of Intelligent Infrastructure and research, development and innovation initiatives.

## Accessibility of stations

1.20   On accessibility of stations, the interim SBP generally does not include specific discussion around Network Rail Scotland's commitment, strategy or any specific

schemes to be deployed in CP7. Despite that we found that there will be an increase in the number of lifts and escalators renewed in Scotland in CP7, with most of these interventions taking place at Network Rail managed stations. We are aware that Network Rail Scotland is working to develop a new accessibility strategy and we expect to provide further comment on this in the final determination.

## Cost efficiency

1.21    Network Rail Scotland's plan assumes delivery of £429 million of efficiencies, of which £380 million will be regionally delivered with the remaining £49 million allocated from Network Rail's national functions. Network Rail Scotland has also included around £160 million of input prices in its plan, as well as net headwinds and tailwinds of £82 million. Therefore, the net efficiency in its interim SBP is £187 million.

1.22    Of Network Rail Scotland's £380 million of forecast regional efficiency, £194 million is linked to recognised initiatives, with £186 million of additional "transformational" efficiency assumptions included to meet Network Rail Scotland's cost challenge. The forecast is based on delivering 10% opex efficiency and 15% capex efficiency by the end of CP7 (compared with CP6). Network Rail's internal assurance noted that Scotland's plan lacked "sufficient detail and evidence" and was "at a lower stage of maturity than other areas".

## Financial risk

1.23    Network Rail Scotland has put £206 million into a financial risk provision, to help manage unforeseen risks during CP7. Its analysis suggests that this would fall far short of the funding required to deliver a 'P50' plan (i.e. with an equal chance of the plan being delivered for the funding available).

1.24    Given the timing of the publication of the Scottish Ministers' HLOS and SoFA and the interim SBP, Network Rail Scotland's interim SBP did not fully allocate all the funding made available by Scottish Ministers. The £221 million 'gap' between the interim SBP spend and the SoFA was temporarily added to the risk provision, until Network Rail Scotland completed further planning rounds. Therefore, total risk provision in the interim SBP was £427 million, although this is expected to reduce in the final SBP.

## Stakeholder engagement

1.25    In its interim SBP, Network Rail Scotland stated that its plan needed further development, including "further stakeholder engagement with a wider set of

stakeholders". Our assessment is based on the interim SBP submitted in February 2023 and we will update our assessment, if necessary, in our final determination.

## Delivery of funder requirements

1.26    Scottish Ministers highlighted six strategic priorities in their CP7 HLOS, with the intention that delivery of these would support the delivery of the National Transport Strategy in Scotland. These were:

- safe, robust and reliable services;

- optimum use of capacity and capability;

- meeting the "net cost" challenge for the network and delivering 'Value for Money';

- effective integration;

- inclusive and sustainable economic growth; and

- achieving net zero and climate change adaptation and resilience.

1.27    Network Rail Scotland has developed its own vision and objectives, which it has set out in its interim SBP. Whilst these are not identical to those above, the objectives are complementary.

# 2. Our findings and draft decisions on Network Rail Scotland's interim strategic business plan

2.1 Our detailed assessment of Network Rail Scotland's plan is set out in our supporting documents to the draft determination, specifically the PR23 draft determination: supporting documents on health and safety, outcomes and sustainable and efficient costs.

2.2 We have assessed Network Rail Scotland's plan against guidance which we issued to it in July 2022.

2.3 The main issues pertinent to Network Rail Scotland from our assessment are discussed below. Our assessment has focused on the delivery of four key objectives, including:

(a) **Safety**: the rail network must be maintained in a safe condition for all of its users, workers and the public;

(b) **Performance**: the railway must be customer focused, making effective use of its capacity to deliver passenger and freight services that are punctual and reliable;

(c) **Asset sustainability**: assets must be planned and managed to deliver their greatest value over the course of their operational lives; and

(d) **Efficiency**: Network Rail must be subject to stretching but realistic efficiency targets.

2.4 These are consistent with the strategic priorities that the Scottish Ministers outlined in their HLOS published earlier this year and the HLOS further adds objectives around optimising the railway network in Scotland and further integration between track and train. We have discussed the HLOS and Network Rail Scotland's plans to deliver each of its key outputs in more detail in Annex A.

## Safety

2.5 A summary of our safety review of Network Rail Scotland's plans is provided here, however for our more detailed assessment of its CP7 plans, please see our PR23 draft determination: supporting document on health and safety.

2.6     We recognise that the constrained funding available requires Network Rail Scotland to conduct fewer renewals and more maintenance during CP7 in comparison to CP6. However, our assessment (supported by the findings of Network Rail's own Technical Authority) identified insufficient demonstration of mitigations to manage the increase in risk posed from some core assets. We consider that the additional expenditure we propose on structures renewals in the asset sustainability section below ought to address the main vulnerabilities. We do however anticipate that Network Rail Scotland will still need to conduct more maintenance than it has during CP6.

2.7     Network Rail Scotland must continue to assess and manage its risk exposure throughout CP7. We will also monitor risk exposure during CP7 through our monitoring and inspection work. For our final determination we expect Network Rail Scotland to provide evidence of how it will manage the change in risk profile which results from conducting fewer renewals, accounting for any increase in core renewals that it plans to take following our proposal.

2.8     We also expect it to demonstrate that its proposed maintenance plans are sufficient to support the increased demand on its maintenance function. Network Rail Scotland provided clearer information on this in additional submissions, following the submission of its interim SBP, including internal and external assurance of its plans. This gives us some confidence that its plan contains sufficient maintenance resource and we note more work is being done on this.

2.9     The success of Network Rail Scotland's proposed approach is reliant on implementing its 'modernising maintenance' programme without losing knowledge, capability and expertise in many asset safety areas and safety-specific advice roles. We are supportive of this programme but require Network Rail Scotland to demonstrate that it will deliver the necessary efficiencies within the resources available and sustain the necessary capability to maintain the assets. Implementation of modernising maintenance remains work in progress and more work is required to demonstrate the adequacy of planned resources under the new regime.

2.10    We found climate change resilience and the recommendations from the independent Lord Mair and Dame Slingo task forces to be a clear focus of activity and increased funding in Network Rail Scotland's interim SBP. Positively, the plan significantly increases resources for the range of activities needed to address the effects of climate change, including engineering improvements, remote condition monitoring, and control room capability. For the final determination we expect Network Rail Scotland to provide more details of its proposals regarding

earthworks and drainage, to demonstrate how it is implementing the action plans developed following the Carmont investigations.

2.11 Further,

(a) On track worker safety Network Rail Scotland has not provided sufficient evidence of funded activity to ensure that improvements are delivered through CP7.

(b) The plan only makes limited reference to occupational health and does not yet demonstrate that funds and activity will be sufficient to achieve compliance.

(c) The interim SBP contains limited information on arrangements to achieve compliance with requirements on fatigue. Through discussion, Network Rail Scotland has demonstrated that the fatigue challenge is recognised and accepted, but further information is needed setting out how this is addressed in the plan.

(d) On level crossings, the plan identifies the need to reduce level crossing risk and commits to continue to deliver 'important changes' but provides limited detail on the scope of those changes. Better evidence is required to demonstrate that the plan is sufficient to address changes in level crossing safety risk as local conditions and usage changes, in addition to managing risk from asset condition and age.

