2018 periodic review

ORR's Draft Determination – Summary of conclusions for Scotland

June 2018

Summary of conclusions for Scotland

Context

- This document sets out a summary of ORR's proposals for the regulation of Network Rail over the five-year period from 1 April 2019 in respect of Scotland. We have set out our proposals in respect of England & Wales in a separate document available here.

- More detail on these proposals for Scotland is included in an annex to this summary and in our PR18 Draft Determination Overview, which is available here.

Introduction

1. Today, we set out our draft conclusions on Network Rail's plans for the operation, maintenance and renewal (OMR) of its network over the five-year control period ('CP6') starting next April.

2. Across Scotland and England & Wales, we propose to accept the majority of the company's proposals, subject to it making a small number of important changes to its plans and carrying out some further work. We have also set out our expectations on what Network Rail should deliver for passengers and freight customers, including how its investment should protect the condition and reliability of the rail network over CP6.

3. The draft determination differs from previous determinations by the ORR for both Scotland and England & Wales. We have not set detailed outputs, unless required by a government high level output specification (HLOS), nor have we made detailed changes to Network Rail's financial assumptions. We have been guided by four broad principles:

   - reinforcing the relationship between Network Rail and its customers, the train operators. We want Network Rail to agree scorecards with its customers and for there to be a clear process to change these scorecards over time;

   - supporting further devolution to routes and the System Operator (SO) and more broadly Network Rail's transformation in the way it organises itself;

   - reflecting the reasons why government has provided a significant increase in funding for the railway which was – as set out in our earlier advice – the desire for a sustainable railway where asset condition is maintained over time through increased renewals; and

- learning lessons from the current control period (CP5), including the need for the company to 'own' its plans, the importance of deliverable bottom-up plans and the importance of setting a stretching but realistic efficiency challenge.

4. We welcome government's ongoing support for the railway, which provides for a substantial increase in expenditure for operating, maintaining and renewing the network in both England & Wales and Scotland, amounting to over £34bn in CP6[1]. It is essential that this money is spent efficiently and delivers improvements to passengers and freight users. Reflecting this, our proposals include significant changes to how we monitor Network Rail and hold it to account.

5. Our decisions take the form of separate draft proposals for Scotland and for England & Wales, reflecting legislative requirements and how Network Rail is funded.

6. The remainder of this document sets out our proposals for Scotland. This Scotland summary should be read in conjunction with the annex which covers the Scotland HLOS and Scotland financial issues in more detail.

7. This summary covers:

- a brief overview of Network Rail's plans for Scotland;

- our determination – including how we addressed the HLOS requirements, efficiency, charges & incentives, the wider financial framework and the affordability of the HLOS; and

- holding Network Rail to account in CP6.

Network Rail's plans for Scotland

8. Network Rail Scotland's Strategic Business Plan (SBP) proposed a significant increase in OMR spend. Before making any adjustments for efficiency, the total spend forecasts are 22% higher than in CP5, reflecting additional activity in the form of:

- higher investment to provide increased physical resilience to extreme weather events (7%);

- higher spend in core electrification, buildings and signalling assets to maintain reliability and safety, reflecting the age profile of assets. The plan also reflects the need to maintain the increasing electrification asset base and support the forecast increase in passenger services (12%); and

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[1] The England & Wales and Scotland statements of funds available (SoFAs) also included funding for other expenditure including some enhancements

- the catch-up on renewals deferred from CP5 (3%).

9. In costing its plan, Network Rail Scotland considered areas where costs will increase in CP6 ('headwinds') as well as efficiency opportunities. The net effect of these was to reduce costs, which leads to an overall forecast increase in spend of 16% compared to CP5.

10. Network Rail Scotland set out its proposed scorecard for CP6, although this was not complete. More work is needed to reflect the HLOS requirements (see below) and on agreeing trajectories for other performance measures. Work will need to continue on this until it is completed for the delivery plan.

11. Other parts of Network Rail set out their plans for what they have been asked to deliver for the Scotland route. These included:

- route support, covering route services (such as contracts and procurement) and infrastructure projects, and group functions such as the technical authority;

- the System Operator (SO), whose functions centre around maintaining the benefits of having an integrated national network; and

- the Freight & National Passenger Operator (FNPO) route, responsible for supporting those operators who substantially rely on several geographic routes.

12. The route engaged well with stakeholders both in preparing advice to the Scottish Ministers prior to publication of the HLOS, and during the development of the plan. The Scotland plan was transparent in setting out stakeholders' needs, although there could have been a clearer line of sight between stakeholders' priorities and what the route plans to deliver in CP6.

Our draft determination for Scotland

Background

13. Our draft determination for Scotland reflects that this is the first review to take place after Network Rail moved fully into the public sector, and was subject to much closer control by government on its spending, including the removal of Network Rail's ability to raise new finance on its own account. This means that the funding available to the company is effectively fixed in cash terms.

14. The Scotland route has been devolved for a number of years. But Network Rail's changes to introduce more devolution across its whole business structure has meant that there is a much clearer route business plan in Scotland covering the next five years. Progress has been made on justifying expenditure based on a detailed bottom-up analysis of what is driving costs.

15. The linkages between what the Scotland route is responsible for delivering and the role of other parts of Network Rail are clearer, reflecting the transformation across the whole of Network Rail. The SO and FNPO plans set out their role in the delivery of the Scotland HLOS.

16. However there is still more work to be done in areas such as the extent to which the Scotland - and other - routes can hold the central functions of Network Rail to account. And, as described below, Network Rail's costs have been overstated by the routes in some areas and stronger controls are needed in others. Network Rail's transformation therefore remains a work in progress.

Delivering the HLOS

17. The Scottish Ministers published a detailed HLOS for Scotland. As is the position for Great Britain (GB) as a whole, the Scotland route will be agreeing a route scorecard with its customers, setting out what it will deliver.

18. We have worked with Transport Scotland and Network Rail to ensure that HLOS requirements are incorporated into the Network Rail scorecard approach, as a HLOS scorecard, in addition to the route scorecard. These requirements include: ScotRail, Caledonian Sleeper and freight train service performance; journey time improvements for ScotRail services; freight growth; delivering a Scottish gauge requirement; and a reduction of carbon emissions.

19. The Scotland HLOS scorecard is set out in the annex, showing the specific obligations on Network Rail, individually enforceable against the licence. We will take into account where Network Rail is partly reliant on other parties to deliver the requirement and Network Rail will need to be clear on its own planned contribution. Each obligation will be subject to the reasonable practicability test in the Network Rail licence.[2]

20. We have highlighted the areas where Network Rail needs to do more work on developing how the obligations will be measured and we will monitor progress as they are finalised. We are working with Network Rail to accelerate work on the gauging strategy, as this can be developed in stages.

21. It will not be known until after our final determination whether delivering all these obligations will require costs beyond those already identified in Network Rail's plan (e.g. on rail freight market growth). This will be subject to further analysis once Network Rail has published its draft proposals for the areas needing more work, and we will commission independent reviews if necessary of Network Rail's forecast costs to provide assurance to Transport Scotland and other stakeholders. Transport

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[2] Network Rail's current Network Licence (see Licence Condition 1): http://orr.gov.uk/__data/assets/pdf_file/0012/3063/netwrk_licence.pdf

Scotland will need to decide if it wants to pay for any confirmed additional costs from the balance left in its SoFA after the ORR's view of the OMR costs of the network have been deducted.

22.   We are still discussing Transport Scotland's HLOS statement that it wants to take decisions on which major renewals projects should be taken forward. This would be a significant departure from how Network Rail currently operates, which also raises issues of accountability.

Passenger and freight train service performance

23.   The Scotland HLOS set out a requirement for a ScotRail 92.5% Public Performance Measure (PPM)[3] in each year of CP6 and for Caledonian Sleeper right time performance of 80%. In March 2018, the Network Rail/ScotRail Alliance submitted a new performance trajectory which, while an improvement on current performance, was lower than the performance targets set out in the Scotland route's SBP. The forecast for the first year of CP6 is now 91.5%, which is below the Scotland HLOS requirement of 92.5%. While we recognise that there are some potentially significant risks, we have decided that the ScotRail PPM target for the first year of CP6 should be set at the HLOS target of 92.5%. The obligation on Network Rail is to achieve the target to the greatest extent reasonably practicable having regard to all relevant circumstances.

24.   We will use a measure called CRM-P[4] to compare how much delay Network Rail causes to train services across all GB routes. The level for this measure in Scotland will be discussed with stakeholders and set in the final determination. It will need to be consistent with PPM and also with the setting of schedule 8 benchmarks, which determine when payments for poor performance are triggered between Network Rail and operators.

25.   The Scotland HLOS required delivery of a Freight Delivery Metric (FDM) for Scotland of 93% at the start of CP6, moving through staged improvements towards 94.5% at the end of CP6. We propose to reflect the HLOS requirement in the form of FDM-R[5], which measures the route's impact on the GB-wide FDM measure. The Scotland route proposed to deliver an FDM-R of 94.5% in each year of CP6. Network Rail's obligation is to meet the HLOS requirement, although we recognise the aim to out-perform.

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[3] The Public Performance Measure (PPM) is the percentage of its trains arriving at their final destination within 5 minutes of their scheduled arrival time.

[4] CRM-P measures primary and reactionary delay minutes to passenger services caused by each Network Rail route, normalised per 100 train kilometres. It focuses on the delay that a route causes, rather than delay caused by train operators.

[5] This measures the percentage of trains that arrive at their destination within 15 minutes of the scheduled arrival time. Freight trains are only considered to have failed FDM if the delay was caused by Network Rail.

Asset sustainability

26.   The position on asset sustainability in Scotland is better than for other routes. However, there is still a small forecast decline in sustainability as measured using the Composite Sustainability Index (CSI), from +3% to +2.3% when measured against the start of CP5, a reduction of 0.7% over CP6. We estimate this would involve around £67m of extra spend to eliminate. The change in the track and earthworks measures are the main drivers for the decline over CP6 in Scotland.

27.   In light of the better position on asset sustainability, and in contrast to England & Wales, there is not the same need to re-prioritise expenditure to address asset sustainability in Scotland.

The SO

28.   The SO plan more clearly defines the work that will be carried out for the Scotland route than has previously been the case, and sets out plans for GB wide capability improvements, for example in the timetabling function. While we have largely accepted the SO plan, we had concerns in two areas which Network Rail should address. First, the plan contains investment proposals in areas where Network Rail has not delivered in the past, such as timetabling systems, some of which are at an early stage of development. We expect Network Rail to demonstrate better governance to ensure cost control and involve operators in the development of its plans. As part of this, there will be a clear decision-point so that customers, governments and ORR have sufficient confidence that the improvements will deliver tangible benefits before the full spending on these is committed. Second, in response to concerns around governance of the overall function, Network Rail has now proposed changes including a stronger advisory board.

29.   Our review has taken place in the context of the severe disruption caused by the May 2018 timetable change, which highlights the importance of the timetabling function. We are investigating Network Rail's role in this and carrying out a wider inquiry at the Secretary of State's request, into why the system as a whole failed to produce and implement an effective timetable.

Network capability

30.   The Scotland HLOS sets out specific requirements around network capability, including gauging requirements, which are covered in the Network Rail scorecards. Maintaining network capability is also a requirement of the network licence. However, we continue to have concerns about how well Network Rail is delivering in this area. We are commissioning a review of the current situation on network capability in Scotland and England & Wales, including whether Network Rail is on track to deliver the end of CP5 regulated output target. The findings from this work will be published

in autumn 2018, separately from the final determination, and we expect Network Rail to implement any recommendations in CP6.

31. We will continue to work with Network Rail to set the baseline for 1 April 2019 at route level. As part of this work we will consider whether the base requirement should be as we set out for CP5 (in terms of track mileage & layout, line speed, gauge, route availability, electrification type) or whether this should be amended.

Health and safety

32. It is the responsibility of the Secretary of State to specify safety requirements for the GB rail network, as safety is a reserved matter.

33. We reviewed the Scotland SBP proposals on safety, and found the plan well founded. Amongst other things, the plan provides for improved resilience to weather events through: remediation of those sites at highest risk of scour; reduction of risk from slopes controlled by third parties; and increased provision of remote monitoring equipment. The ongoing programme of work to manage vegetation is to be accelerated. There is also a commitment to protect the safety of track workers by continuing the route's (now longstanding) prohibition of unassisted red zone working[6]. We will monitor progress in these areas.

Controlling expenditure and improving efficiency
OMR costs

34. Network Rail's cost analysis is more transparent than in previous periodic reviews, in terms of: volumes of work required; the rates for that work; and efficiency plans. However, we do not fully accept the route's proposed costs.

35. Our scrutiny has shown evidence of the potential for additional efficiency savings across the business plans. A proportion of these could be quantified. It was not possible to do so for the remainder, in light of the data and time available.

36. In addition, we are mindful that making a large number of detailed adjustments risks undermining route ownership of the plans. Reflecting this, we have decided to identify an overall level of additional stretch on efficiency that we consider to be reasonable. In this respect, we have considered the way that Network Rail applied a series of top-down 'headwinds' (i.e. what it considered unavoidable external costs) to its plans. While some of the reasons for these cost pressures may be legitimate, many were poorly justified and are things that the company should be mitigating in any case.

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[6] A red zone is a worksite which is not protected from train movements.