## Performance

### Scotland train performance measure

2.12 The Scottish Ministers' HLOS specifies a passenger performance target using the public performance measure (PPM) but includes a dispensation for delays caused by blanket speed restrictions implemented due to severe weather and those caused by connections held for late running trains and ferries. Our draft determination has included the train performance measure specified in the HLOS in the outcomes framework in recognition of its importance to Scottish Ministers. We refer to this as the 'Scotland train performance measure', which will be the primary CP7 measure we will use to hold Network Rail Scotland to account for its contribution to passenger train performance.

2.13 Network Rail Scotland's interim SBP forecast that it would not meet this target until year 4 of CP7 and although the interim SBP included forecasts that would meet this target sooner, these were dependent on unconfirmed plans and/or funding.

Our assessment is that delivery of the train performance measure forecast for CP7 is likely to be particularly challenging.

2.14   We have set the baseline trajectory for the Scotland train performance measure at 92.5% for every year of CP7, to reflect the Scottish Ministers' HLOS requirement for Network Rail Scotland and their ambition for a high performing railway in Scotland. We will hold Network Rail Scotland to account for delivery of its initiatives that support achievement of this measure, in line with the requirements of the Scottish Ministers' HLOS and recognising that this is a joint measure to which both Network Rail Scotland and ScotRail contribute. While we recognise there are risks to the delivery of this trajectory for each year of CP7, we consider it appropriate to require Network Rail Scotland to deliver against this trajectory to the greatest extent reasonably practicable, having regard to all relevant circumstances.

2.15   Following further challenge from ORR on its forecast for the Scotland train performance measure, Network Rail Scotland provided an updated performance forecast after its interim SBP submission. However, the forecast towards delivery of the Scotland train performance measure remains the same (not delivered until year 4 of CP7). Given the timing of this submission, we have not been able to complete a detailed assessment of the updated forecast and will set out our final assessment on this in our final determination.

**Other performance measures**

2.16   To provide an additional reputational incentive we will also use the 'On Time', 'Passenger Cancellations' and 'Freight Cancellations' measures in the CP7 outcomes framework to make regional comparisons across Great Britain. Network Rail Scotland stated that the forecasts it submitted for On Time performance were based on regression analysis from its forecast for the Scotland train performance measure but did not provide supporting evidence for this. Our view is that the interim SBP forecast for On Time does not appear to align with the level of challenge in its Scotland train performance measure forecast due to the different impact that trains being held to enable connections has on these two measures. We undertook regression analysis to produce an On Time trajectory that had a consistent level of challenge with Network Rail Scotland's forecast of the Scotland train performance measure. We discuss this further in our PR23 draft determination: supporting document on outcomes.

2.17   We are not satisfied that Network Rail Scotland's Passenger Cancellations success measure forecasts are sufficiently ambitious, especially when compared to historic performance. We are setting a more challenging trajectory for this

measure, as outlined in our [PR23 draft determination: supporting document on outcomes.](#) Our proposed trajectories for On Time and Passenger Cancellations are outlined in Table 2.2.

2.18     The punctuality and reliability of freight services is important to freight operators and their customers. It is an essential enabler for the targeted growth in rail freight in Scotland during CP7.

2.19     While the moving annual averages for Freight Cancellations and FDM-R (used in CP6 and which is the reverse of the Freight Cancellations and Lateness (FCaL) measure) are higher (poorer performing) in Scotland than usual at the end of 2022-23, we expect these to reduce significantly as the impact of industrial action during the year phases out. Consequently, lower outturns are expected by the end of CP6. We agree with Network Rail Scotland that it is appropriate to set trajectories for CP7 that are lower than current levels, although consider these could be more challenging than the forecasts Network Rail Scotland has submitted.

2.20     Scottish Ministers set a target for FCaL of 5.5% for every year of CP7 in their HLOS and Network Rail Scotland submitted a forecast for this measure in its SBP which is not consistent with the HLOS target. We have not proposed a trajectory for FCaL in our draft determination as it is a supporting measure in our outcomes framework. We will hold Network Rail Scotland to account for its delivery against this target and we expect it to include a forecast for this in its CP7 delivery plan. The obligation on Network Rail Scotland is to achieve the target to the greatest extent reasonably practicable having regard to all relevant circumstances. Given this is an HLOS requirement, we will place more focus on FCaL performance in Scotland as part of our monitoring and holding to account approach.

2.21     As our success measure for freight train performance is Freight Cancellations, we have set a baseline trajectory for this in CP7. We have set this to be consistent with the trajectories for England & Wales for each year of CP7, at 5% below the 4-year historical average, as set out in Table 2.2. This is a more challenging trajectory than Network Rail Scotland submitted in its SBP.

2.22     Network Rail Scotland did not submit a forecast for delivery of Right Time Arrival performance for the Caledonian Sleeper service, as no target was specified in the HLOS and this is not a formal measure in our outcomes framework. At the end of 2022-23 Network Rail Scotland is exceeding the CP6 Right Time Arrivals target of 80%, so absence of a forecast for Right Time Arrival is not of significant concern. If

a similar target is set by Transport Scotland for the Caledonian Sleeper service in CP7, Network Rail Scotland should find this achievable.

**Targeted performance fund**

2.23 We propose a targeted train performance fund that will support Network Rail Scotland in making its contribution towards the Scottish Ministers' stretching performance target. This fund would only apply in Scotland. We propose this fund is split between asset renewals and operational interventions, for example working collaboratively with train operators. For illustration, based on the 24 February interim plan we calculate that approximately £100 million could be available for a targeted performance fund (see below). However, we anticipate this amount will change as Network Rail Scotland evolves its plans and as assumptions on available funding change (e.g. due to updated inflation forecasts).

2.24 We recognise that Network Rail Scotland continues to engage with ScotRail Trains Limited, Transport Scotland and us on the level of train performance it forecasts to deliver in CP7. We expect it to reflect our proposals for a targeted performance fund as it continues to evolve its plans and provide an update ahead of our final determination on how it proposes to contribute to the Scotland train performance measure baseline trajectory of 92.5%.

## Freight growth

2.25 We consider Network Rail Scotland's freight growth (freight net tonne kilometres moved) forecast of 8.7% by the end of CP7 to be deliverable and agree with the forecast it has included in its interim SBP. This is discussed more fully in our PR23 draft determination: supporting document on outcomes and our trajectory for freight growth is set out in Table 2.2.

## Asset sustainability

2.26 We understand that to meet the cost challenge and stay within the funding envelope for CP7 it was necessary for Network Rail Scotland to plan for lower levels of renewals in CP7. We agree with Network Rail Scotland's assessment that this will impact on asset sustainability, with a decline in the Composite Sustainability Index (CSI), although any consequential impact on SAFs is difficult to quantify. We discuss these impacts and how the plan has prioritised specific assets in more detail in our PR23 draft determination: supporting document on sustainable and efficient costs although we have highlighted the key considerations below.

2.27    We are satisfied that the constrained funding does not need to result in undue concerns for the safety of assets or performance during CP7, if risks are fully assessed and managed. However, the constrained funding does not allow Network Rail to take a lowest whole life cost approach to managing railway infrastructure. Consequently, returning to lowest whole life cost management will require additional expenditure beyond the CP7 level.

2.28    We are concerned about the condition of Network Rail Scotland's structures assets, which is corroborated by the company's Technical Authority internal assessment of CP7 plans. We believe that additional funding should be focussed on these assets in CP7, in particular its metallic structures, to reduce the risk of safety or performance implications from their anticipated deterioration. This would be funded from the £221 million 'gap' between Network Rail Scotland's interim SBP and the funding made available in the SoFA.

2.29    Given the increasing impacts of climate change on the railway infrastructure, particularly on earthworks and drainage assets, we agree with Network Rail Scotland's proposal that targeting additional spend on earthworks and drainage to maintain asset condition and reduce safety risk is necessary. Network Rail Scotland also identified additional drainage assets in CP6 as part of it building a drainage system database, so we would expect additional spend in this area in comparison with CP6 to manage these newly identified assets.

2.30    A reduction in track spend is consistent with the region's move to increased refurbishment of assets, instead of renewal. The overall profile of track condition is relatively good, enabling Network Rail Scotland to prioritise other core renewals.

2.31    The negative CSI forecast Network Rail Scotland has submitted is consistent with the lower levels of renewals spend planned in CP7 as CSI forecasts have a strong link to Network Rail's planned renewal volumes and spend. We are confident in the methodology Network Rail has used to forecast CSI, based on our review of its plans and supporting information, as well as our engagement with the Technical Authority and previous reviews of CSI during CP5 and CP6.

2.32    We agree that Network Rail Scotland's forecast for CSI in CP7 (-3.4 percentage points) is consistent with the renewals plans in its interim SBP. Although we are proposing increased investment in its core renewals, we expect the impact of this on CSI to be minimal. Therefore, the trajectory we have set for CSI is consistent with Network Rail Scotland's interim SBP forecast.

2.33    Network Rail's plans for maintenance continue to evolve and we have been working with the company and its Technical Authority on these since the interim SBP. An overview of that work is provided in our PR23 draft determination: supporting document on health and safety and our PR23 draft determination: supporting document on sustainable and efficient costs.

2.34    To support the Scottish Ministers' net-zero objectives, we want to ensure that the baseline trajectories we set for Network Rail Scotland's environmental sustainability measures are sufficiently challenging in CP7. We agree with Network Rail Scotland's forecast for reducing carbon emissions scope 1 & 2 in its plans, although we have presented this differently to be consistent with England & Wales trajectories. Expressed relative to CP6 exit rather than relative to 2018-19, the trajectory is -21.2 percentage points for CP7 exit. However, we do have concerns about Network Rail Scotland's plans to use external carbon off-setting as our expectation is for it to look for opportunities regarding practices and designs within its own portfolio of works and asset base to achieve these improvements.

2.35    We do not think that the Biodiversity Units forecast Network Rail Scotland has included in its interim SBP is sufficiently challenging. We are proposing a more challenging Biodiversity Units trajectory of 4.0 percentage points for Network Rail Scotland which we consider it can deliver (as this is consistent with the challenge other regions have been set).

## Cost efficiency

2.36    We support Network Rail Scotland's objectives to drive down costs, to deliver against the Scottish Ministers' net cost challenge. Network Rail Scotland's efficiency targets should be stretching, but also achievable. There are risks to setting an efficiency target that may not be deliverable, for example that Network Rail Scotland could find itself short of funding in CP7 and be unable to deliver other aspects of its plans.

2.37    Network Rail Scotland's regional efficiencies target of £380 million appears challenging, particularly as lower levels of renewals are planned for CP7, from which a significant proportion of efficiencies are traditionally delivered. We recognise that to address this, Network Rail Scotland has stated that £186 million of its efficiencies will come from "transformational" initiatives, but little evidence has been provided as to how these will be delivered. Network Rail Scotland has targeted similar types of efficiencies to address funding challenges in CP6, but these have not fully delivered the planned savings.

2.38    Further, we have conducted econometric analysis of Network Rail's maintenance and renewals costs. This showed that Network Rail Scotland could achieve efficiencies of between 1.0% and 6.0% on maintenance and 0.0% to 0.4% on renewals. Whilst we are still reviewing this data, it highlights that the efforts that Network Rail Scotland has already made to drive down costs will make delivery of further efficiencies challenging.

2.39    Although Network Rail has set out high-level plans for how it will deliver some of the efficiency improvements which would be required in CP7, we do not have sufficient information to fully assess its plans at this stage. Ahead of our final determination we expect Network Rail Scotland to review its efficiency proposals and demonstrate that they are deliverable. Our view is that the efficiencies target Network Rail Scotland has included in its interim SBP is challenging and potentially adds to the risk in the plan. We discuss this in more detail in our PR23 draft determination: supporting document on sustainable and efficient costs.

## Financial risk

2.40    Network Rail Scotland is proposing a much lower risk provision (£206 million) than it had in CP6 (£329 million in cash prices) with its own analysis suggesting that in CP6 it spent considerably more than this due to unforeseen risks. The COVID-19 pandemic was a significant factor driving the high use of risk funding in CP6 and Network Rail Scotland has recognised shortcomings in, and worked to improve, its governance over how its risk provision is spent. We expect this to continue into CP7 and be complemented by our policy approach, as set out in our [PR23 draft determination: policy position on the financial framework](#), to increase scrutiny and transparency around Network Rail's risk provisions.

2.41    Adequate risk provision will help Network Rail Scotland to manage unforeseen risks and avoid it having to cancel planned renewals to free up funding. Given the challenging economic environment in CP7, the efficiency stretch noted above and that Network Rail Scotland is planning a lower level of renewals, there is limited scope to reduce any planned renewals without impacting on the performance or safety of the railway in Scotland. Therefore, we think it would be prudent for Network Rail Scotland to increase the level of its risk provision, using a proportion of the unallocated funding which remains once it has prioritised our proposed increase on core renewals. Based on the values in the interim SBP, the provision could be increased by up to approximately £100 million.

## Proposed adjustments to Network Rail Scotland's interim SBP

2.42    We anticipate the overall funding available will be adequate for Network Rail Scotland to deliver its commitments across the network in CP7. Based on the interim plan we received on 24 February we have identified several sources Network Rail Scotland could use to fund the increases in expenditure proposed in our draft determination.

2.43    There is £221 million of funding which is included in the SoFA but was not anticipated when Network Rail Scotland developed its plan, which was temporarily added to the risk provision in the interim SBP.

2.44    As set out in Table 1.6 in our PR23 draft determination: supporting document on sustainable and efficient costs: Part 1, we have proposed changes for our different view on input prices, to account for the anticipated cost of the latest Office for Budgetary Responsibility (OBR) inflation forecast and for a challenge we have set Network Rail Scotland on its property income.

2.45    We are also putting a challenge to Network Rail's national functions to reprofile and prioritise expenditure in some areas. Not all of these would impact on the Scotland plan, so any savings will depend on the choices Network Rail makes, for example around which programmes it targets to make savings and whether or not any costs for these programmes have been allocated to Scotland.

2.46    We have discussed above our proposal to allocate £50 million of additional funding to Network Rail Scotland's core renewals, with a focus on metallic structures. The balance of any remaining funding should be allocated to providing more adequate risk provision (i.e. closer to the amount set aside in CP6) and a targeted train performance fund.

2.47    These draft adjustments are set out in Table 2.1, along with the approximate financial impact they could have on the plan. We expect Network Rail Scotland to consider these proposals further and incorporate more detailed adjustments in later iterations of its business plans. For illustration, based on the 24 February interim plan the amount for the risk provision would be around £100 million and there would be around £100 million for a targeted train performance fund. However, we anticipate these amounts will change as Network Rail Scotland evolves its plans and as assumptions on available funding change (e.g. due to updated inflation forecasts).