37. More generally, we have insufficient evidence that the company has completely removed the inefficiencies that are included in the baseline data it used to estimate likely future costs levels. Network Rail has not identified the 'headwinds' or 'tailwinds' it may have experienced in CP5 (which we asked it to do in our earlier guidance). This weakens its arguments for saying that the headwinds it will face in CP6 are genuinely incremental. Furthermore, the changes that the company has been making will have delivered efficiency improvements already, and the scale of these will increase over time. These efficiency improvements are not reflected in its forecasts for CP6.

38. In light of this, Network Rail's plans should incorporate further efficiency savings. We have used the value of removing most of the 'headwinds' as an indication of the scale of these additional efficiency savings, while recognising that the company has the potential to realise further gains.

39. This has the effect of providing £73m that can reasonably be included back into the company's baseline plans, which we estimate raises the company's efficiency forecast from 9% to about 11%.

Specific expenditure areas

40. In two areas, the digital railway and the fund for research and development (R&D), we have considered both the GB wide and Scotland position. Transport Scotland did not specify either area in its HLOS.

41. The DfT has confirmed that it supports the England & Wales share of the GB digital railway spend being included in Network Rail's costs. These costs cover a digital railway programme team (£180m) and fitment costs (£119m) for Network Rail's own machines. Although the fitment costs are for England & Wales, Network Rail has said that it cannot scale the programme team costs to only England & Wales. Based on the SBPs, Transport Scotland's share of the GB programme team costs would be £22m. Network Rail's plans do not include deployment in Scotland in CP6, although Scotland services and passengers may still benefit from deployment elsewhere.

42. This raises a question of whether Transport Scotland should pay for these costs if it has not specified that it wants the digital railway programme to go ahead in Scotland. The GB system is an integrated system and there are ultimately a number of costs that individual funders could say they do not benefit from and vice versa, but they do benefit from the whole system. There is a balance between meeting a funder's requirements and avoiding what could be seen by other funders as adversely affecting the integrity of the railway as a system. This is particularly the case if funders could change their mind in the future.

43. Our view is that part of the GB digital railway programme team should be allocated to Scotland, as the rail network has to work as a GB system on a long term basis.

44. In the England & Wales summary we explain why we have reduced funding for R&D. Scotland's share of this reduced funding would be £10m. Transport Scotland has said that while it did not specify provisions for R&D in its HLOS, it would be prepared to participate on a case-by-case basis, particularly where R&D spend benefits Scotland. Our view is that part of the GB R&D costs should be allocated to Scotland as the rail network has to work as a GB system on a long term basis and R&D programmes will generally benefit the whole railway. Transport Scotland's funding share will be £10m. We expect Network Rail to discuss governance arrangements with Transport Scotland, which will then be approved by ORR before being implemented.

Central costs

45. Central costs are those costs not incurred directly by the Scotland route but incurred by central Network Rail teams and charged to Scotland. The costs are forecast to rise from £0.7bn in CP5 to £1bn in CP6, a £0.3bn increase.

46. To understand these costs, it is worth noting that:

   ■ around £60m of the increase is traction electricity costs, largely due to increased electrification and electricity price increases. This is a 'pass through' cost, which Network Rail has little control over; and

   ■ around £24m is a technical adjustment as property capital spending has been reclassified from enhancements to renewals (i.e. renewals is higher but enhancements lower). As the HLOS has not specified enhancements, this appears to increase central costs.

47. The remaining cost increase includes these main categories:

   ■ higher volumes in CP6 due to the timing of renewal of certain centrally-held assets (£80m). This includes telecoms (£60m) and wheeled plant renewals (£20m);

   ■ higher spend by the central Safety and Technical Engineering (STE) directorate on capital programmes (£40m) including measures to improve productivity of work on electrified lines;

   ■ Scotland's share of the R&D fund (£41m);

   ■ additional SO costs (£27m) to improve its capability, and to support additional investment in better timetabling systems; and

   ■ other costs increases which in turn are offset by Network Rail's view of efficiency on central costs (£45m).

48. This increase will be offset by the adjustments that we have made to the R&D fund (£32m).

49. Network Rail's allocation of central costs to Scotland uses well-established methods. However, it is time to re-consider whether such traditional methods are suited to a devolved funding environment. Throughout our review Transport Scotland has noted its concerns over the level of central costs. We are carrying out a limited but more detailed review of central costs before the final determination on some aspects of this process, working with Network Rail and Transport Scotland. Changes may help strengthen the accountability of centrally provided services to the Scotland route.

British Transport Police (BTP) costs

50. Our determination of the revenue requirements for OMR in CP6 will form part of a bigger funding picture for CP6, with some expenditure being separately funded by the governments. This includes the non-SoFA expenditure that will be funded directly by the UK Government under separate arrangements in CP6, i.e. payments for legacy debt liabilities, BTP costs and corporation tax costs.

51. In our second financial framework consultation, we also noted a working assumption that the costs of policing the rail network in Scotland would be included in our revenue requirement determination for the Scotland route. This was consistent with Network Rail's assumption in its SBP.

52. However, the governments have now confirmed that Network Rail's share of BTP costs for the whole of GB will be separately funded. Therefore, our expenditure forecasts for Scotland in the final determination will be £40m lower than in Network Rail's SBP.

Other income

53. Other single till income (OSTI) is included in Network Rail's determination, as this income is used to meet costs within CP6. An increase in OSTI above the SBP levels allows other planned expenditure to increase, within the fixed funding. The most material issue in our review of OSTI is Network Rail's income from property. We commissioned a review of Network Rail's forecasts for property income and this report identifies £3m of extra income in Scotland.

Summary of financial adjustments

54. Table 1 summarises the financial position with our changes. As set out above, there may be further costs from implementing the Transport Scotland HLOS.

Table 1: Summary of ORR adjustments to Network Rail's SBP

£m, 2017-18 prices	Additional income/reduced expenditure
Reduction in R&D funding to £10m	32
Additional efficiency challenge	73
Additional property income	3
BTP costs	40
Total	**148**

Charges and incentives

55. Our draft determination decisions on charges and incentives are generally GB wide. They are consistent with the high-level decisions that we have already set out in respect of the charges that operators will pay and the financial incentives in place to encourage improved performance on the network. This will lead to a major simplification to charges and incentives, with the removal of the route-level efficiency benefit sharing mechanism, volume incentive, capacity charge and coal spillage charge.

56. We are also confirming the detail behind our earlier consultation on charges, setting out proposals that provide a balanced package that provides operators with time to adjust where cost pressures are putting upward pressure on charges. In particular, we confirm that:

(a) **variable usage charges for freight and charter operators will be capped**, so that variable usage charges only increase to reflect the full costs of wear-and-tear on the network (as required by relevant legislation) towards the end of CP7. This will mean that, on average, total variable charges will remain flat for freight and charter operators for two years and then increase over the last three years of CP6; variable usage charges will be capped to achieve this profile. The average annual increase in the total variable charges over CP6 will be 2.1% for freight and 1.2% for charter, in real terms. In addition, using CPI to index charges instead of RPI will mean charges are on average 5% lower than they otherwise would have been at the end of CP6. Greater collaboration between Network Rail and operators to improve efficiency also has the potential to further mitigate any increases in subsequent control periods;

(b) **charges that recover fixed costs of the network will be reformed to support competition over time**. New open access passenger operators will face higher charges for 'inter-urban' services, where demand is sufficiently strong to allow these costs to be met, which can support them having greater

access to these parts of the network. These additional charges will be reflected in our assessment of the likely benefits generated by open-access applications and will inform our decisions on whether to grant access to the network. Existing open access operators will be protected from these charges over CP6, for their existing business; and

(c) **financial performance incentives on the company will be updated**, including to reflect the new research that ORR commissioned on how passengers plan their journeys and the impact of delays. More generally, the incentives on punctuality and delay (notably 'Schedules 4 & 8') will be updated to reflect the most recently available data, through resetting the benchmarks against which they are measured. We welcome the industry-led process that will deliver many of these updates.

Wider financial framework

Financial risks

57. It is important that Network Rail is able to efficiently manage the risks faced by its business, which in turn allows the company to be held accountable for delivery over CP6.

58. For Scotland, Network Rail has included £60m of route based risk funding and has included £224m as a ring-fenced centrally-held 'group portfolio fund'. This can only be used for Scotland.

59. We agree with Network Rail's total proposed risk funding for Scotland of £284m. However, the balance between risk funding held in the route and the centre should be different. We have considered two options:

■ to be consistent with the approach for England & Wales and move half (£112m) of the balance from the centre to the route; and

■ to leave an amount in the centre at an appropriate level to cover the risk to Scotland on Network Rail's central costs and move the balance to the route.

60. We will discuss these options with Network Rail and stakeholders in the summer. We expect a decision to be made for our final determination.

61. The Network Rail plan includes some committed enhancement spend. In CP6 Transport Scotland will decide which further rail projects are funded through a process which is defined in its Rail Enhancements and Capital Investment Strategy. ORR's role in enhancements in Scotland differs from that in England & Wales; we are currently discussing with Transport Scotland what advice we will provide around enhancement costs for future projects in Scotland.

Use of CPI instead of RPI

62. In CP5, Network Rail's regulatory asset base (RAB), access charges, and payment rates in other mechanisms where we set the method of indexation, have been indexed using the retail prices index (RPI) measure of inflation. Following consultation, our view is that in CP6 the consumer price index (CPI) should be used instead.

63. This change reflects recent trends by other regulators to move away from RPI, given that CPI is a more accurate and robust measure. Further, as Network Rail can no longer borrow money on the debt market, it will no longer be exposed to movements in RPI on index-linked debt.

Budget flexibility

64. Network Rail currently has complete flexibility to move budgeted money between years, and between different categories of spend, reflecting its previous classification as a private sector body. These levels of flexibility are not available to public sector bodies and we have had discussions with government around the flexibilities that will apply in CP6. Network Rail and the ORR have made the case for a significant level of flexibility and we have provided assurance around how Network Rail will manage its finances and be monitored.

65. The UK Government has set out the budgetary flexibility it expects to allow Network Rail in CP6. Our understanding is that the flexibilities will be the same for Scotland and for England & Wales and will, for example, allow up to 10% of capital expenditure budgeted for a particular year to be moved to other years. However, discussions between the governments on this issue are still ongoing. More details are given in the annex.

66. This gives Network Rail significantly more flexibility than most other arms-length public bodies, but increases the importance of accurate forecasting of expenditure, not least due to the need to provide predictable work volumes to the supply chain.

Affordability of the Scotland HLOS

67. We are required by the Railways Act 1993 to decide whether the HLOS can be afforded, given the SoFA.

68. Transport Scotland's SoFA provides funding for Network Rail's OMR and, once OMR and the HLOS is funded, any remaining SoFA could be used for enhancements. Transport Scotland has said this funding for improvements is not restricted to Network Rail, but could also include service based and/or rolling stock solutions in other parts of the rail industry in Scotland, depending on what represents best value

for the use of public funds. The approach to investment will be governed by the Scottish Government's Rail Enhancement and Capital Investment Strategy.

69. In our affordability assessment, we only consider Network Rail's OMR plan. There is a significantly higher amount of total funding available in the SoFA (£4.85bn, cash prices) than Network Rail's forecast OMR spend in Scotland (c£4.35bn, cash prices, net of other single till income) and we are proposing reductions in Network Rail's SBP costs. We are therefore clear that the outputs required by Transport Scotland's HLOS are affordable.

70. As noted above, Transport Scotland included some output requirements that are not fully assessed in Network Rail's SBP and have not yet been costed. As these project costs are not clear, we have excluded these items from our affordability analysis.

Holding Network Rail to account

71. The improvements in the quality of the business plans as they affect Scotland, taken alongside our approach to only requiring Network Rail to make changes where there is a strong case to do so, mean that the plans remain largely valid. Reflecting this, the up-front investment made in these plans has paid off, and the plans can be built on as a basis for delivery in CP6. This strengthens the routes' ownership of them.

72. We need to put in place the arrangements for monitoring the company GB-wide and for holding the routes and SO to account. This will build on the changes that we are making to our bi-annual Network Rail Monitor document and monitoring teams to focus more on route comparisons.

73. To support this, there are a number of changes that we expect of Network Rail. Network Rail has committed to:

   (a) **develop credible plans for improvements to the SO's systems**, as we move from the current early-stage plans into specifications that can be costed and contracted for in detail. As part of this, the SO business plan will introduce a clear decision-point so that customers, governments and ORR have sufficient confidence that the improvements will deliver tangible benefits before the full spending on these is committed;

   (b) **improve the way customers are involved in decisions** on scorecards and finalising the CP6 delivery plan; reflecting the lessons-learnt from the way customers were engaged previously during SBP development;

   (c) **reform its internal governance arrangements** so that routes and the SO have greater control over whether they buy services from other parts of the company and what they buy. And where choice is not possible, that they have much more influence over these centralised decisions. Network Rail has recently made a number of changes that move the company in this direction, and is reviewing

the arrangements for Infrastructure Projects, but further work will be needed so that they have the desired practical effect. If the routes and SO cannot, in practice, hold these parts of the business to account, we will adapt our approach and increase our direct oversight of these areas; and

(d) **identify appropriate governance arrangements for the Digital Rail spend** within the business plans, so that the expenditure is ring-fenced for this purpose, involves funders and other stakeholders and applies the lessons learnt from recent reviews of enhancements delivery.

74. In order to sharpen the incentives on Network Rail to deliver against its plans, we will:

(a) **require Network Rail to set up a Scotland HLOS scorecard,** bringing together progress against all HLOS measures, in a format we will agree with Transport Scotland and Network Rail, and which we will report against in the Scotland monitor;

(b) **improve the monitoring of whether efficiency improvements are likely to be delivered**, by identifying a set of leading indicators such as the percentage of required possessions that are booked;

(c) **apply new arrangements to manage changes to Network Rail's plan and structure**, so that there is sufficient transparency around changes to those plans and that major changes that could undermine the effectiveness of our regulation of the company are reviewed and could – in certain circumstances – be prevented from taking place. These changes will include handling the impact on OMR spend of new enhancements required by funders;

(d) **restructure Network Rail's network licence to make accountabilities clearer**, by reflecting the creation of distinct route businesses and the SO in the company's licence. This will support our route-based regulatory approach by improving our ability to target our investigations to the relevant parts of Network Rail, holding the right management team to account. The licence will include a requirement that the governance arrangements will enable route businesses to make an assessment of the services they require and where they procure those services. This embeds our internal governance principles in the overall framework and our regulatory support for contestability and improved accountability of Network Rails services to its geographic routes and the SO. This will encourage the Scotland route to consider options for its future development;

(e) **monitor and report on the performance of routes and the SO** against their CP6 plans, and make greater use of public comparisons across routes and the SO, including on the performance levels delivered to customers, putting more scrutiny on those parts of the company that are lagging behind. Equally, we expect to take the opportunity to highlight the successes of the individual management teams. A route comparison scorecard will form the basis of these comparisons;

(f) **improve the monitoring of efficiency and financial performance**. We will move to providing a better understanding of the efficiency of Network Rail's routes by putting greater emphasis on reviewing and reporting on how routes have delivered efficiency improvements. We will make greater use of information from our safety role, for example, drawing on insights from safety reports where relevant; and we will provide more assessment of cost drivers, unit costs and productivity measures over time and across routes; and

(g) **update our approach to escalating concerns and enforcement**, so that we make better use of reputational incentives alongside our existing licence enforcement powers. This will include holding the management teams of the routes, SO and other business units to account for their actions, including through the potential for ORR hearings between routes/SO and affected parties; this is a change that we will reflect in an update to our monitoring and enforcement policies on which we plan to consult later this year.

The supporting annex to the Scotland summary

1. Introduction

1.1 This Annex provides supporting information to our summary of conclusions for Scotland. It has four sections.

1.2 **Section 2** describes what Network Rail's customers said they wanted the Scotland route to deliver throughout CP6. It sets out how Network Rail has reflected those priorities in its Scotland route scorecard and includes an overview of the Scotland route's main CP6 financial proposals. The Scotland route has engaged well with stakeholders in both preparing advice to the Scottish Ministers prior to publication of the High Level Output Statement (HLOS), and during the development of its plan.

1.3 **Section 3** explains how we have assessed Network Rail's plans. As set out in the summary for Scotland, the Scottish Ministers published a detailed HLOS for Scotland. To ensure good understanding of each requirement we have worked closely with Transport Scotland since publication of the HLOS in July 2017.

1.4 **Section 4** explains our decisions on each aspect of the HLOS, with a tabular summary (table A.3). Table A.3 lists the specific obligations on Network Rail, each of which will be individually enforceable against the licence. We will take into account where Network Rail is partly reliant on other parties to deliver the requirement and Network Rail will need to be clear on its own planned contribution where responsibilities are shared with other parties. Each obligation will be subject to the reasonable practicability[1] test in the Network Rail licence.

1.5 There are 35 specific requirements in table A.3. We need to ensure there is adequate transparency around progress as some measures are not suitable to be on Network Rail's route scorecard. Prior to the start of CP6 we expect table A.3 to be converted into a Scotland HLOS scorecard to sit alongside the route scorecard. We will discuss the development of the HLOS scorecard with Network Rail and Transport Scotland.

1.6 **Section 5** considers the financial framework. It provides an overview of the Statement of Funds Available (SoFA) produced by the Scottish Ministers and background to how we will calculate the Scotland route revenue requirements for CP6. Also included in this section is an overview of the key issues in the financial framework for CP6 and our assessment of the affordability of the HLOS against the SOFA.

1.7 In section 5 we conclude that, at this stage, the outputs required by Transport Scotland's HLOS can be delivered with the funding provided in the SoFA. We will confirm this position in our final determination.

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[1] Network Rail's current Network Licence (see Licence Condition 1 in particular) is available here.

1.8   There are a number of HLOS requirements in table A.3 that, while Network Rail has committed to delivering, it has not yet fully developed and costed. These relate, for example, to the delivery of the Scottish gauge requirement, freight journey time improvements and freight growth. We have set out the timetables for completing this work.

2. Stakeholder priorities and the route scorecard

2.1 Most rail services in Scotland are operated by Abellio ScotRail. Caledonian Sleeper, Virgin Trains East Coast, Virgin Trains West Coast, CrossCountry, TransPennine Express and freight operators currently operate rail services between Scotland and the rest of GB.

2.2 The Network Rail Scotland route is part of the ScotRail Alliance, which is a close working relationship between Abellio ScotRail and the Network Rail Scotland route.

2.3 During the development of its plan the Scotland route gathered views on what the industry wanted Network Rail to deliver in Scotland in CP6. It concluded that stakeholder priorities for CP6 were:

- **Abellio ScotRail**: Maximise passenger growth to exploit capacity provided by new fleet and infrastructure in CP5. Align regulatory and franchise targets for CP6. Improve right time performance, as well as PPM (the public performance measure);

- **Caledonian Sleeper**: Minimise the impact on existing services of the introduction of the new fleet of sleeper coaches in 2018 as well as the impact of the HS2 works at Euston. Work with Network Rail to minimise the impact on sleeper services of bank holiday possessions. Deliver the Right Time arrival at Destination target (80% for 18/19 and to the end of the franchise). Develop options for early boarding at managed stations as well as developing new markets and dedicated lounges at key stations;

- **Virgin Trains West Coast**: Sustain and improve train performance. Achieve journey time reductions to support modal shift from air (aspiration is a 4hr 15min journey; it is currently averaging 4hr 27mins). Manage enhancements and renewals so that the impact on cross-border traffic is minimised;

- **Virgin Trains East Coast**: Journey time improvements into Edinburgh Waverley. Operate additional services once rolling stock available and take advantage of new electrification north of Edinburgh;

- **Cross Country Trains**: Improve performance resilience between Edinburgh and Berwick. Reduce the capacity constraints between Edinburgh to Glasgow. Improve journey times on cross border services;

- **TransPennine Express**: Improve journey times from the border to Edinburgh and Glasgow. Improve platform capacity at terminal stations to support introduction of new trains. Spread access for renewals and enhancement works through CP6 to minimise peaks of disruption;

- **DB Cargo**: Improve the reliability and resilience of the existing network, avoiding closures such as Lamington (where scour damage caused the West Coast Main Line to be closed for seven weeks in 2016). Improve gauge clearance for diversionary routes and provide a swifter response to new business proposals;

- **Direct Rail Services**: Protect existing capacity for freight. Improve freight journey times, available capacity and route availability. Address competition with newly dualled A9 route and Highland Mainline; and

- **West Coast Railways**: Ensure the long-term future of The Jacobite and Borders steam. Provide reasonable pathing for charter on rural scenic routes.

Summary of the Network Rail Scotland route scorecard

2.4   Table A.1 below represents the Scotland route scorecard for CP6, taken from the Scotland route plan. Where possible, the scorecard includes the key metrics that stakeholders have asked for (including performance targets and journey time improvement measures). Some of the metrics below are still under development and some of the trajectories for CP6 have not been finalised. The final version will be in the CP6 delivery plan. The route scorecard forms the basis of the management incentive plan in Network Rail.

2.5   Some of the stakeholder and HLOS priorities are not suitable for inclusion in the route scorecard (for example cross border availability, gauge clearance and improving resilience). These areas and the requirements on Network Rail to deliver these obligations in CP6 are discussed further in section 4 of this document.

2.6   The Scotland route is supported by the System Operator (SO) and the freight and national passenger operator (FNPO) route. The SO and FNPO route scorecards include Scotland route specific metrics.

Table A.1: Summary of what the route proposes to deliver in CP6

Metric	CP6				
	2019-20	2020-21	2021-22	2022-23	2023-24
Train performance					
Consistent Route Measure – Performance	0.96	0.95	0.95	0.96	0.95
Freight Delivery Metric	94.5%	94.5%	94.5%	94.5%	94.5%
Abellio ScotRail PPM	92.5%[2]	92.5%	92.5%	92.5%	92.5%
Abellio ScotRail Right Time Departures	86.5%	86.5%	86.5%	86.5%	86.5%
Abellio ScotRail Cancellations	1.5%	1.5%	1.5%	1.5%	1.5%
Caledonian Sleeper Right Time Arrivals	80%	80%	80%	80%	80%
CrossCountry Right Time Departures from Edinburgh Waverley	84.5%	85%	85%	85.5%	85.5%
Customer					
Use of the network – passenger satisfaction (NRPS Abellio ScotRail)	90%	90%	90%	90%	90%
Abellio ScotRail average timetabled minutes	1.584	1.582	1.581	1.578	1.576
Abellio ScotRail passenger numbers	TBC	TBC	TBC	TBC	TBC
Average speed of Freight Services	TBC	TBC	TBC	TBC	TBC
Employee engagement survey % engagement	75%	76%	77%	78%	79%
Carbon Emissions Reduction	TBC	TBC	TBC	TBC	TBC
Freight growth target (on baseline)	1.5%	3.0%	4.5%	6.0%	7.5%
Sustainability/Asset Management					
Reduction in Service Affecting Failures	2.0%	2.0%	2.0%	2.0%	2.0%
CRI	2.00%	4.04%	5.90%	7.80%	9.60%
7 Key Volumes	95%	95%	95%	95%	95%
Top Investment Milestones	80%	80%	80%	80%	80%
Network Sustainability (measure to be defined)	-	-	-	-	2%

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[2] Network Rail has recently advised that it does not consider a 92.5% PPM target is deliverable in year 1 of CP6; this is discussed further in section 4.

Summary of proposed expenditure

2.7   Table A.2 below sets out the expenditure included in Network Rail's SBPs on a SoFA basis for Scotland, i.e. excluding non-SoFA expenditure[3].

2.8   The expenditure values we will use in our final determination of revenue requirements for CP6 are likely to vary from those shown in the tables below. This is because Network Rail will correct some errors in the numbers, we may have a different view of some issues and in our final determination we will incorporate our view of the results of the targeted updates to business plans that Network Rail is carrying out.

2.9   We discuss the financial framework and the affordability of Network Rail's plans for Scotland in more detail in section 5.

Table A.2: Summary of route's proposed expenditure and income for CP6

£m (2017-18 prices)	CP5		CP6					
	2018-19	Total	2019-20	2020-21	2021-22	2022-23	2023-24	Total
Operating costs	274	1,353	319	319	314	325	322	1,599
Renewals	343	1,683	387	523	490	383	293	2,076
Schedules 4 & 8	23	134	23	26	29	27	23	128
Group portfolio fund	0	0	34	43	64	64	80	284
Total SOFA expenditure	**639**	**3,170**	**763**	**911**	**897**	**798**	**718**	**4,088**

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[3] There is some expenditure that will be funded directly by the UK Government under separate arrangements in CP6 as explained in the financial framework supplementary document, i.e. payments for legacy debt liabilities, British Transport Police (BTP) costs and corporation tax liabilities. We refer to this as non-SoFA expenditure throughout this document.

2.10 Appendix J of the Scotland route plan[4] sets out the different parts of Network Rail which will contribute to delivering the requirements of the HLOS. Specifically identified were:

- Scotland route;

- System Operator;

- Freight and national passenger operator route;

- The London North Eastern/East Midlands (LNE/EM) route;

- The London North Western (LNW) route[5] ;

- Telecoms;

- Property; and

- Safety, Technical and Engineering (STE).

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[4] Scotland route SBP is available here

[5] LNE/EM and LNW for cross border availability only.

3. Assessment of Network Rail's plans

3.1   We assessed the Scotland route strategic plan using a range of approaches:

- we held 'deep dive' meetings looking at outputs, cost planning, performance and asset management, these included meeting with the Network Rail specialists in each relevant area;

- we had three main meetings with the route overall, including the ScotRail Alliance Managing Director. This included a presentation by the route on its plan in December 2017. This followed on from our engagement with the route prior to the SBP submission;

- we used analytical reviews to determine the robustness of the data, process and calculations that had been used to inform performance trajectories;

- prior to submission of the route's strategic plan we had early engagement with Transport Scotland and Network Rail to better understand some of the HLOS requirements[6]; and

- we met with Transport Scotland to discuss the route plan. We have also received correspondence from Transport Scotland which has provided further detail on its views of the Scotland route plan.

3.2   We have assessed the plans of the other parts of Network Rail which are responsible for delivering stakeholder priorities and the HLOS, including:

- the SO – we had two deep dive sessions focused on the Scotland route; additionally the Strategy & Planning Director (Scotland) attended the third challenge meeting for the Scotland route; and

- the FNPO Route – the Head of Strategic Capability for FNPO also attended the third challenge meeting.

3.3   We reviewed the proposals made by central functions such as telecoms, property and the technical authority, in terms of how they explain, justify and cost their work for the Scotland route.

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[6] See our letter 'Clarification points on The Scottish Ministers' High Level Output Specification for Control Period 6' here.

4. Our decisions on the HLOS

4.1 For CP6, the Scottish Ministers have published a detailed HLOS which contains a set of requirements that they expect Network Rail to deliver.

4.2 Prior to publication of the HLOS, Transport Scotland consulted with Network Rail and the wider rail industry to inform its 'Rail Infrastructure Strategy from 2019' consultation[7]. The outputs from this consultation were used to inform the HLOS.