**Table 2.1**     **Proposed draft adjustments to Network Rail Scotland's interim SBP**

| Purpose of adjustment | £m, 2023-24 prices |
|---|---:|
| Difference between interim SBP planning assumptions and SoFA | 221 |
| Financial adjustments | 14 |
| Reduced expenditure on projects and programmes | 16 |
| Additional expenditure for core renewals | (50) |
| Additional expenditure for risk provision | (101) |
| Additional expenditure for targeted train performance fund | (101) |
| **Net position** | **-** |

## Stakeholder engagement

2.48    Network Rail Scotland's engagement with its funder, Transport Scotland, has been strong. In relation to stakeholders, it has worked well with ScotRail but, based on the information submitted to us and our understanding of its processes for its SBP development, we have seen little evidence of wider engagement with other operators (passenger or freight) or stakeholders.

2.49    We provided guidance to Network Rail on the preparation of its SBP in July 2022, including setting out our expectations around its engagement with its full range of stakeholders. While we recognise that timescales were very tight between the publication of the Scottish Ministers' HLOS and SoFA and the sharing of its interim SBP, other Network Rail regions started engagement with their stakeholders in early 2022, and we would have expected a similar approach in Scotland.

2.50    There is limited evidence of wider engagement specific to Scotland and engagement that has taken place appears to have been specific to individual areas (e.g., on biodiversity or with its supply chain). There is no evidence in the SBP of stakeholder mapping being used to inform engagement on the SBP.

2.51    To complement our assessment, as part of our 2023 annual stakeholder engagement survey (an online survey of Network Rail's stakeholders) we asked stakeholders what they thought of Network Rail's engagement with them on its CP7 strategic business planning. For Network Rail Scotland, 33 stakeholders participated in the survey. Their responses revealed that 45% thought Network

Rail Scotland had engaged either well or very well, however 15% thought that its engagement was poor or very poor. 39% did not have a view.

2.52    Network Rail Scotland performed less well against other regions and against the four principles of good stakeholder engagement (inclusive, transparent, well-governed and effective) in its interim SBP. It is vital that Network Rail Scotland continues to engage with its stakeholders in refining its plans. This extends to the annual updates that Network Rail Scotland will make to its delivery plan throughout CP7. We expect to see improvements in Network Rail Scotland's approach to stakeholder engagement in the coming months and will assess this further as part of our annual assessment of stakeholder engagement.

**Table 2.2    Draft ORR success measure baseline trajectories for Network Rail Scotland**

| Measure | CP7 | | | | |
|---|---|---|---|---|---|
| | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
| **Train performance, passenger:** | | | | | |
| • **Scotland train performance measure** | 92.5% | 92.5% | 92.5% | 92.5% | 92.5% |
| • **On Time** | 71.2% | 71.9% | 72.3% | 72.6% | 72.6% |
| • **Passenger Cancellations** | 2.3% | 2.3% | 2.3% | 2.3% | 2.3% |
| **Train performance, freight:** | | | | | |
| • **Freight Cancellations** | 1.3% | 1.3% | 1.3% | 1.3% | 1.3% |
| **Freight growth:** | | | | | |
| • **Freight net tonne kilometres moved** | 3.8% | 4.3% | 5.7% | 8.7% | 8.7% |
| **Asset sustainability:** | | | | | |
| • **Composite Sustainability Index (CSI)** | | | | | -3.4pp |
| • **Carbon emissions, scope 1 & 2** | -4.4pp | -8.6pp | -12.8pp | -17.0pp | -21.2pp |
| • **Biodiversity Units** | 0.0pp | 1.0pp | 2.0pp | 3.0pp | 4.0pp |
| **Financial performance:** | | | | | |
| • **Financial Performance Measure (FPM)** | £0 | £0 | £0 | £0 | £0 |
| • **Efficiency (£ million, 2023-24 prices)** | 38 | 76 | 93 | 105 | 117 |

**Table 2.3    Summary of success measure forecasts in Network Rail Scotland's interim SBP**

| Measure | CP7 | | | | |
|---|---|---|---|---|---|
| | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
| **Train performance, passenger:** | | | | | |
| • **Scotland train performance measure** | 91.5% | 92.0% | 92.3% | 92.5% | 92.5% |
| • **On Time** | 67.5% | 67.6% | 67.7% | 67.8% | 68.0% |
| • **Passenger Cancellations** | 3.3% | 3.2% | 3.1% | 3.0% | 3.0% |
| **Train performance, freight:** | | | | | |
| • **Freight Cancellations** | 2.2% | 2.1% | 2.0% | 2.0% | 2.0% |
| **Freight growth:** | | | | | |
| • **Freight net tonne kilometres moved** | 3.8% | 4.3% | 5.7% | 8.7% | 8.7% |
| **Asset sustainability:** | | | | | |
| • **Composite Sustainability Index (CSI)** | | | | | -3.4pp |
| • **Carbon emissions, scope 1 & 2** | | | | | |
| • **Biodiversity Units** | 0.5pp | 1.0pp | 1.5pp | 2.0pp | 2.5pp |
| **Financial performance:** | | | | | |
| • **Financial Performance Measure (FPM)** | £0 | £0 | £0 | £0 | £0 |
| • **Efficiency (£ million, 2023-24 prices)[1]** | 38 | 76 | 93 | 105 | 117 |

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[1] Network Rail Scotland's SBP forecasts regionally-delivered efficiencies of £380 million in CP7. Our baseline includes a further £49 million of nationally-delivered efficiencies expected to be allocated to Scotland, to total £429 million.

**Table 2.4     Network Rail Scotland settlement table**

| £m (2023-24 prices) | CP6 | | CP7 | | | | | | % change vs CP6 |
|---|---|---|---|---|---|---|---|---|---|
| | 2023-24 | CP6 total | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | CP7 total | |
| Operations | 67 | 354 | 83 | 83 | 84 | 84 | 85 | 419 | 18% |
| Support | 107 | 551 | 95 | 95 | 95 | 96 | 95 | 476 | -14% |
| Maintenance | 183 | 1,019 | 227 | 220 | 220 | 219 | 217 | 1,104 | 8% |
| Renewals | 458 | 2,468 | 444 | 443 | 430 | 397 | 415 | 2,130 | -14% |
| Industry costs, rates & traction electricity | 90 | 395 | 142 | 136 | 127 | 113 | 111 | 629 | 59% |
| Risk provision | 10 | 10 | 20 | 51 | 81 | 111 | 164 | 428 | n/a |
| **Gross revenue requirement** | **915** | **4,797** | **1,011** | **1,029** | **1,037** | **1,020** | **1,088** | **5,185** | **8%** |
| Other income (including property, stations and depots) | (52) | (218) | (45) | (45) | (45) | (45) | (45) | (226) | 4% |
| **Net revenue requirement** | **863** | **4,579** | **966** | **984** | **992** | **975** | **1,042** | **4,959** | **8%** |
| Fixed Track Access Charge income | (372) | (1,704) | (377) | (377) | (377) | (377) | (377) | (1,884) | 11% |
| Variable Charges (Variable Usage Charge, Electricity Asset Usage Charge, stations Long Term Charge) | (53) | (309) | (60) | (60) | (60) | (60) | (60) | (301) | -2% |

| £m (2023-24 prices) | CP6 | | CP7 | | | | | | % change vs CP6 |
|---|---|---|---|---|---|---|---|---|---|
| | 2023-24 | CP6 total | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | CP7 total | |
| Electricity for Traction (EC4T) income | (56) | (243) | (105) | (99) | (85) | (71) | (69) | (429) | 76% |
| Schedules 4 and 8 | 40 | 253 | 17 | 17 | 17 | 16 | 16 | 82 | -68% |
| Schedule 4 access charge supplement | (12) | (73) | (15) | (15) | (15) | (14) | (15) | (75) | 3% |
| Network grant | (409) | (2,503) | (426) | (449) | (471) | (468) | (538) | (2,352) | -6% |
| **Total SoFA-related income** | **(863)** | **(4,579)** | **(966)** | **(984)** | **(992)** | **(975)** | **(1,042)** | **(4,959)** | **8%** |
| **Gross revenue requirement less EC4T** | **859** | **4,553** | **907** | **930** | **952** | **949** | **1,018** | **4,756** | **4%** |

# Annex A: Scottish Ministers' HLOS Requirements

## Affordability of the HLOS

A.1 Scottish Ministers published a detailed HLOS for Network Rail Scotland on 3 February 2023. Throughout this periodic review we have worked closely with Transport Scotland to better understand each of these requirements, and with Network Rail Scotland to understand how it intends to deliver them.

A.2 We are required by the Railways Act 1993 to decide whether the HLOS can be afforded with the funding made available to Network Rail Scotland in the SoFA. In CP7, the funding Scottish Ministers have made available in the SoFA is for Network Rail Scotland's operations, maintenance and renewal activity only (i.e. not for any enhancements projects, which will be funded separately and are not part of our assessment).

A.3 Network Rail Scotland worked to produce an interim SBP that would deliver on Scottish Ministers priorities, but the short time between when Scottish Ministers' HLOS and SoFA were published and when Network Rail Scotland was required to provide a copy of its interim SBP to us mean that some output requirements in the HLOS were not complete or fully costed in the interim SBP. While risks remain, on the basis of the interim SBP we have reviewed, coupled with the fact that within the interim SBP there was £221 million of unallocated funding (which can be used to address the risk exposure identified), we do not anticipate the plan being unaffordable.

## Our decisions on the HLOS

A.4 We set out below, for those requirements in the Scottish Ministers' HLOS which require measurable outputs from Network Rail Scotland, the requirement, how Network Rail Scotland expects this will be delivered in CP7, and our view on this.

**Table A.1     HLOS requirements and our expectations of delivery of the associated outputs in CP7**

| HLOS requirement for CP7 | Delivery of requirement in CP7 |
|---|---|
| **Working together**<br><br>Network Rail is required:<br><br>• *to establish and operate (with ScotRail Trains Ltd.) a **joint Scotland-based timetabling team** to deliver all activity on the Scottish network. The team should be operational by the start of CP7 and co-located, with one management structure responsible for the delivery of the timetable product, with a demonstrable understanding of Scotland's geography, economy and network operating characteristics.*<br><br>• *to collaborate with Scottish Rail Holdings and ScotRail Trains Ltd. on taking forward the outputs from **the Scottish Government's National Rail Conversation*** | Network Rail has not yet set out how this requirement would be delivered so we are unable to assess its deliverability. Any proposals Network Rail produces should be consistent with the framework set out under Network Rail's Licence and the Network Code and should involve Network Rail's System Operator (SO) function, which has ultimate responsibility for delivery of Network Rail's timetabling function.<br><br>Until the outputs of the Scottish Government's National Rail Conversation are defined, it is not possible to assess whether Network Rail Scotland can deliver this requirement. Currently there is no specific funding allocated for these outputs in Network Rail Scotland's interim SBP. |
| **Maintaining network capacity and capability**<br><br>• *The Scottish Ministers require that the **capability of the network** will be operated and maintained as a minimum throughout CP7 at a level which will satisfy all of the track access rights of all passenger, freight and charter operators in place at the date of the publication of this HLOS and any rights secured, or in the course of being secured, between then and 31 March 2024. In particular, the network must be operated at a level which is fully consistent with the commitments specified in the agreements or franchise contracts between the Scottish Ministers and Scottish Rail Holdings and ScotRail Trains Ltd. and Caledonian Sleeper and the industry "network change" process.* | This requirement is expected to be a continuation of work Network Rail Scotland is already undertaking in CP6. Therefore it is expected to be fully funded in the interim SBP. |

| HLOS requirement for CP7 | Delivery of requirement in CP7 |
|---|---|
| **Passenger performance**<br><br>• *Scottish Ministers require that the outputs of the network will be maintained in such a manner as to enable ScotRail Trains Ltd. to meet a **Public Performance Measure (PPM) target of 92.5%** for every year of CP7. The 92.5% PPM target is considered pragmatic and appropriate. However, it is recognised that performance targets can, in some circumstances, create perverse incentives which act against the interest of passengers. Therefore, the Scottish Government considers it appropriate to **allow Network Rail and ScotRail Trains Ltd. a specific derogation from the 92.5% target for trains where delays are caused by the need for speed restrictions during periods of severe weather, or trains have been delayed in order to permit connections from other late running trains or ferries.***<br><br>• *The network should also be maintained in such a manner as to **enable the operators of the Caledonian Sleeper to meet their Right Time targets** and / or any other performance requirements defined for Sleeper services between the publication of this HLOS and the start of CP7.*<br><br>• *Scottish Ministers also require that the outputs of the network will be maintained in such a way as to **recognise the performance requirements of other operators** on the Scottish network.* | This requirement is discussed in more detail earlier in this settlement document. We have set this measure as a success measure for Scotland in our outcomes framework to reflect its importance as the primary performance measure in Scotland.<br><br>Network Rail Scotland's interim SBP, anticipates meeting 92.5% on the Scotland train performance measure in year 4 of CP7. However, Network Rail Scotland has since developed its plans to deliver against this measure and we will consider this further in our final determination.<br><br>At the end of 2022-23 Network Rail Scotland is exceeding the CP6 Right Time Arrivals target of 80%, so this is not of significant concern. If a similar target is set by Transport Scotland for the Caledonian Sleeper service in CP7, Network Rail Scotland should find this achievable within its interim SBP funding.<br><br>Network Rail Scotland has stated its commitment to maintain its CP6 cross-border KPIs. This seems sufficient to meet this HLOS requirement. |
| **Freight performance**<br><br>• *Network Rail is required to provide a consistently high level of performance for the benefit of freight users in CP7, building on what is expected to be achieved by the end of CP6, with Network Rail providing capability to ensure that the **Freight Cancellations and Lateness (FCaL) measurement for freight trains on Scotland's railway does not exceed 5.5%.*** | This requirement is discussed in more detail earlier in this settlement document.<br><br>Transport Scotland has provided clarification that it expects this requirement to be met in every year of CP7. Network Rail Scotland submitted a forecast for this measure in its SBP which is not consistent with the HLOS target.<br><br>FCaL is a supporting measure in our outcomes framework so we will require Network Rail Scotland to include a forecast for this in its delivery plan. As this is an HLOS |

| HLOS requirement for CP7 | Delivery of requirement in CP7 |
|---|---|
| | requirement, we expect the delivery plan forecast and HLOS target to be aligned. |
| **Maintaining and improving journey times**<br><br>• *Scottish Ministers require Network Rail to take full advantage of maintenance and renewal works and timetable development processes to enable ScotRail Trains Ltd. To achieve **improved journey times**. This should be based on a decrease in the average minutes per mile measured across all ScotRail services in the current timetable (at January 2023). Maintaining safety, Scottish Ministers expect that Network Rail will work with Scottish Rail Holdings and ScotRail Trains Ltd. On a plan to deliver this outcome, to be in place for the start of Control Period 7.*<br><br>• *In addition, during Control Period 7, Network Rail will work with Scottish Rail Holdings and ScotRail Trains Ltd. To develop a plan safely to achieve improved journey times based on a **"mile a minute" target on ScotRail Trains Ltd. Intercity services by 2030***. | Network Rail Scotland has committed to develop a plan by 31 March 2024 to improve average journey times. It expects to develop this using existing resources, although acknowledges that delivery of the outputs from this plan could require additional funding.<br><br>This is considered to be consistent with the HLOS requirement.<br><br><br>Network Rail Scotland has committed to develop a plan to support this HLOS requirement but believes that delivery of improved journey times is dependent on delivery of enhancement projects which are still at outline business case stage.<br><br>Development of the plan is considered deliverable under the interim SBP but delivery of improved journey times is subject to factors which are not fully within Network Rail Scotland's control (e.g. approval of enhancements projects on the Highland Main Line and Aberdeen to Central Belt). We will hold Network Rail Scotland to account for the aspects of this requirement within its control. |