4.3 This section covers our decisions on each aspect of the HLOS. These decisions are summarised in Table A.3 at the end of this section. Table A.3 sets out the obligations, in the form of reasonable requirements under the licence, on Network Rail. Network Rail will need to deliver each requirement to the greatest extent reasonably practicable, having regard to all relevant circumstances. If Network Rail fails to do this we would consider whether this constitutes a licence breach[8].

4.4 In monitoring Network Rail's delivery of each of these requirements, we will take into account where Network Rail is partly reliant on other parties to deliver the requirement and hence Network Rail will need to be clear on its own planned contribution.

4.5 The only areas not addressed below are paragraphs 6.33 and 6.34 of the HLOS in relation to the Scottish Ministers and Transport Scotland taking decisions on certain renewals projects in CP6. This is a significant departure from how Network Rail currently operates and raises issues of accountability; discussions are ongoing with Network Rail and Transport Scotland.

Performance for passengers

4.6 One of the strategic priorities for the Scottish Ministers is for improved rail services in Scotland. The Scottish Minister's HLOS included a number of outputs in this area each of which is discussed in turn below.

Journey times for ScotRail services

4.7 In the HLOS, the Scottish Ministers require *'that the outputs of the network will be maintained in such a manner as to enable the operators of the ScotRail Franchise to achieve improved journey times based on decreasing average minutes per train mile as specified in Schedule 7.2 of the ScotRail Franchise Agreement (and any subsequent variations) where Minutes per Mile targets measured across all ScotRail Sectors within CP6 are set at 1.587 (December 2019) to 1.576 (December 2024).'*

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[7] *Consultation on Scotland's Rail Infrastructure Strategy from 201,* available here.

[8] If Network Rail fails to deliver a reasonable requirement, ORR will go on to consider whether, in the circumstances of the case, Network Rail is fulfilling its duty under Licence Condition 1.

4.8 *'These improvements should be delivered through good operational practices, including timetabling exercises and programmes, and should be in addition to the journey time improvements secured through any major capital works.'*

4.9 Journey time improvements feature on both Network Rail's Scotland route and SO scorecards. In its plans, Network Rail states that the delivery of the journey time improvement will be a joint responsibility of the Scotland route and the SO and it will produce back-to-back metrics to ensure clarity both of delivery and accountability.

4.10 While we recognise that journey time improvements can be influenced by Network Rail (for example from the delivery of infrastructure improvements or timetable changes) there will also be steps that ScotRail can take to achieve its franchise targets.

4.11 We need to be able to understand Network Rail's role in meeting this requirement so that we can monitor the company against it. We therefore expect Network Rail to work with ScotRail to understand baseline performance and the forecast effect of existing interventions (both Network Rail and operator interventions), and any further required interventions. Network Rail and ScotRail must then develop a joint journey time improvement plan, setting out their respective roles.

4.12 The SO must lead the development of a plan for journey time improvements, working with other parts of Network Rail (including the Scotland route) and industry to meet the requirements of the HLOS. In CP6, the SO, the Scotland route and any other parts of Network Rail identified must deliver the obligations in the plan that are assigned to it, where it is funded to do so.

4.13 The HLOS makes clear that journey time improvements '*should be delivered through good operational practices, including timetabling exercises and programmes, and should be in addition to the journey time improvements secured through any major capital works*'. We note that in appendix D of the Scotland route plan, Network Rail has said that any infrastructure enhancements needed to improve passenger journey times are not included in its core OMR spend.

4.14 If Network Rail believes any enhancements are needed, it must explain and justify this in its journey time improvement plan.

4.15 A draft plan must be presented to ORR by no later than 30 November 2018. Transport Scotland and stakeholders must have been consulted on the plan. This will enable us to review the plan for alignment with the HLOS requirements and assess costs, supported as necessary by the independent reporters. We may make further requirements through this work.

Train performance for ScotRail and Caledonian Sleeper services

4.16 For train performance in CP6, the Scottish Ministers require that:

■ *'the outputs of the network will be maintained in such a manner as to enable the operators of the ScotRail Franchise to deliver a PPM target of 92.5% for every year of CP6 and the operators of the Caledonian Sleeper Franchise to meet their Right Time targets'*;

■ *'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'*; and

■ *'In support of the delivery of the PPM, the Scottish Ministers also require Network Rail to work with its industry partners to develop and measure key performance indicators which as a package:*

  – *encourages and facilitates outperformance of the PPM target;*

  – *reflects the impact of performance, including at intermediate stations, on current passenger experience and the attractiveness of rail services for new passengers;*

  – *reflects the economic value of services, disaggregated by Scottish service group, or line, or time period or a combination of those things;*

  – *is sufficiently flexible to take account of periods of severe disruption, with a focus on working with all affected operators in those circumstances to provide the best service possible for rail users;*

  – *does not add additional expenditure to the baseline costs of the Scottish operating route.'*

4.17 In its CP6 scorecard, Network Rail Scotland has included a ScotRail PPM metric, a right time arrival measure for Caledonian Sleeper, and a right time departures metric for CrossCountry.

4.18 We have carefully considered each of these metrics. While the Network Rail/ScotRail Alliance recently advised that it is unlikely to achieve 92.5% PPM in year 1 of CP6, we have decided that the PPM target for ScotRail should remain at 92.5%, in line with the HLOS.

4.19 We want to be able to compare all routes' contributions to passenger train performance. As such, we required Network Rail to propose a trajectory for the consistent route measure for passenger performance (CRM-P) for Scotland. The CRM-P shows the level of delay Network Rail causes to all operators that run over its route and is therefore important to help monitor Network Rail's delivery to all its customers. As Network Rail has revised the PPM trajectory it will need to re-visit the CRM-P trajectory.

4.20 In England and Wales, if performance drops below our regulatory minimum floor, we will be highly likely to take regulatory action. In Scotland, we will primarily be holding

Network Rail to account for delivery of the PPM target of 92.5%. However, if the CRM-P floor was breached, we would still take action.

4.21 The regulatory minimum floor will be a consistent margin below Network Rail's target for each year of CP6. The size of this margin should reflect a performance level of 20% of the average performance for CP4 and CP5. . We set out more detail about minimum floors in our [scorecards and requirements supplementary document](#).

4.22 Our final determination will include the final CRM-P trajectory and regulatory minimum floor.

Availability of cross-border routes

4.23 The Scottish Minister's HLOS said "*Cross-border rail services provide vital connections for passengers, essential routes for freight users and contribute to regional economic development, including within Scotland. Accordingly, the Scottish Ministers require that where maintenance, renewal or enhancement activity is required on cross-border routes, including for High Speed Rail works, at least one of those routes will be available at all times for the passage of timetabled sleeper, passenger and freight services through to and from London*".

4.24 Network Rail has identified some challenges in delivering this requirement. Its plan acknowledges the importance of the requirement, but highlights potential difficulties on certain dates because of the construction of HS2 and the impact on Caledonian Sleeper services during the Euston closures. In addition, it is expected both London North Eastern (LNE) and London North Western (LNW) routes will be competing for the same Bank Holiday weekend access.

4.25 It has also confirmed that while this is a specific Scottish HLOS requirement, maintaining availability of one cross-border path is a priority for other routes (in particular LNE, LNW and FNPO) to ensure freight and cross-border services can continue to operate.

4.26 During our review of its plans, Network Rail said this requirement is already embedded as business as usual and is accepted practice within Network Rail; this is evidenced by the fact it has always maintained cross-border availability during CP5.

4.27 This requirement spans both England and Scotland and the Secretary of State did not specify a similar requirement. It is not clear what costs would be involved in providing a total guarantee one route would always be open. It is possible, for reasons beyond Network Rail's direct control, that both routes between Scotland and London could be closed.

4.28 The Scottish Minister's HLOS also included a requirement that '*journey times on the route that is to be* made *available through to and from London should be no greater*

than the relevant Service Level Commitments or equivalent as specified by the Scottish Ministers or the Secretary of State for Transport at the date of publication of this HLOS'. There was no equivalent requirement in the England & Wales HLOS. We consider that this process is adequately covered by the requirements of the Network Code, which is incorporated into all Track Access Agreements.

4.29 There is no ring-fenced fund for cross-border availability, and we cannot reasonably expect Network Rail to anticipate all external events that could jeopardise availability or journey time of a cross-border route.

4.30 Network Rail must continue to follow industry processes, particularly the requirements of the Network Code. Any instances where Network Rail considers that it is not possible to keep at least one cross-border route open would need to be consistent with this framework.

4.31 Our conclusion is that the HLOS requirement cannot be met exactly as written. We require Network Rail to use reasonable endeavours to plan to keep at least one cross-border route available at all times and ensure that journey times on the available cross-border route are kept as short as possible. When circumstances require short-duration, minor variations to the available route, Network Rail must alert passengers, train and freight operators, funders and ourselves as far in advance as is practicable.

Passenger satisfaction

4.32 The performance of the infrastructure and the management of major stations in Scotland contribute to the overall satisfaction of passengers, as measured through the independent Transport Focus National Rail Passenger Survey (NRPS). In the HLOS the Scottish Ministers require that '*Network Rail should share, and be measured against, the same NRPS targets as are specified in the ScotRail Franchise contract, Schedule 7.2, Part 2, Para 11*'. Schedule 7.2 of the ScotRail Franchise specifically refers to two passenger satisfaction targets, including 'Overall satisfaction' and 'How well the Franchisee dealt with disruption'.

4.33 Network Rail has included NRPS in its route scorecard. We consider that there are opportunities for Network Rail to contribute to improvements in the NRPS in CP6, for example through improvements in performance, through decreasing journey times and through the provision of effective Customer Information Systems (see below).

4.34 In CP6 we require Network Rail do everything reasonably practicable to contribute to the ScotRail NRPS targets for:

- 'Overall satisfaction'; and
- 'How well the Franchisee dealt with disruption'.

4.35 Network Rail will report performance against the NRPS target in its scorecard. We will monitor progress against achievement of the scorecard target throughout CP6 and assess the bi-annual publication of NRPS results as published by Transport Focus. We will focus specifically on the outcomes for 'Overall satisfaction' and 'How well the Franchisee dealt with disruption'.

Maintaining quality of service at stations

4.36 For CP6, the Scottish Ministers set two requirements:

- that '*all stations shall be maintained to an average asset condition as in place at the 31 March 2019 and in a manner that facilitates the operator of the ScotRail franchise to fulfil its obligations under the current or any future Service Quality Incentive Regime (SQUIRE)*'; and

- for '*Network Rail to work with the rail industry to deliver a measurable improvement to the customer experience by the end of CP6 through improved, and more consistent Customer Information Systems (CIS) with no reduction in the customer experience through CP6*'.

4.37 During our assessment of Network Rail's plan, Network Rail assured that as part of the ScotRail Alliance, the Network Rail buildings team and ScotRail property team will continue to work together to maximise the benefit of both organisations' plans to maintain asset condition and create an attractive, welcoming environment for passengers and station users.

4.38 Network Rail's CIS plans are detailed in the Network Rail Telecom strategic plan[9] and alignment to the HLOS requirement is shown in Appendix J of the Scotland route plan.

4.39 In CP6, Network Rail plans to carry out CIS renewals at its major stations, which will include Glasgow Central and Edinburgh Waverley platform displays and main boards.

4.40 Network Rail also has plans to renew CIS at Aberdeen, Glasgow Queen Street, Inverness, Perth, Ayr, Dundee, Edinburgh Park, Irvine, Johnstone, Kilwinning, Largs, Markinch, Newcraighall, Paisley Gilmour Street, Stirling and Brunstane. For these stations, Network Rail has assumed renewals with modern displays. The plan also includes Long Line Public Address (LLPA)[10] renewals across the network.

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[9]Network Rail Telecom strategic plan is available here.

[10] LLPA is a public address system which can be used to communicate announcements across several locations.

4.41 During our assessment of the route plan, Network Rail confirmed that in the majority of stations in Scotland, the CIS are franchise assets and it has no plans to carry out any enhancements at these locations unless asset renewals are planned.

4.42 Network Rail has allocated £14m to CIS in CP6, £9m more than was spent in CP5. This additional spend will be on new equipment and improvements in sound and displays, which should lead to improvements in passenger satisfaction. Success can be measured through the NRPS score (through results for 'Provision of information about train times/platforms').

4.43 For CP6, Network Rail must meet the two requirements outlined at the start of this section.

Freight performance

Freight train performance

4.44 The Scottish Ministers require '*that freight trains on the Scotland route achieve an FDM of a minimum of 93% at* the *start of CP6 moving through staged improvements towards 94.5% at the end of CP6'*.

4.45 As Network Rail continues to outperform its CP5 target of 92.5%, it has set a GB-wide FDM[11] target of 94.0% in CP6. Its scorecard (and the Scotland route scorecard) acknowledge the HLOS requirement of maintaining 94.5% by the end of CP6. To reflect this, both the FNPO and Scotland route scorecards set a FDM-R target of 94.5% throughout CP6.

4.46 In CP6 we require Network Rail to maintain FDM-R for Scotland of 93% at the start of CP6 and then to improve this so that the CP6 exit position is no worse than 94.5%. For freight performance we have also required a consistent route measure for freight and we have set a regulatory minimum floor for this measure.

Freight journey time

4.47 The Scottish Ministers require '*Network Rail to develop a freight journey time metric based on average speed (mph) to be introduced at the start of CP6 to increase the average speed of freight* trains *by not less than 10% through good operational practices, including timetabling exercises and programmes, and through collaboration with freight operators and customers. In delivering this outcome, Network Rail should ensure that achievement is attained by acceleration of existing and new freight services. Progress against this outcome will be reviewed during CP6 on an on-going basis in order to assess its deliverability'*.