**Customer satisfaction**

• *The Scottish Ministers require that Network Rail is measured, as appropriate, against the same National Rail Passenger Survey (NRPS) targets as ScotRail Trains Ltd. and the Caledonian Sleeper Guest Satisfaction Survey thus:*

    *- **contribute efficiently and effectively to NRPS targets** for the whole Scottish rail network, in particular: 'Overall satisfaction' and 'How well the Train Operating Company dealt with disruption'.*

It is our expectation that the NRPS will be superseded by a new industry survey, but Network Rail Scotland has committed to providing passenger satisfaction measures through this new survey.

It is also already working with ScotRail on improvement to its CIS.

As these are joint outputs with other industry partners, we will hold Network Rail Scotland to account for its contribution to delivery of these outputs. These are expected to be

| HLOS requirement for CP7 | Delivery of requirement in CP7 |
|---|---|
| *- to work with the wider rail industry to continue to **deliver an agreed measurable improvement to the customer experience** by the end of CP7 through improved, and more consistent Customer Information Systems (CIS).* | deliverable within Network Rail Scotland's interim SBP. |
| **Growing passenger numbers and revenue**<br><br>• *Network Rail must take all reasonable steps to work with Scottish Rail Holdings, ScotRail, Caledonian Sleeper and all rail passenger operators in Scotland to secure **year on year growth in rail patronage** and, through that growth in patronage, year on year growth in real terms revenue from passengers in Control Period 7, in line with requirements within the ScotRail Trains Ltd. Policy compendium, other targets set by the Scottish Ministers and initiatives as agreed between the parties.* | Targets to measure this requirement still need to be set but Network Rail Scotland expects to use reasonable endeavours to support this objective.<br><br>Subject to the targets which are yet to be confirmed, it is expected that this requirement is deliverable within Network Rail Scotland's interim SBP. |
| • *Network Rail must take all reasonable steps to contribute to the work to **improve service quality and revenue protection** across Scotland's Railway, and in particular, at the Major Stations for which Network Rail is directly responsible. It is proposed that Network Rail Major Stations should be added to the Service Quality inspections conducted by Transport Scotland.* | Network Rail Scotland has already engaged with the Service Quality Incentive Regime team regarding its two managed stations (Edinburgh Waverley and Glasgow Central).<br><br>This requirement is not expected to drive additional cost to Network Rail Scotland, so it is expected that this requirement is deliverable within Network Rail Scotland's interim SBP. |
| **Growing rail freight to support our environment and economy**<br><br>• *Network Rail must safely deliver an **increase in the average speed of freight trains** through good operational practices, including timetabling exercises and programmes, and through collaboration with passenger and freight operators and customers.* | This requirement is expected to be delivered through collaborative working between Network Rail Scotland and Network Rail's SO function.<br><br>Network Rail Scotland and the SO have confirmed that they expect existing processes in CP6 to deliver against this requirement therefore it is expected that this requirement is deliverable within Network Rail Scotland's interim SBP. |
| • *Network Rail should continue to deliver the objectives identified in **Scotland's Industry Rail Freight Growth Plan** published in March 2019: encouraging customer* | Network Rail Scotland considers this is included in its existing plans. |

| HLOS requirement for CP7 | Delivery of requirement in CP7 |
|---|---|
| *confidence, developing growth, doing things differently and looking for simpler solutions.* | This is expected to be deliverable within Network Rail Scotland's interim SBP. |
| • *Scottish Ministers require Network Rail:* | |
| *- to facilitate **net growth in CP7 of 8.7% net tonne kilometres in rail freight** on the Scottish network in conjunction with industry stakeholders. This growth is to be achieved on the existing capability of the rail network without further enhancements. Freight variable track access charges are calibrated to fund the total long run avoidable costs of each additional freight train, therefore, this growth target on the existing network should not trigger additional funding requirements from the Scottish Government;* | The requirement to deliver 8.7% growth is consistent with the forecast Network Rail Scotland has included in its interim SBP. We have set a trajectory for Network Rail Scotland in our draft determination to deliver 8.7% growth in CP7 and expect this to be deliverable within Network Rail Scotland's interim SBP. |
| *- to **develop collaboratively and consult on a longer-term rail freight growth strategy** by halfway point of CP7;* | Delivery of a rail freight growth strategy is expected to be included within Network Rail's interim SBP. |
| *- to **aim to achieve a higher rail freight growth rate**, based on experience of successful collaboration within the freight sector, with an expectation that a higher growth rate, closer to 10% may reasonably be achievable.* | Network Rail Scotland has said that the additional 1.3% growth may not be achievable without additional funding. Whilst we cannot confirm that additional growth beyond 8.7% would require additional funding, as this would depend on the type of interventions targeted, our expectation is that the funding in the interim SBP is only expected to deliver 8.7% growth, and additional growth beyond this may require additional funding during CP7. |
| **Charter trains and railway heritage** | |
| • *Network Rail, working with Scottish Rail Holdings and ScotRail Trains Ltd., is required to produce a strategy by 31 March 2024 to **promote and facilitate charter train operations in Scotland**. The strategy should lay out the objectives and approach to build the profile of Scotland's railway heritage to deliver social, cultural or economic value and the measures by which* | Production of this strategy is expected to be deliverable within Network Rail Scotland's interim SBP. |

| HLOS requirement for CP7 | Delivery of requirement in CP7 |
|---|---|
| *that value will be evaluated and publicly reported.*<br><br>• *Network Rail is required to ensure that* **structure clearance is maintained on routes that Charter and Heritage Operators vehicle types are authorised to run on**, *removing the need for annual reapplication for authority to run vehicles on routes they were previously authorised to run over.* | Discussions around structure clearances and how these will be maintained in CP7 are ongoing between Transport Scotland and Network Rail Scotland.<br><br>We expect to be able to comment on this requirement further, and the implications it has on Network Rail Scotland's plans, in our final determination. |
| **Cross-border routes**<br><br>• *Scottish Ministers require Network Rail to ensure that at least* **one cross-border route is available for passenger and freight services at all times** *other than in unforeseen or exceptional circumstances. Where that is not possible, Scottish Ministers should be notified in advance and would expect to be assured that all options had been thoroughly investigated.* | This requirement is expected to be delivered through collaborative working between Network Rail Scotland and Network Rail's SO function.<br><br>We expect that Network Rail will provide advance notice of closure of both cross-border routes to Scottish Ministers, recognising that advance notice may not be possible in instances of unplanned disruption to or closure of a route. |
| **Lifeline services for rural and remote communities**<br><br>• *Network Rail is required to identify and agree with operators and Transport Scotland those* **rural routes that require lifeline services which require enhanced protection** *and recovery where reasonably and economically practicable during times of planned and unplanned disruption. Where planned disruption is taking place, Network Rail will engage with other transport mode operators to ensure no concurrent corridor disruption is taking place.*<br><br>• *Network Rail shall confirm proposals with ORR prior to finalising and sharing with all affected parties by 31 March 2024 and review, consult and update, as appropriate, through CP7.* | Network Rail Scotland has not included any funding within its interim SBP to deliver increased protection for lifeline services in CP7, beyond that which is in place in CP6.<br><br>Network Rail Scotland's expectation is that this work will be a continuation of processes already in place in CP6, for example the Annual Integrated Access Box Plan was confirmed as consistent with the HLOS requirement in meetings with Transport Scotland.<br><br>This requirement is therefore expected to be deliverable within Network Rail Scotland's interim SBP. |
| **Net zero, climate change, resilience and adaptations** | Network Rail Scotland expects to develop a metric to support this requirement and that |

| HLOS requirement for CP7 | Delivery of requirement in CP7 |
|---|---|
| • *The Scottish Ministers require Network Rail to continue to **improve data accuracy on carbon emissions**, in particular Scope 3 data, to enable continuous carbon emissions reductions, which is normalised to cover passenger and freight volumes and set against the baseline of 31 March 2019. The metric must be developed with regard to Scottish Government environmental legislation and working in collaboration with Transport Scotland, Scottish Rail Holdings, ScotRail Trains Ltd and other stakeholders and be in place by 31 March 2024.* | the cost of this development will be contained within the existing funding available.<br><br>We have set baselines for carbon emissions scope 1 and 2 in our draft determination as these are success measures and carbon emissions scope 3 is a supporting measure, so we expect Network Rail Scotland to forecast this in its delivery plan in March 2024. |
| • *During CP7, Scottish Ministers expect Network Rail to:* | |
| *- develop and deliver a metric which must continually deliver energy and **carbon reduction activities to reduce Scope 1 and 2 emissions** against the baseline of 31 March 2019* | As noted above, we have set baseline trajectories for carbon emissions scope 1 and 2 in our draft determination. |
| *- continue towards creating a railway for Scotland that maximises the benefit of planned renewals and **improves resilience in the face of the risks and impacts associated with climate change**, through targeted physical climate change adaptation works on assets, continual improvements to climate risk assessment processes and development of a longer-term adaptation strategy* | Network Rail Scotland has produced a 'Climate Ready Plan 2024-2029' which it believes will deliver this requirement. Delivery of this is included within its current plans for CP7.<br><br>This requirement is therefore expected to be deliverable within Network Rail Scotland's interim SBP. |
| *- work in partnership with Scottish Rail Holdings, ScotRail Trains Ltd. and other external stakeholders to deliver its **net zero, climate change adaptation and sustainability objectives** while contributing to related Scottish Government objectives included in NTS2.* | Network Rail Scotland is a member of the Sustainability Board which includes external stakeholders.<br><br>This requirement is therefore expected to be deliverable within Network Rail Scotland's interim SBP. |
| *- to evolve its **Weather Resilience and Climate Change Adaptation (WRCCA) strategy** to set out the main threats and proposed mitigations associated with changes in weather patterns* | Network Rail Scotland produces WRCCA strategies for each five-year control period, which ORR tracks progress against during a control period.<br><br>It is expected to produce a WRCCA strategy for CP7, so this requirement will be deliverable within Network Rail Scotland's interim SBP. |

| HLOS requirement for CP7 | Delivery of requirement in CP7 |
|---|---|
| *- in conjunction with the Rail Safety and Standards Board, undertake a detailed and systematic risk assessment of the planned mitigating controls, including operational responses, that relate to environmental-related failures of earthworks, drainage or structures and revise these, if required, to address any areas of weakness identified by the risk assessment* | Assessment of the delivery of this requirement is dependent on the outcome of ongoing work related to the Carmont RAIB recommendations. If additional work is required then this may require additional funding, but this will not be determined until a later date. |
| *- deliver a **sustainability strategy** without drawing on resource from our enhancements budget or ScotRail Trains Ltd.* | From further discussions with Transport Scotland, Network Rail Scotland has clarified the expectation that it will deliver major sustainability projects within OSMR funding, although wider sustainability initiatives may be included as part of enhancement projects. This requirement is therefore expected to be deliverable within Network Rail Scotland's interim SBP. |
| • *In developing metrics for the delivery of the sustainability strategy, Scottish Ministers require Network Rail to improve data maturity by **increasing the range of carbon emissions data reported** to include Scope 3.* | This is expected to be delivered as part of the above requirement relating to carbon emissions scope 3, within Network Rail Scotland's interim SBP. |
| **Financial Sustainability - Meeting the Net Cost Challenge of Scotland's Rail Sector**<br>• *In developing its plans for delivery in CP7 Scottish Ministers require that Network Rail take account of the following priorities for investment:*<br><br>*- **maintaining safety**, including a programme of works to make provision for weather resilience*<br><br>*- **maintaining performance** at an acceptable level of 92.5% PPM (with allowances form severe weather speed restrictions and maintaining connections between trains) consistent with that specified for ScotRail Trains Ltd.* | Network Rail Scotland has undertaken investment prioritisation in the development of its interim SBP. This is expected to continue as it develops its CP7 plans further. It has confirmed in its interim SBP that safety and performance were primary considerations in developing its plans. The efficiency challenge is noted as particularly stretching and net cost has been considered in producing plans within the funding envelope specified by Scottish Ministers' SoFA. This requirement is therefore expected to be deliverable within Network Rail Scotland's interim SBP. |

| HLOS requirement for CP7 | Delivery of requirement in CP7 |
|---|---|
| *- **delivering efficiency** to improve the net cost and thus financial sustainability of the whole Scottish rail system over time, noting this includes the impact of decisions on passenger and freight train revenue and operating costs.*<br><br>• *In the approach to delivering the requirements in this document, Network Rail must take account of the following principles, stated policies and priorities:*<br><br>*- building on the successful development of team capability in CP6, maintain an expert whole-industry **project client and sponsor capability** in Scotland to manage effectively and efficiently all stages of investment, development and delivery of activity on the Scottish network, working with Transport Scotland in joint teams to deliver more efficient whole-life costs;*<br><br>*- working together with ScotRail Trains Ltd. (and cross-border passenger and freight operators as appropriate), to develop a **whole industry financial view for each route** that takes into account, for example, the cost of the operation and maintenance of the network assets and the revenues realised from the operation of services on those assets.* | Network Rail Scotland has an existing whole-industry project client and sponsor capability which is expected to be sufficient to meet this requirement and will continue into CP7.<br><br>This requirement is therefore expected to be deliverable within Network Rail Scotland's interim SBP.<br><br><br>Network Rail Scotland has begun work on this in CP6 and this is expected to be deliverable within its existing capabilities.<br><br>This requirement is therefore expected to be deliverable within Network Rail Scotland's interim SBP. |

**Facilitating efficient electrification**

• *Network Rail must continue to deliver and further develop the efficient electrification technical specification agreed across Team Scotland during CP7. The specification must:*

*- fully support the Scotland investment strategy, including the **Decarbonisation Action Plan**;*

*- be compliant with UK law and make appropriate use of (including sensible value for money derogations from) current rail **National Technical Specification Notices** (NTSNs) for interoperability;*

*- be updated and amended as appropriate throughout CP7.*

As this strategy has been developed in CP6, ongoing work is expected to be included within the scope of Network Rail Scotland's plans.