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[11] FDM is the percentage of trains that arrived at their destination within 15 minutes of the scheduled arrival time. Freight trains are only considered to have failed FDM if the delay was caused by Network Rail.

4.48 As this is a new requirement, the FNPO has undertaken stakeholder engagement to help establish how improvements to freight journey times can be delivered.

4.49 Freight journey time improvements feature on the Scotland route, FNPO route, and the SO scorecards. In its plans, the Scotland route notes that the delivery of the freight journey time improvements will also require inputs from the SO and therefore it will deliver back-to-back metrics to ensure clarity both of delivery and accountability.

4.50 As above with passenger journey time improvements, there will need to be a structured process to produce, consult on and review a metric and a plan which aims to increase the average speed of freight trains by not less than 10%. The plan will need to identify any costs which Network Rail believes will be incurred beyond its SBP. Network Rail then must deliver its plan throughout CP6.

4.51 The SO should be accountable for this requirement, with the FNPO and route responsible for supporting delivery of the plan.

Encouraging rail freight growth

4.52 In support of the commitment to supporting the rail freight sector the Scottish Ministers require '*that Network Rail clearly demonstrate throughout CP6 that it is using all levers at its disposal to* make *the use of rail freight attractive to business across Scotland, including simplicity of processes and a flexible approach to accommodating new rail freight traffic. The Scottish Ministers expect Network Rail to develop a plan, with the wider industry, for the start of CP6 which should facilitate the growth of new rail freight business. The plan should include both maximising the use of existing flows and the development of new business/terminal facilities*'.

4.53 The Scottish Ministers require '*all reasonable steps to be taken to facilitate growth of 7.5% in rail freight traffic carried on the Scotland route, of which, at least 7.5% will represent a growth in new business (i.e. new traffic flows, not previously moving by rail). Both targets should be achieved by the end of CP6*'.

4.54 Following publication of the HLOS, Transport Scotland provided some clarification points on the freight growth requirement. It has confirmed that:

- the growth target of 7.5% will be measured on net thousand tonne miles (kntm) to reflect product carried rather than be influenced by train weight. The baseline used in measuring growth should exclude coal traffic and Network Rail infrastructure trains;

- the net freight tonnage, at Period 13, 31 March 2024 must be at least 107.5% of the end position as at Period 13, 31 March 2019, this means that growth should include replacement of any traffic losses post final CP5 position; and

- at the end of CP6, at least 7.5% of the final net freight tonnage must be product new to rail during CP6.

4.55 In the FNPO strategic plan, Network Rail committed to developing a plan for freight growth in Scotland. It sets out that its plan will address:

- how to overcome the legacy of the limitations of Scottish rail infrastructure north of the Central Belt which currently inhibit freight capacity and capability;

- how to develop an innovative new rail freight offer that reflects the dispersed nature of the population and economic activity across much of Scotland;

- the role of rail freight in the new Scotland Rail Enhancements & Capital Investment Strategy[12]; and

- the specification for freight gauge capacity which will form part of the Scottish Gauge Requirement.

4.56 As above with passenger journey time improvements, there will need to be a structured process to produce, consult on and review this plan to facilitate growth of 7.5% in rail freight traffic carried on the Scotland route. The plan will need to identify any costs which Network Rail believe will be incurred beyond its SBP. Network Rail then must deliver its plan throughout CP6.

Asset data quality

4.57 In the HLOS, The Scottish Ministers state that '*Asset management and investment in enhancement projects in Scotland 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*'.

4.58 The development and application of asset policy, and the use of decision support tools, are heavily reliant on Network Rail maintaining a comprehensive and reliable dataset of information about network assets and their condition.

4.59 In PR13 we assessed the quality of Network Rail's asset data and found it variable, so for CP5 we set Network Rail the objective of delivering an improved asset dataset, and we made it a regulated output to be achieved by April 2017, to support the PR18 planning process. We said Network Rail should demonstrate A2 data quality for the core asset data used in asset management decision making, which means it should be maintained by an overarching information management system ("A"), and that the data itself should be appropriately accurate and reliable ("2").

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[12] Scottish Government's Rail Enhancements and Capital Investment Strategy: is available here.

4.60 Network Rail confirmed that as part of the overall asset data governance framework (which is managed by Network Rail centre) the Scotland route has a plan for improving and sustaining data governance within the route. This plan is supported by key performance indicators (KPIs).

4.61 Network Rail has defined new Minimum Asset Data Requirements (MADR) to establish a process for the Exchange of Asset Information (EAI) to ensure asset data is kept up to date during infrastructure projects. For CP6 we consider that Network Rail should maintain its focus on delivery of this, and also the development of a reporting mechanism to allow ORR to monitor the improvement in data quality for the MADR over the control period.

4.62 For CP6, Network Rail must meet the asset data requirement.

4.63 The HLOS also states that '*Where it represents and can clearly demonstrate value for money, Network Rail's asset management strategy should include the increased rollout of Intelligent Infrastructure Monitoring and Remote Control Monitoring of assets across the network*'. The Scotland route plan includes the extension of both. In its plan, Network Rail is committed to introducing a greater level of remote condition monitoring and fibre optic rock fall detection to better predict and prevent rock fall events.

Carbon emission reductions and climate change

4.64 In CP6 the Scottish Ministers require Network Rail to:

- '*work with the industry to develop and deliver a metric for continuous carbon emissions' reductions which is normalised to cover passenger and freight volumes and set against the baseline at the 31 March 2019*;

- *produce a metric in CP6 which drives behaviours to reduce overall traction and non-traction energy use by the end of CP6; and*

- *work with the rail industry to develop and apply suitable KPIs for monitoring the impact and mitigation of climate change upon network disruption and the means of measuring the benefits of adaptation interventions'.*

4.65 Network Rail is also required to work with the rail industry to '*report and build on the existing measures for the* overall *reduction in environmental impact'*.

4.66 In its strategic plan for the Scotland route, Network Rail confirms that it is in the process of appointing an energy manager in CP5 and with this extra resource it commits to developing a plan to progressively reduce normalised emissions through CP6. Network Rail assures that the new energy manager will deliver and continuously improve the route's energy management plan, monitor and report

progress, prepare business cases for energy efficiency investment and align the route to international standards (ISO14001).

4.67 Network Rail's STE plan confirms that it is supporting each of the routes to achieve traction and non-traction targets (discussed below), through the implementation of energy efficiency measures across its estate and operating good-practice energy management standards. This includes reducing non-traction energy consumption by 18% from the CP5 exit baseline, and to achieve a 25% reduction in the rate of CO_2 emissions by the end of CP6 (also relative to the end CP5 exit baseline).

4.68 To address the impact of climate change on the network, in CP5, Network Rail developed its Weather Resilience and Climate Change Adaptation (WRACCA) strategy. This is based on assessments of weather-related vulnerabilities, identification of root causes of historical performance impacts and an understanding of potential future impacts from regional climate change projections. In this strategy, Network Rail identified schemes for future control periods to tackle the predicted change in weather patterns. This strategy has been used to inform selected schemes for CP6 to help improve the network's resilience to extremes of weather. For CP6, this includes standalone drainage solutions to reduce the impact of flood events and remediation of the poorest condition earthworks sites. Some examples of the type of interventions that Network Rail has committed to in CP6 include:

- introducing a greater level of remote condition monitoring and fibre optic rock fall detection to better predict and prevent rock fall events;

- replacement of culverts and underbridges at sites that have a history of flooding; and

- remediation of all remaining high scour risk sites and increased operating expenditure for additional underwater examinations.

4.69 For CP6, Network Rail must meet the three requirements (as set out above) in the HLOS.

Network capability/capacity

4.70 The Scottish Ministers require that '*the capability of the network will be operated and maintained as a minimum throughout CP6 at a level which will satisfy all of the track access rights of all passenger and freight operators in place at the date of the publication of this HLOS and any rights secured, or in course of being secured, between then and the 31 March 2019. In particular, it must be fully consistent with the service level commitments specified in the ScotRail and Caledonian Sleeper franchises'*.

4.71 To achieve this, the Scottish Ministers require that '*by the end of CP6, all Scottish routes are maintained to be capable of accommodating the gauge of all locomotives*

and passenger rolling *stock, including* cross *border services and charter operators vehicles, which have run in Scotland in CP4 and CP5 or are known to be planned to run in Scotland in CP6. Freight gauge capability should be maintained to at least the capability in the most recently published issue of the Freight Gauge Database Map or the Sectional Appendix, or the full suite of RT3973 forms for Scottish routes, whichever is most capable at the time of publication of the HLOS'.*

4.72 Together, the passenger and freight specification are to be considered as the '*Scottish Gauge Requirement'*. The Scottish Ministers require '*that Network Rail will work with Transport Scotland and the industry to develop a gauging strategy by 31 March 2019 to achieve this Scottish Gauge Requirement with a continuous, rolling programme to cover the entire Scottish Network (except only where Network Rail has persuaded the Scottish Ministers that clearance would entail disproportionate cost) to commence no later than 1 April 2019 and to be completed by the end of CP6'.*

4.73 Network Rail has already commenced work on its gauging strategy to deliver the Scottish Gauge Requirement. An industry workshop took place in November 2017 to develop the scope of the strategy. This resulted in development work to be funded and undertaken in CP5 which will inform the scope of CP6 activity. Network Rail has committed to having a strategy in place for March 2019. We are discussing whether the timetable can be accelerated.

4.74 We note that in appendix D of the Scotland route plan, Network Rail has confirmed that any costs associated with delivery of the Scottish gauge requirement are not included in its core OMR spend. The gauging strategy will need to identify any costs which Network Rail believes are needed to deliver it.

4.75 For England and Wales we have also set a network capability requirement, which covers issues in addition to gauge. We consider that this requirement should extend to Scotland, with the gauge element of this requirement being met through the development of a gauging strategy.

4.76 As set out in the summary document for Scotland, we are commissioning a review of the current situation on network capability in Scotland and England & Wales, including whether Network Rail is on track to deliver the end of CP5 regulated output target. The findings from this work will be published in autumn 2018, separately from the final determination, and we expect Network Rail to implement any recommendations in CP6.

Asset management strategy alignment to the Scottish Ministers' priorities

4.77 The Scottish Ministers require '*Network Rail to adopt an asset management strategy in CP6,* including *policies as well as operational practice, focussed on reliability, resilience, safety, sustainability, and value for money. The asset management*

strategy should also clearly reflect the specific needs of the network in Scotland and its users and should be fully aligned to the Scottish Ministers' priorities'.

4.78 The strategic priorities are:

- Improved services;
- Improved capacity;
- Improved value;
- More effective integration; and
- Increasing inclusive economic growth.

4.79 Throughout the Scotland route strategic plan, Network Rail maintains a focus on physical resilience and takes a 'predict and prevent' approach to managing the infrastructure. This is to avoid occurrences of major incidents such as flooding in 2017 which caused scour damage to the Lamington viaduct.

4.80 The Scotland route plan provides for earthworks remediation, increased use of remote monitoring of slopes, and reduction of risk from third party slopes. The plan also makes provision for the removal of all remaining higher risk scour sites by the end of 2023.

4.81 If delivered, increased physical resilience and improved predict and prevent methods may result in a lower number of large incidents which should translate into improved performance and reliability for passengers and freight operators.

4.82 While all Network Rail routes have suggested that network sustainability will decline during CP6, it is set to decline the least in Scotland (by around 1%).

4.83 The Scotland route has committed to achieve asset management capabilities by 30 September 2019 that demonstrate alignment to ISO55001 through independent certification or self-assessment. This should help ensure that the route has the procedures and systems in place to manage its asset management regime.

4.84 Integration with other modes of transport is particularly important for the Scottish tourism sector. While the route's maintenance and renewals plan does not explicitly focus on this, Network Rail has assured that other areas of its business are identifying opportunities. The FNPO route, for example is exploring ways in which it can engage with local business and communities to promote opportunities for new charter services and the help ensure integration with bus and ferry services.

4.85 In terms of economic growth, the Scotland route has demonstrated that it makes use of locally sourced solutions. During our assessment of Network Rail's plan it gave examples of locally developed solutions that support Scotland's communities and economy. This includes the use of Scottish quarries (such as Breedon Quarry, Leiths

Quarry (at Forres) and Cloburn Quarry) and a Scottish steel foundry and steel casting manufacturer.

4.86 We consider that Network Rail's maintenance and renewal plans are capable of supporting the strategic priorities.

Development of an efficient electrification technical specification

4.87 The HLOS requires Network Rail to '*work with its industry partners, including the ScotRail Alliance, to deliver optimal, locally developed and delivered solutions for rail investment in Scotland, in* particular *through an efficient electrification technical specification optimised for Scotland that, in support of the Investment Strategy, can deliver an efficient and affordable rolling programme of electrification with appropriate plant, staff and resources based in Scotland to deliver the outputs and maximise the benefits to Scotland, including through the supply chain'*.

4.88 Network Rail, in conjunction with its Infrastructure Projects function and central Safety, Technical and Engineering team, is in the process of developing an efficient electrification strategy. This strategy will incorporate lessons learnt from the delivery of electrification projects in CP5 and apply these to the delivery of CP6 projects. The strategy will be finalised by the start of CP6. Network Rail has said that this will be an area of continuous improvement in CP6 and it intends to engage with stakeholders on the development of its strategy.

4.89 We will require Network Rail to develop an electrification technical specification by 31 March 2019, and keep this up to date through CP6. We expect this technical specification to provide a framework for the Scotland route to work within while supporting delivery of a safe, sustainable and reliable infrastructure.

Depots and Stabling strategy

4.90 The Scottish Ministers require Network Rail to '*cooperate with the wider rail industry to develop sufficient strategic depot and stabling capability plans for at least the next 15 years, supporting the growth in passenger services predicted and the rolling stock strategies set out in Franchise Agreements and any planned variations'*.

4.91 As part of this process, the Scottish Ministers state that '*consideration should be given to current and expected gaps in servicing and stabling capability, identifying value for money options to support more efficient rolling stock operations. This strategy should be based around the appropriate exploitation of existing railway assets; using/adapting stations where possible and then the consideration of new depots'*.

4.92 In CP6 Network Rail must cooperate with the wider industry to develop sufficient strategic depot and stabling capability plans for at least the next 15 years. These plans should be developed in accordance with paragraph 4.91. While we are

requiring the SO to be accountable for developing these plans, the Scotland route has confirmed that physical delivery of this requirement (i.e. the actual provision of sufficient strategic depot and stabling capability) is not fully addressed or costed in the Scotland route plan. Network Rail considers that this is subject to further discussion with Transport Scotland, and further plan development with industry partners.

4.93 A date for completion of the plan needs to be agreed between ORR, Transport Scotland and Network Rail.

Support for rural economy and tourism

4.94 The Scottish Ministers require that '*Network Rail will maintain and deliver track access to support the reasonable* requirements *of charter, tourist and other special trains, ensuring that all required approvals and pathways are confirmed to operators in sufficient time so as to enable normal business planning and marketing activity to be undertaken with certainty. The Scottish Ministers would expect gauging to be covered by this requirement and, to the extent that the Scottish Gauge Requirement is not sufficient, where specific gauging exercises are required, that these are undertaken at Network Rail's cost and in sufficient time to allow services to run as planned*.

Timetabling with respect *to rural services should be informed by specialist local knowledge so as to ensure integration with bus and ferry services.*

Vegetation clearance on rural and scenic routes should be controlled and maintained so as to facilitate views from the train, and to prevent damage to trains (including those of charter operators), such as damage to paintwork and exterior finish'.

4.95 Charter planning compliance is a scorecard measure for FNPO. The FNPO plan recognises the importance of charter trains in supporting local economies and creating high profile and internationally renowned attractions (such as the Jacobite which operates between Fort William and Mallaig).

4.96 The FNPO strategic plan confirms that it is working with charter customers to secure a number of 'strategic charter paths', which would provide guaranteed gauge and vegetation cleared paths on core charter routes. The FNPO is trialling these charter paths in the December 2018 timetable.

4.97 The FNPO strategic plan also confirms that an industry Charter Conference, held in 2017, brought together key stakeholders within the charter industry, to help develop a Charter Strategy, which is committed to deliver a sustainable future for charter trains. This Strategy will form the basis of FNPO delivery to the charter industry through CP6.

4.98 The FNPO plan has identified opportunities to engage with local businesses to promote opportunities for new charter services, which includes the opportunity to help ensure integration with bus and ferry services.

4.99 As documented in our Network Rail Monitors, Network Rail in Scotland has been behind its plan in delivering volumes of vegetation work. Network Rail has implemented a risk based programme for vegetation in CP6 to recover the position. To achieve full scenic vegetation clearance in Scotland, Network Rail estimates that this would require around £6m of expenditure. However it does not believe this is deliverable without impacting the risk based programme for vegetation in CP6. Therefore Network Rail has allocated £2m of clearance directed towards scenic views as part of its core plan.

4.100 For CP6, Network Rail is required to work to meet the HLOS requirements, although we note the limits on vegetation clearance.

Railway assets

4.101 The Scottish Ministers require Network Rail '*to optimise the availability of redundant or underused assets, including land, for the benefit of the local community. Where Network Rail looks to relieve itself of the burden of assets by identifying a more appropriate party (or parties) that could discharge that obligation, it should first undertake a thorough assessment of the potential for railway use in the future*'.

4.102 In its plan, Network Rail set out that all sites being considered for disposal will be subject to early industry consultation so that operational uses can be protected, and where possible, enhanced. The Scotland route has confirmed it is committed to working with the Network Rail Property function to dispose of land where it presents a liability to the Route (for example Hollandhurst Road, Coatbridge) to reduce costs.

4.103 Network Rail's network licence already requires it to consider potential railway use for assets which Network Rail may want to dispose of.

4.104 The Scottish Ministers also require Network Rail to '*cooperate fully with Transport Scotland and the Scottish Government to examine areas where Network Rail's digital assets can support* passengers *services where digital connectivity is limited or currently missing, or where the assets can support digital coverage for remote and rural communities*'.

4.105 In relation to digital assets supporting passenger services and remote and rural communities, Network Rail has confirmed that it will cooperate fully with Transport Scotland and the Scottish Government in identifying opportunities.

4.106 For CP6, Network Rail must meet the requirements set out in the HLOS.

Resourcing considerations

4.107 Paragraph 4.2 of the Scottish Ministers' HLOS contains requirements associated with how Network Rail resources certain functions. In the HLOS, the Scottish Ministers require Network Rail to:

- create *'an expert whole-rail-system project client and sponsor capability based in Scotland, to control all stages of investment project development and delivery'*; and

- have *'dedicated resources for timetabling specific to the Scottish network, which should be familiar in detail with its geographical, market and operating characteristics, using processes and priorities fully aligned with the Strategic Priorities'*.

Whole system client sponsor capability

4.108 Network Rail has set out how it expects the SO will provide an expert whole-rail system client for enhancement projects, resourced appropriately with staff based in Scotland. Network Rail has recently created a Director-level post based in Scotland to lead the SO activity for the route. In Scotland there is a SO team of 14 people. This team is responsible for alignment and integration with the rest of the network, including supporting economic, station and capacity analysis activities.

4.109 Sponsorship for Scottish enhancement projects will be undertaken initially by the SO team based in Scotland, before transitioning to the Route Sponsorship team (also based in Scotland) once certainty of funding and outputs is achieved. The Scotland route will continue to provide the expert client and sponsorship capability for renewal projects.

4.110 Network Rail has also shared details of how its Scottish project delivery function will be strengthened in CP6, with a dedicated Infrastructure Projects Delivery Director aligned to the Scotland route.

4.111 Other delivery functions are also being better aligned to Scotland route in CP6, with a combined Scotland track delivery team (plain line and switches and crossings) being introduced to deliver the Scotland track renewals workbank and support enhancements delivery.

4.112 Network Rail confirmed that only supporting activities for Scotland project development and delivery will be conducted outside Scotland. This includes timetabling exercises conducted by the central SO function, investment approval for the largest projects through Network Rail's Large Projects Panel (>£10m enhancements, >£25m renewals) and Investment Panel (>£50m enhancements,

>£100m renewals), and technical support through the central Infrastructure Projects directorate and the Safety, Technical and Engineering organisation.

4.113 During our review of its plan, Network Rail has demonstrated its commitment to, where appropriate, develop local policies and programmes with sufficient plant and staff for delivery allocated to and normally based in Scotland.

4.114 In CP6 Network Rail must ensure that it maintains an expert whole-industry project client and sponsor capability to control all stages of investment project development and delivery in cooperation with the Scotland route. It must report on this through the regular qualitative SO reporting.

4.115 We have discussed the 'based in Scotland' part of the HLOS with Network Rail and Transport Scotland. The location of staff is a management issue for Network Rail. Throughout CP6 we will focus on whether the company is providing the relevant capability in response to the HLOS.

Timetabling resource

4.116 The Network Rail SO function, based in Milton Keynes, currently manages the timetable function. During our assessment of its plan, Network Rail confirmed that timetable development and management of timetabling planning rules is undertaken by teams which broadly align to Network Rail routes. These teams are accountable for the processes of adjusting passenger services for engineering works and commercial need. The Scotland team currently consists of 31 people, with costs directly attributable to Scotland.

4.117 Processes for adjusting (and introducing) services for freight, network and charter services in the short-term (perhaps because of engineering works or commercial need) for Scotland is undertaken by a separate network-wide team of around 120 people. Costs of this team are allocated to Scotland on the basis of track miles.

4.118 There is a wider team of around 198 people who are not directly involved in, but support timetabling processes (including capacity analysis, programmes and support teams). Costs for this resource are also allocated to Scotland on the basis of track miles.

4.119 Network Rail confirmed that the Working Timetable timetabling process is undertaken in a project orientated approach, considering the scale and complexity of timetable change as well as the priority for inclusion outlined within the Network Code. Resources are often 'shared' across teams to deliver the process. This is also common in periods of significant volumes of short-term timetabling; examples affecting Scotland include the Edinburgh Festival and the 2016 Lamington viaduct closure (creating network-wide timetabling implications).

4.120 The HLOS requires timetabling resources to be familiar in detail with Scotland's geographical, market and operating characteristics, and use processes and priorities that fully align with the Strategic Priorities. Network Rail's SO plan sets out that it operates a route familiarisation training programme to build knowledge of the Scottish network. In CP6 the SO has confirmed that staff will undergo continuous capability reviews, and the SO will engage with Transport Scotland and its customers to ensure that the outcomes specified are delivered.

4.121 The SO's plan also includes the delivery of a retention and development plan within capacity planning, to provide greater career progression and lower attrition rates within the technical discipline of timetable planning.

4.122 For CP6, Network Rail must meet the requirements set out in the HLOS.

Table A.3. Summary of what Network Rail is required to deliver in CP6

No.	Network Rail requirement for CP6	Accountable
Journey time improvements		
1	A plan for journey time improvement for each year of CP6 to deliver a mile per minute target of 1.587 (by December 2019) and 1.576 by December 2024. The plan must be: - developed in cooperation with the ScotRail Franchise; - consulted with Transport Scotland and stakeholders; - provided to ORR by 30 November 2018 for review ; - finalised and provided to all affected parties by 31 March 2019; and - updated and amended as appropriate through CP6.	System Operator
2	Network Rail to deliver its obligations from the plan during CP6.	System Operator
Train performance		
3	ScotRail Franchise PPM of 92.5% for every year of CP6.	Scotland route
4	Caledonian Sleeper Franchise Right Time targets of 80% for each year of CP6.	FNPO
5	Develop a suite of KPIs to support delivery of performance and NRPS targets that are: - developed in cooperation with the ScotRail Franchise; - consulted with Transport Scotland and stakeholders; - provided to ORR by 30 November 2018 for review; - finalised and provided to all affected parties by 31 March 2019; and - updated and amended as appropriate through CP6.	Scotland route
6	Network Rail Scotland must confirm a trajectory for the consistent route measure for passenger performance by 13 July 2018. We also set a regulatory minimum floor methodology for passenger performance. Our decision is that this should be set at a consistent margin below Network Rail's target for each year of CP6 (i.e. the floor reflects the trajectory). The size of this margin should reflect a performance level of 20% of the average performance for CP4 and CP5.	Scotland route
Cross-border routes		
7	We require Network Rail to use reasonable endeavours to plan to keep at least one cross-border route available at all times and ensure that journey times on the available cross-border route are kept as short as possible.	System Operator
8	Where circumstances require short-duration, minor variations to the available route, Network Rail must alert passengers, train and freight operators, funders and ourselves, as far in advance as is practicable.	System Operator

No.	Network Rail requirement for CP6	Accountable
Passenger satisfaction		
9	Do everything reasonably practicable to contribute to a ScotRail NRPS targets for: - 'Overall satisfaction'; and - 'How well the Franchisee dealt with disruption'.	Scotland route
Quality of station services		
10	Maintain stations to the average asset condition in place at 31 March 2019, in a manner that facilitates the operator of the ScotRail franchise to fulfil its obligations under the current or any future Service Quality Incentive Regime (SQUIRE).	Scotland route
11	Work with the rail industry to deliver a measurable improvement to the customer experience by the end of CP6 through improved, and more consistent Customer Information Systems (CIS) with no reduction in the customer experience through CP6.	Scotland route
Freight performance		
12	Network Rail must achieve FDM-R for Scotland of 93% at the start of CP6 and improve this so that the CP6 exit position is no worse than 94.5%.	FNPO
Freight journey time		
13	Develop a freight journey time metric based on average speed (mph). The measure must be: - developed in cooperation with the freight industry; and - consulted with Transport Scotland and stakeholders.	FNPO
14	Using the freight journey time metric, develop a plan to increase the average speed of freight trains by not less than 10% through good operational practices, including timetabling exercises and programmes, and through collaboration with freight operators and customer. The plan must be: - developed in cooperation with the freight industry; - consulted with Transport Scotland and stakeholders; - provided to ORR by 30 November 2018 for review; - finalised and provided to all affected parties by 31 March 2019; and - updated and amended as appropriate through CP6.	System Operator
15	Network Rail to deliver its obligations from the plan during CP6.	System Operator