This requirement is therefore expected to be deliverable within Network Rail Scotland's interim SBP.

| HLOS requirement for CP7 | Delivery of requirement in CP7 |
|---|---|
| **Approach to asset management, knowledge and assurance**<br><br>• *Asset management and investment must be underpinned by **accurate asset data**, including gauge information, which is consistently maintained at an A2 standard as a minimum and appropriate Network Capability statements to allow customers to make informed business decisions.* | Network Rail Scotland currently reports asset data against the A2 data quality metric and this is expected to continue into CP7.<br><br>This requirement is therefore expected to be deliverable within Network Rail Scotland's interim SBP. |
| **Relationship between operation, maintenance and renewals (OMR) and enhancements**<br><br>• *It is imperative that any works proposed on the rail network are considered as a '**Whole System Approach**'. Therefore, Scottish Ministers require Network Rail to consider the sequencing of enhancement schemes alongside existing renewal and maintenance programmes to ensure maximum efficiency, whilst minimising disruption to passengers and freight.* | Discussions around approach to delivering this requirement are ongoing between Transport Scotland and Network Rail Scotland.<br><br>We expect to be able to comment on this requirement further, and the implications it has on Network Rail Scotland's plans, in our final determination. |
| **Signalling Strategy for Scotland**<br><br>• *An integrated industry team, working in partnership, with representation from Network Rail, ScotRail Trains Ltd, ORR and Transport Scotland produced the **Signalling Scotland's Future** document which provides a framework to develop each route's specific signalling, and sets out how to deliver an approach best suited to Scotland's Railway. Network Rail will continue to facilitate, lead and develop the approach. Scottish Ministers require that Signalling Scotland's Future should be used to develop the Scottish signalling strategy by March 2024, which should comprise a programme of signalling plans for each line of route in Scotland, that will maintain safety and operational performance, reduce whole railway system net cost, provide efficiency through integration with enhancement investments, avoid the high unit cost and premature obsolescence issues of recent approaches and at the same time deliver* | Continued development of the Signalling Scotland's Future strategy is included in Network Rail Scotland's plans.<br><br>This requirement is therefore expected to be deliverable within Network Rail Scotland's interim SBP. |

| HLOS requirement for CP7 | Delivery of requirement in CP7 |
|---|---|
| *maximum benefits to passenger and freight customers.* | |
| • *Until those line of route plans have been produced to the satisfaction of Scottish Ministers, signalling investment should be limited to that necessary to maintain safety and operational performance and to signalling schemes necessary to facilitate enhancement investments, especially decarbonisation through electrification, which will be specified and funded separately.* | |

**Infrastructure gauge maintenance and assurance**

- *Network Rail is required to maintain the **Structural Clearance** CP6 baseline capability throughout CP7 and to restore any structural clearance which has been allowed to deteriorate.*

- *Building on collaborative work between Transport Scotland and Network Rail in CP6, a **Scottish Passenger Vehicle Gauge** requirement and a programme to remove the remaining barriers to deliver this, requires to be defined by the end of CP6, following issue of a Client Remit in May 2022 by the Scottish Ministers. The requirement is that the Vehicles listed in Appendix 1 of that Remit will be able to run over the whole of the Scottish Rail Network, except where agreement has been reached between Network Rail and Transport Scotland to exclude any vehicles/routes that would drive disproportionate cost.*

- *The Scottish Ministers require Network Rail to ensure structure clearance for the Scottish Passenger Vehicle Gauge requirement is achieved and maintained throughout the Scottish rail network on a timescale consistent with available funding.*

- *The Scottish Ministers require that **freight gauge capability** should be maintained to at least the capability in the most recently*

Discussions around structural clearances and how these will be maintained in CP7 are ongoing between Transport Scotland and Network Rail Scotland.

We expect to be able to comment on this requirement further, and the implications it has on Network Rail Scotland's plans, in our final determination.

Network Rail Scotland is assessing the vehicle types listed in the Scottish Passenger Vehicle Gauge during CP6, with the aim of delivering this requirement by the end of CP6. Therefore it has no financial impact on the CP7 plans as stated.

| HLOS requirement for CP7 | Delivery of requirement in CP7 |
|---|---|
| *published issue of the Sectional Appendix11, or the special authorisation issued by Network Rail on a RT3973 form to run a larger vehicle or heavier axle load on a specific Scottish route, whichever is most capable at the time of publication of this HLOS.* | |
| **Infrastructure readiness for rolling stock**<br><br>• *The efficient **introduction of new rolling stock** will require Network Rail to maintain infrastructure asset capability, and to provide assured data about this capability upon which operators will be able to place reliance when specifying, designing and introducing new rolling stock. Data on capability, infrastructure gauge, electro-magnetic compatibility and vehicle–platform interfaces, should be maintained now for the safe operation of existing rolling stock.*<br><br>• *In collaboration with Scottish Rail Holdings and ScotRail Trains Ltd., Scottish Ministers require Network Rail to:*<br><br>*- provide assured data that will facilitate the efficient development of the system requirements and business cases for the replacement of diesel and older electric fleets;*<br><br>*- produce and update a coherent plan to facilitate the introduction of new trains procured for Scotland's Railway, to ensure that Scotland's railway infrastructure is ready to operate those trains on arrival;*<br><br>*- work with its suppliers to develop and provide timeous, detailed, route-specific interface specifications with all infrastructure sub-systems, and cooperate to develop cost-effective railway system solutions to any technical incompatibility identified;*<br><br>*- ensure that the time between acquisition of new trains and deployment to available infrastructure is minimised and that delivery and introduction of new trains is seamless;*<br><br>*- cooperate with the specification of infrastructure monitoring equipment to be* | Discussions around rolling stock requirements and how these align with the latest publication of the Train Infrastructure Interface Specification (TIIS) are ongoing between Transport Scotland and Network Rail Scotland.<br><br>Network Rail Scotland expects to take reasonable endeavours to support the seamless introduction of new fleet onto the network and will provide existing data to support this, with no anticipated additional cost.<br><br>We expect to be able to comment on this requirement further, and the implications it has on Network Rail Scotland's plans, in our final determination. |

| HLOS requirement for CP7 | Delivery of requirement in CP7 |
|---|---|
| *fitted to the new rolling stock to facilitate the quality, effectiveness and efficiency of infrastructure inspection and maintenance;* <br><br> *- cooperate with the development of a depot and stabling capability plan;* <br><br> *- plan for the introduction of a Connected Driver Advisory Speed System12 (CDAS) for the new rolling stock, which takes account of the evolving understanding of the requirements created by different traction technologies. The plan shall address differing power supplies, safety, access, logistics and skills requirements and will be produced in conjunction with industry stakeholders.* | |

**Disposal of railway assets**

- *Network Rail should ensure that **assets or material that might be suitable for reuse** and which are no longer required by Network Rail are donated to or sold at preferential rates to third sector concerns such as charitable organisations, heritage railways or community rail partnerships. The approach taken should be in line with the relevant section of the Scottish Public Finance Manual.*

- *Network Rail shall seek the express approval of the Scottish Ministers for the **sale or disposal of disused land** which will be a matter of interest to Scottish Ministers and which requires a longer term strategic view.*

Network Rail Scotland has existing policies in place to manage the disposal of railway assets, and we expect it to follow this and comply with its Managing Public Money obligations.

Network Rail's licence condition 17 requires it to consult Transport Scotland for all land considered for sale or disposal and this process is expected to continue into CP7.

These requirements are therefore expected to be deliverable within Network Rail Scotland's interim SBP.

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