No.	Network Rail requirement for CP6	Accountable
Freight growth		
16	Work with the freight industry to develop a plan including all reasonable steps to facilitate growth of 7.5% in rail freight traffic carried on the Scotland route, of which, at least 7.5% will represent a growth in new business (i.e. new traffic flows, not previously moving by rail), by end of CP6 as measured by net tonne miles. The plan must be: - developed in cooperation with the freight industry; - consulted with Transport Scotland and stakeholders; - provided to ORR by 30 November 2018 for review; - finalised and provided to all affected parties by 31 March 2019; and - updated and amended as appropriate through CP6.	FNPO route
17	Network Rail to deliver its obligations from the plan during CP6.	FNPO route
Asset data quality		
18	Consistently maintain data quality at an A2 standard as a minimum across all asset data categories. This includes Network Rail's new Minimum Asset Data Requirements that have been defined to establish a process for the Exchange of Asset Information to keep asset data up to date during infrastructure projects.	Scotland route
Carbon emissions reduction and climate change		
19	Create and deliver a metric for continuous carbon emissions reductions which is normalised to cover passenger and freight volumes and set against the baseline at the 31 March 2019. This metric must be: - developed with regard to Scottish environmental legislation; - consulted with Transport Scotland and stakeholders; - provided to ORR by 30 November 2018 for review ; and - finalised by 31 March 2019. Network Rail must deliver against the metric in CP6.	Scotland route
20	Create a metric for CP6 to drive behaviours to reduce overall traction and non-traction energy use by the end of CP6.This metric must be - consulted with Transport Scotland and stakeholders; - provided to ORR by 30 November 2018 for review; and - finalised by 31 March 2019.	Scotland route
21	Network Rail to work with the rail industry to develop and apply suitable KPIs for monitoring the impact and mitigation of climate change upon network disruption and the means of measuring the benefits of adaptation interventions. The KPIs must be developed with regard to Scottish environmental legislation.	Scotland route

No.	Network Rail requirement for CP6	Accountable
Network capability and capacity		
22	Network Rail must protect and maintain the baseline capability of the network and we expect all changes to go through the recognised industry processes throughout CP6. We will work with Network Rail to set the baseline for 1 April 2019. As part of this we will consider whether the base requirement should be as we set out for CP5 (in terms of track mileage & layout, line speed, gauge, route availability, electrification type) or be changed.	Scotland route
23	Develop a gauging strategy which seeks to deliver the Scottish Gauge Requirement. The strategy must be: - developed in cooperation with the rail industry; - consulted with Transport Scotland and stakeholders; - provided to ORR by 30 November for review; - in place by 31 March 2019; and - updated and amended as appropriate through CP6. We are reviewing if this timetable can be accelerated. The outputs from delivery of the Scottish Gauge Requirement should be used to inform and maintain accurate and up to date Network Capability statements.	Scotland route
24	A rolling programme to deliver the Scottish Gauge Requirement should commence no later than 1 April 2019 and be completed by the end of CP6.	Scotland route
Asset management, maintenance and renewal plans		
25	Network Rail must maintain a balance between the strategic requirements against its network stewardship requirements, in addition to maintaining a safe network.	Scotland route
Development of an efficient electrification technical specification		
26	Network Rail must develop an electrification technical specification by 31 March 2019, and keep this up to date through CP6. The specification must: - support the Scotland investment strategy; and - be compliant with UK law and current rail technical specifications for interoperability.	Scotland route
Depots and stabling		
27	Network Rail must develop and keep up to date a depot and stabling capability plan for the 15 years from 2019 to 2034. The plan must be: - developed in conjunction with Transport Scotland and industry partners; - be sufficient to support predicted passenger service growth and rolling stock strategies set out in Franchise Agreements; and - a date for completion of the plan needs to be agreed between ORR, Transport Scotland and Network Rail.	System Operator

No.	Network Rail requirement for CP6	Accountable
Support for the rural economy and tourism		
28	Network Rail must have appropriate processes and procedures in place to support requirements of charter, tourist and other special trains.	FNPO
29	Network Rail must maintain and deliver track access to support the reasonable requirements of charter, tourist and other special train operators, ensuring that all required approvals and pathways are confirmed to operators in sufficient time so as to enable normal business planning and marketing activity to be undertaken with certainty.	FNPO
30	Timetabling with respect to rural services should be informed by specialist local knowledge so as to ensure integration with bus and ferry services.	System Operator
31	Vegetation clearance on rural and scenic routes should be controlled and maintained so as to facilitate views from the train, and to prevent damage to trains.	Scotland route
Railway assets		
32	Network Rail must seek to optimise the availability of redundant or underused assets, including land, for the benefit of the local community, while protecting the network for future use.	Scotland route
33	Network Rail must cooperate with Transport Scotland and the Scottish Government to examine areas where Network Rail's digital assets can support passenger services where digital connectivity is limited or currently missing, or where the assets can support digital coverage for remote and rural communities.	Scotland route
Client sponsor capability		
34	Network Rail must maintain an expert whole-industry project client and sponsor capability to control all stages of investment project development and delivery in cooperation with the Scotland route. It must report on this through the regular qualitative System Operator reporting.	System Operator
Our decisions on timetabling resource		
35	Network Rail must maintain sufficient dedicated resources available to deliver timetabling activity on the Scottish network, which must be familiar with its geographical, market and operating characteristics, using processes and priorities fully aligned with the Scottish strategic priorities.	System Operator

5. Financial framework and affordability

Introduction and background

5.1 This section provides an overview of the SoFA produced by the Scottish Ministers and background to how we calculate the Scotland route revenue requirements for CP6.

5.2 Also included in this section is our assessment of the affordability of the HLOS against the SOFA and an overview of the key issues in the financial framework for CP6. These include:

- budgetary flexibility;

- financial risk management in CP6;

- central cost allocations;

- inflation indexation;

- affordability of the Network Rail's plan for Scotland;

- other financial framework issues; and

- the calculation of revenue requirement for Scotland.

5.3 The financial framework that we have set for Network Rail in CP6 reflects the significant changes that have happened since the company was reclassified as a public sector body in 2014. In particular, elements of the CP5 framework are now less relevant or redundant. Furthermore, Network Rail's closer relationship to government means that certain decisions by the UK and Scottish Governments have a direct bearing on the framework.

5.4 We discussed these issues in our January 2017 and March 2018 consultations, and our December 2017 update letter[13]. Our more detailed decisions on the financial framework following on from our March 2018 consultation are set out in our financial framework supplementary document[14]. That document also summarises consultees' views and sets out our decisions on these issues in more detail.

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[13] All of these past consultations are available on our website, here.

[14] This is available here.

The Scotland SoFA

5.5 Schedule 4A of the Railways Act 1993[15] requires the Scottish Ministers to provide ORR with information about the public financial resources that are, or are likely to be, available to achieve delivery of its HLOS.

5.6 To do this, the Scottish Ministers published the SoFA on 28 January 2018[16]. This provides £4.85bn (in cash terms) of funding during CP6. It is intended to fund the operation, maintenance and renewal of the network, and also provide some funding during CP6 for railway improvements. This is not restricted to enhancement of the rail network by Network Rail, but could also include service based and/or rolling stock solutions in other parts of the rail industry in Scotland, depending on what represents best value for the use of public funds.

5.7 The approach to additional investment in Scotland will be governed by the Scottish Government's Rail Enhancements and Capital Investment Strategy[17]. We have excluded any such investment in deciding whether the required outputs can be delivered for the funding included in its SoFA.

5.8 The SoFA does not specify revenue profiles for the five years of CP6, therefore we will determine these in light of Network Rail's strategic business plans, as set out in the following section.

Calculating the Scotland route revenue requirements for CP6

5.9 A core part of PR18 is the process for determining Network Rail's revenue requirements for CP6 at route-level and for Scotland and England & Wales.

5.10 We have developed our approach for PR18 in a number of ways to reflect structural changes to Network Rail's organisation and funding, e.g. the introduction of the SO and FNPO. Our policies on the SO and the FNPO were set out in our January 2018 overall framework conclusions[18].

5.11 The SO provides its services to the routes and, accordingly, its expenditure will be recharged to the routes where it will be included in the building block calculation of each route's revenue requirement.

5.12 Although the FNPO incurs some support and operations expenditure, this is relatively small compared to the expenditure of the geographical routes, and it does not directly

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[15] The Railways Act is available here.

[16] Scotland SoFA is available here.

[17] This is available here.

[18] This is available on our website, here.

incur any expenditure for operating, maintaining or renewing infrastructure assets. Instead, the FNPO route will be charged a share of each geographical route's expenditure[19], to reflect the costs attributable to usage by freight and national passenger operators. These recharges will be included in the building block calculation of the revenue requirement for the FNPO.

Process for calculating the Scotland route revenue requirements

5.13 To calculate the revenue requirement for the Scotland route we used a single-till 'building block' approach, as illustrated in Figure 1 below. This approach sums Network Rail's expected efficient expenditure for OMR activities then deducts expected 'Other single till income' (OSTI).

Figure 1: CP6 building blocks diagram

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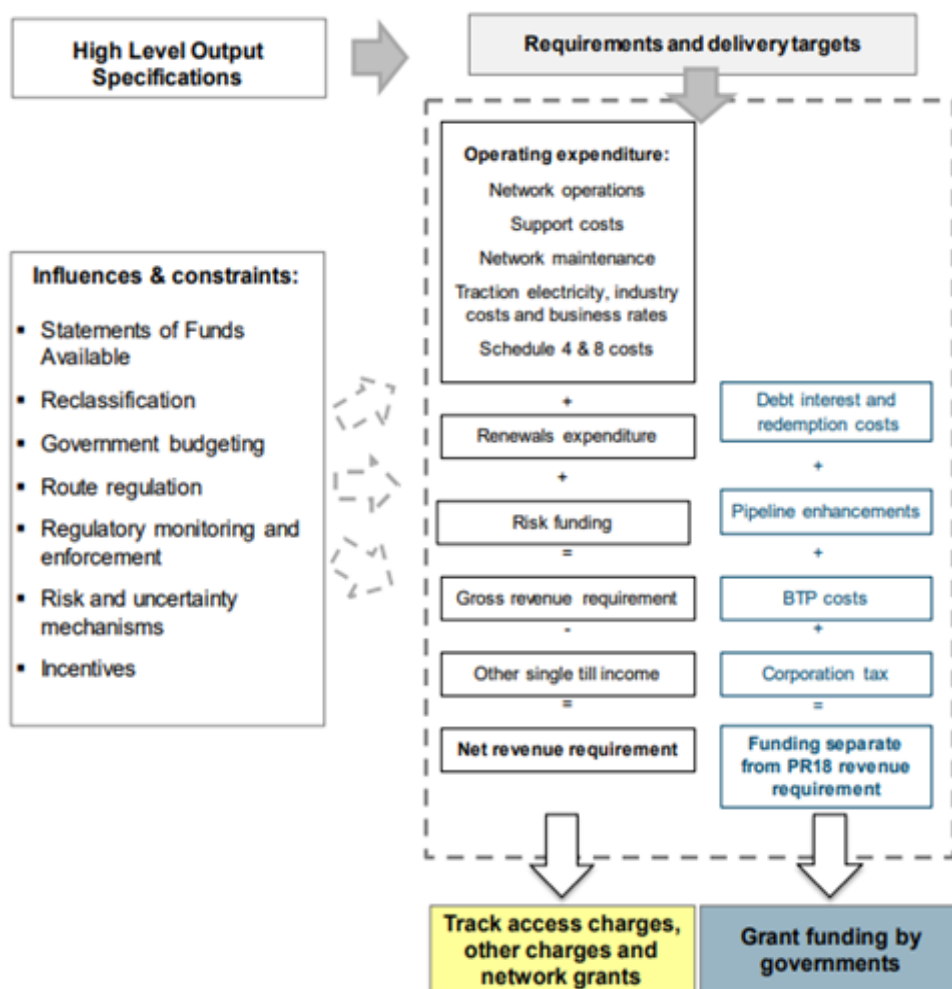
[19] This is because it is the routes that directly incur expenditure on operating infrastructure assets.

Process for calculating total revenue requirements for Scotland

5.14 In addition to calculating revenue requirements for the Scotland route, we also need to calculate the revenue requirements for Scotland, England & Wales and Great Britain as a whole.

5.15 Some of the activities of the SO and FNPO are not route specific and cover the whole of Great Britain, so we need to show how their revenue requirements are attributable to Scotland and England & Wales for the purposes of:

- the comparison of total revenue requirements to the SoFA amount; and

- the setting of track access charges.

5.16 An appropriate share of the SO's expenditure will be recharged to the Scotland route, so no further adjustment is required for our calculation of the total revenue requirement attributable to Scotland.

5.17 However, we need to share the FNPO's revenue requirement between Scotland and England & Wales:

- there is a charge from the Scotland route to the FNPO, which needs to be reversed when we calculate the revenue requirement for Scotland in total; and

- we need to allocate a share of the FNPO's own support and operations expenditure, plus its share of SO costs to England and Wales and to Scotland.

5.18 This means there are two revenue requirement figures relating to Scotland:

- **the revenue requirement for the Scotland route** (using a single-till 'building block' approach); and

- **a total Scotland revenue requirement** which is the sum of:
    - the revenue requirement for the Scotland route;
    - the amount recharged by the Scotland route to the FNPO; and
    - the share of the FNPO's own support and operations expenditure, and recharged SO costs, attributable to freight operations in Scotland.

5.19 The calculation flows described above are illustrated in figure 2 below. Note that:

- the figures shown are for illustration purposes only and do not represent actual expenditure forecasts; and

- a single period is illustrated.

Figure 2 – Illustration of revenue requirement calculations

Calculation of revenue requirements for geographical routes, FNPO and SO

		GB	FNPO	Scotland	Anglia	South East	LNE & EM	LNW	Wessex	Western	Wales
1	FNPO's own support and operations costs	8	8								
2	System operator costs	96	8	11	11	11	11	11	11	11	11
3	Geographical route OSMR	800		100	100	100	100	100	100	100	100
4	FNPO recharge		160	-20	-20	-20	-20	-20	-20	-20	-20
5	**Gross revenue requirement**	**904**	**176**	**91**	**91**	**91**	**91**	**91**	**91**	**91**	**91**
6	Other single till income	-40		-5	-5	-5	-5	-5	-5	-5	-5
7	**Net revenue requirement**	**864**	**176**	**86**	**86**	**86**	**86**	**86**	**86**	**86**	**86**

Calculation of total revenue requirements for England & Wales and Scotland

		GB	E&W	Scotland
8	Geographical routes net revenue requirements	688	602	86
9	Recharges to FNPO reattributed to England & Wales and Scotland	160	140	20
10	FNPO cost allocations (including FNPO share of SO costs)	16*	14	2
11	**Net revenue requirement**	**864**	**756**	**108**

*This is the sum of the values in rows 1 and 2 for the FNPO

5.20 Further detail of this process is provided in our second financial framework consultation[20].

Key issues in the financial framework for CP6

Budget flexibility

5.21 When we made our PR13 determination for CP5, Network Rail was a private company limited by guarantee. As such, it had full budgetary flexibility, by which we mean the ability to move money between different years of the control period and to switch expenditure between operating expenditure and capital expenditure.

5.22 However, arm's length public sector bodies generally have limits on what money they can transfer between years, and are (currently at least) not permitted to transfer capital expenditure to operating expenditure. This reflects the need for government to manage their overall budgets. Following its reclassification as an arm's length public sector body, it is important for government that there will be appropriate governance of Network Rail's budget in CP6.

5.23 We said in our earlier consultations that it was likely that Network Rail would be subject to restrictions on:

■ spending money in different years than initially agreed with the governments; and

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[20] ORR's Financial Framework consultation (see p38) is available here

- switching expenditure between operating (resource) and capital expenditure, in both cases with reference to total amounts (as opposed to route level) for England & Wales and for Scotland.

5.24 The DfT has now set out (in its response to our second financial framework consultation) the budgetary flexibility that Network Rail can expect to be allowed during CP6 in respect of England & Wales. The limitations referred to encompass risk funding held centrally and at route level. The flexibilities are provisional and will be subject to review at the next spending review.

5.25 They allow:

- deferral of up to 10% of capital expenditure budgeted for a particular year to a later year;

- the bringing forward of up to 10% of capital expenditure budgeted for a future year to an earlier year (but not the year in which the request is made);

- carry forward up to 2% of a capital budget underspend arising in a particular year, to the following year or a subsequent year;

- full flexibility to transfer budgeted operating (resource) expenditure in a given year to capital expenditure;

- deferral of up to 0.75% of operating expenditure for the year concerned to a later year;

- retention of incremental income up to a level of 10% of agreed forecasts; and

- retention of capital receipts.

5.26 We expect similar budgetary flexibility to apply in Scotland. However discussions between the governments on this issue are still ongoing. We await Transport Scotland's views on budgetary flexibility and whether there are any additional considerations for Scotland in CP6.

Financial risk management in CP6

Risk funding levels

5.27 Like any company, Network Rail needs appropriate provisions in place to manage the risks it faces, such as inflation, cost shocks and adverse events, such as the flood damage at Lamington viaduct in 2016. In previous control periods, Network Rail has been able to borrow money to raise funds, should that be required to cover any such risks. However, this is no longer possible.

5.28 We agree with Network Rail's total proposed risk funding for Scotland (£284m in 2017-18 prices). However, our draft determination is that the balance between risk funding held in the routes and the centre should be different. There are essentially two broad options:

- be consistent with the approach for England & Wales and move half (£112m) of the balance from the centre to the route; or

- leave an amount in the centre at an appropriate level to cover the risk to Scotland on Network Rail's central costs and move the balance to the route.

5.29 We will discuss these options with Network Rail and Transport Scotland in the summer. We expect a decision to be made by the time we publish our final determination.

Governance

5.30 It is important that the governance arrangements that Network Rail puts in place for the management of financial risk are appropriate and support continued devolution of operational management to the routes.

5.31 Network Rail is reviewing its proposed governance arrangements. We will work with Network Rail to develop these, and refer to them in our PR18 final determination. In particular, the risk funding amounts for the Scotland route are ring fenced.

Other risk issues

5.32 Our draft decision on the re-opener provisions currently included in track access contracts is to confirm our minded to position that they should be retained, including the provision for a separate re-opener for Scotland.

Central cost allocations

5.33 Network Rail has a number of central and route support services (some of which may be regionally based) whose expenditure is recharged to the routes.

5.34 We commissioned a report from CEPA[21] on Network Rail's centrally-incurred-cost allocation process. We requested that CEPA pay particular attention to the basis on which costs are allocated to the Scotland route, because of the separate HLOS and SoFA for Scotland.

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[21] CEPA report on Network Rail central cost allocations – April 2018 is available here.

5.35 CEPA found that, overall, Network Rail's approach to cost allocations was reasonable, but they made a number of recommendations and comments, including that Network Rail should:

- introduce a greater level of challenge, including external challenge, into the process of assigning drivers to cost categories and develop dialogue between central and route finance teams in this area;

- make consideration of alternative drivers a more explicit part of the cost allocation review process;

- ensure that the next version of its cost allocation handbook addresses transparency, and more thoroughly documents, not just the final proposed cost allocations, but all steps of the process leading to those allocations;

- broaden the principles that it uses to allocate costs. Instead of just using a cost based methodology it should also consider using a value based methodology for some issues;

- consider adding cost materiality to its existing principles, and focus efforts to improve cost allocations on the larger cost categories; and

- review the balance between costs causality and value/benefit considerations in cost allocations.

5.36 CEPA thought that Network Rail's allocation of central costs to Scotland uses well-established methods. However, we think it is time to re-consider whether such traditional methods are suited to a devolved funding environment. Throughout our review, Transport Scotland has noted its concerns over the level of central costs. We are carrying out a limited but more detailed review of these costs before the final determination on some aspects of this process, working with Network Rail and Transport Scotland. Changes may help strengthen the accountability of centrally provided services to Scotland route.

Inflation indexation

5.37 In CP5, Network Rail's regulatory asset base (RAB), access charges, and payment rates in other mechanisms where we set the method of indexation, have historically been indexed using the retail prices index (RPI) measure of inflation. Following consultation, our draft decision is that in CP6, the consumer price index (CPI) should be used instead.

5.38 This change reflects recent trends by other regulators to move away from RPI, given that CPI is a more accurate and robust measure. Furthermore, as Network Rail can no longer borrow money on the debt market, it will no longer be exposed to movements in RPI on index-linked debt.

5.39 As noted in paragraph 1.57 of our second financial framework consultation, there should be a limited direct impact on Network Rail of a switch from RPI to CPI indexation, because in our determination:

- Network Rail's revenue requirements in cash prices should be the same (because we will increase the expenditure forecast to take account of lower expected indexation increases); and

- we will adjust our determination of fixed track access charges and/or annual network grants[22] to take account of lower levels of income from variable track access charges (as explained in the next paragraph).

5.40 In our second financial framework consultation, we commented that a switch to CPI would result in a relatively higher increase for access charges at the start of CP6, but relatively lower indexation increases during CP6.

5.41 However, we have separately announced proposals to cap the variable usage charge for freight and charter operators. Reflecting this, there is no upward adjustment to variable track access charges at the start of CP6 for these operators for the switch to CPI indexation.

5.42 The yearly variable track access charges (VTACs) for franchised and open access train operators will also be indexed by CPI. However, for these operators we are still considering whether to make an incremental upward adjustment to VTACs at the start of CP6 for the switch to CPI indexation.

5.43 If we do not make such an adjustment, all other things being equal, Network Rail's total income from VTACs, in cash terms, will be lower by the estimated annual VTAC income x 1.0 % in each year on a cumulative basis. However ultimately, Network Rail would receive the same amount of money in total, when fixed charges/network grant are included.

Affordability assessment

Comparison to the SoFA

5.44 As part of the periodic review, we must assess whether there are sufficient funds available (in the SoFA) to deliver what the Scottish Ministers want delivered in the next control period (the HLOS). If there are insufficient funds, we must notify the Scottish Ministers, who may then revise their HLOS and/or SoFA.

5.45 The Scottish Ministers SoFA provides funding for Network Rail's OMR in Scotland. However, it also includes some funding during CP6 for railway improvements which

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[22] These amounts are capped by the governments in cash prices.

could be provided by other industry participants through, for example, service based and rolling stock solutions.

5.46 The approach to investment will be governed by the Scottish Government's Rail Enhancements and Capital Investment Strategy, which was published recently.

5.47 In our affordability assessment, we are only considering Network Rail's OMR plan. Transport Scotland has said that the money available for non-Network Rail OMR costs will be the balance left after our assessment of the costs of Network Rail's OMR.

5.48 There is a significantly higher amount of total funding available in the SoFA (£4.85bn in cash prices), plus £0.49bn of variable track access charges, than there is in Network Rail's forecast OMR spend (net of OSTI) in Scotland (this is around £4.35bn, cash prices), and we are also proposing further reductions in Network Rail's costs. Therefore we consider that, at this stage, the outputs required by Transport Scotland's HLOS can be delivered with the funding provided in Transport Scotland's SoFA. However, we will confirm this position in our final determination.

5.49 As set out in section 4, there are some HLOS requirements that Network Rail has not fully developed and costed. These include the delivery of the Scottish gauge requirement, infrastructure enhancements to support freight journey time improvements and freight growth and delivery of Network Rail's depot and stabling plans.

5.50 As it is not known if there will be any costs of delivering these requirements that are not included in the SBP, we have excluded them from our affordability analysis. If Transport Scotland decides to fund them, appropriate arrangements will need to be made.

Other financial framework issues

5.51 In our financial framework supplementary document, we have also set out draft decisions, and our reasons for them, on a number of other financial issues including:

- RAB values for CP6, including our treatment of asset disposals. This includes the establishment of the opening SO RAB balance (of £80m), by reducing the opening RAB balance for each geographical route by the same proportion its RAB bears to Network Rail's total RAB. This includes a deduction from the Scotland RAB as the SO's functions cover the whole of Great Britain;

- determining cost of debt and weighted average cost of capital values;

- treatment of electricity for traction;

- re-categorising other single till income for presentation purposes; and

- not to use some financial policies, e.g. for corporation tax and VAT incentives. We will not be using these policies in CP6. However, we will reconsider the position for future periodic reviews if the funding structure for Network Rail changes significantly in the future.

The calculation of the revenue requirement for Network Rail Scotland

5.52 In our second financial framework consultation, and as set out above, we confirmed that we would use a 'building block' approach to calculate the revenue requirement, taking account of Network Rail's other single till income, and explained how we would present the FNPO and SO revenue requirements in the totals for Scotland and England & Wales and Great Britain.

5.53 As explained in our second financial framework consultation, our determination of revenue requirements for OMR in CP6 will form part of a bigger funding picture for CP6, with some expenditure being separately funded by the governments. This includes the non-SoFA expenditure that will be funded directly by the UK Government under separate arrangements in CP6, i.e. payments for legacy debt liabilities, British Transport Police (BTP) costs and corporation tax costs.

5.54 In our second financial framework consultation, we also noted a working assumption that the costs of policing the rail network in Scotland would be included in our revenue requirement determination for the Scotland route. This was consistent with Network Rail's assumption in its SBP.

5.55 However, the governments have now confirmed that Network Rail's share of BTP costs for the whole of Great Britain will be separately funded. Therefore, our expenditure forecasts for Scotland in the final determination will be £40m lower than in Network Rail's SBP.

5.56 Enhancement projects will be separately funded under a pipeline approach in CP6 (if they are approved by the Scottish Ministers).

Financial monitoring

5.57 Good quality financial information is important for effective regulation as it helps to ensure that the interests of customers and funders are properly protected. We have consulted on our approach to monitoring Network Rail's efficiency and financial performance in CP6. Respondents were broadly supportive of our proposed approach. Taking account of their responses, we intend to make a number of incremental changes to our current approach.

5.58 Different measures can be used to report on a company's financial performance; there is no single right or wrong measure. Different measures can complement each

other to provide a more rounded assessment. We have decided that our assessments of Network Rail in CP6 will focus on two measures:

- **efficiency:** this compares the relationship between expenditure on core business activities (operations, maintenance, renewals and supporting central functions) and outputs on a like-for-like basis over time; and

- **financial performance measure (FPM):** This compares income and expenditure to the financial assumptions underpinning routes' CP6 funding. This will be the main measure for comparing routes' financial performance on route scorecards in CP6. The baseline financial assumptions underpinning FPM include efficiency improvements that Network Rail's routes are expected to achieve in CP6. If a route has spent less and/or received more income than the baseline (for what it has delivered), it will report financial outperformance, and vice versa.

5.59 Our intended approach for assessing Network Rail's efficiency and financial performance in CP6 will include:

- to move to a better understanding of the efficiency of Network Rail's routes by putting greater emphasis on reviewing and reporting on how routes have delivered efficiency improvements;

- more assessment of cost drivers, unit costs and productivity measures over time and across routes;

- to make greater use of information from our safety role, for example, drawing on insights from safety reports where relevant; and

- providing a forward-looking view of the efficiencies that Network Rail will likely achieve across CP6 as part of our annual reporting. This will include assessing the quality and progress of routes' efficiency plans and monitoring leading indicators of delivery.

5.60 We will work with Network Rail and other stakeholders over the next few months to agree what specific information we should use to inform aspects of our assessments, in particular for cost drivers, unit costs, productivity measures and leading indicators of performance.