

# PR23 Draft Determination:

## Supporting document – National Functions

15 June 2023



# Contents

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<b>About this document</b>	<b>3</b>
<b>Executive Summary</b>	<b>6</b>
<b>1. Network Rail’s proposals for the National Functions and our draft decisions</b>	<b>7</b>
<b>2. Our expectations of National Functions in CP7</b>	<b>10</b>

## About this document

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This technical assessment of Network Rail's National Functions is one of five supporting documents of our draft determination for the 2023 periodic review (PR23).

PR23 will determine what the infrastructure manager for the national rail network, Network Rail, is expected to deliver with respect to its operation, support, maintenance and renewal (OSMR) of the network during control period 7 (CP7), which will run from 1 April 2024 to 31 March 2029, and how the available funding should be best used to support this.

This strongly influences:

- the service that passengers and freight customers receive and, together with tax payers, ultimately pay for; and
- the charges that Network Rail's passenger, freight and charter train operator customers pay to access its track and stations during CP7.

Our draft determination sets out:

- our review of Network Rail's strategic business plan (SBP);
- decisions on its proposed outcome delivery and its planned expenditure to secure the condition and reliability of the network;
- changes to access charges and the incentives framework; and
- relevant policies on managing change and the financial framework.

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

Document type	Details
<b>Executive summaries of our determination</b>	Our key proposals from our draft determination for: <ul style="list-style-type: none"><li>• England &amp; Wales</li><li>• Scotland</li></ul>

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<b>Overviews of our determinations</b>	What Network Rail will need to deliver and how funding will be allocated in: <ul style="list-style-type: none"><li>• England &amp; Wales</li><li>• Scotland</li></ul>
<b>Consolidated decisions</b>	A summary of our draft decisions across Great Britain
<b>Introduction</b>	An overview of PR23 and background to our draft determination
<b>Settlement documents</b>	Detailed draft decisions for each of: <ul style="list-style-type: none"><li>• Scotland</li><li>• Eastern region</li><li>• North West &amp; Central region</li><li>• Southern region</li><li>• Wales &amp; Western region</li><li>• System Operator</li></ul>
<b>Supporting documents</b>	Technical assessments of: <ul style="list-style-type: none"><li>• Health and safety</li><li>• Outcomes</li><li>• Sustainable and efficient costs</li><li>• <b><u>National Functions</u></b></li><li>• Other income</li></ul>
<b>Policy positions</b>	How we intend to regulate Network Rail during CP7 in relation to: <ul style="list-style-type: none"><li>• Financial framework</li><li>• Access charges</li><li>• Schedules 4 &amp; 8 incentives regimes</li><li>• Managing change</li></ul>

## Responding to the consultation on our draft determination

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

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

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

### Next steps

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

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



# Executive Summary

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This document focuses on our expectations in CP7 of Network Rail's National Functions, which are central business units that operate in support of the five regions (four in England & Wales plus Scotland) and the System Operator.

Our monitoring of the National Functions has increased as control period 6 (CP6) has progressed and through setting out these expectations we intend to clarify our approach to holding them to account from the outset of CP7. This is in support of our regionally led regulation of Network Rail.

Our expectations centre on the National Functions having clear governance arrangements with the rest of the organisation, a stakeholder-needs focus to their activities and timely delivery of their core programmes. Where Network Rail's regions and System Operator, ORR or wider stakeholders have concerns about how they are performing against these expectations, we expect the National Functions to be transparent in how they are addressing these.

# 1. Network Rail's proposals for the National Functions and our draft decisions

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## Background

- 1.1 The National Functions are central business units which provide support functions to Network Rail's five regions (Eastern, Southern, North West & Central, Wales & Western and Scotland) as well as Network Rail's System Operator. The National Functions consist of:
- **Route Services** supply Network Rail's routes with services that a national team is best placed to provide (e.g., supply chain operations, engineering services, asset information services, some procurement and IT). These services are brought together into a single, service delivery directorate. This approach allows national co-ordination where appropriate, and for Network Rail to benefit from economies of scale and greater efficiency from specialised delivery.
  - **The Technical Authority** provides technical leadership in areas including health and safety, sustainability and managing quality and information, providing support and delivering assurance for the safe, reliable and effective functioning of infrastructure assets.
  - **Corporate Services** which are business units that include areas such as the Chief Financial Officer (CFO) unit, human resources, communications and business transformation programmes. The CFO includes corporate finance, legal, Group property unit, and risk and assurance. The property unit provides advice on retail and rental strategy to each of the regions, which ultimately have accountability for their own property portfolios.

## Network Rail's high-level proposals

- 1.2 Table 1.1 below shows Network Rail's proposed costs for the National Functions in CP7. These are total operational, support, maintenance and renewal (OSMR) expenditure figures, excluding non-controllable expenditure. These are presented in comparison to equivalent figures for CP6 and as a percentage of Network Rail's total GB OSMR.

**Table 1.1 Total National Functions CP7 costs (excl. non-controllable operational expenditure) (£ millions, 2023/24 prices)**

National Function	CP7	% Change on CP6	% of OSMR
Route Services	4,215	+4.9%	10.4%
Technical Authority	610	-24.7%	1.5%
Corporate Services	612	-16.0%	1.5%
<b>Total</b>	<b>5,437</b>	<b>-2.2%</b>	<b>13.4%</b>

1.3 More detail on these proposed costs for National Functions is covered separately in our [PR23 draft determination: supporting document on sustainable and efficient costs](#).

### Our draft decisions

1.4 We have reviewed the National Functions' CP7 plans and have met with each function to discuss their plans through a series of challenge sessions.

1.5 Our assessment of the National Functions plans found that the proposed costs for the Technical Authority and Corporate Services appear reasonable.

1.6 For Route Services, we have identified an opportunity for Network Rail to release funding that can be used on critical renewals by applying an additional efficiency challenge to the total technology spend delivered as centrally managed projects within the function. This would bring Route Services' CP7 funding closer to CP6 levels, on a like-for-like basis.

1.7 This links to a point we made in our supplementary advice to the UK Government last year on these costs. In our advice, we pressed Network Rail to look hard at its priorities within the National Functions, especially in the context of constrained funding and taking account of similar trade-offs being made at a regional level.

1.8 In its plan, Route Services has included funding for Project Reach. This involves Network Rail working with a third party to deploy high-capacity fibre optic cables across the rail network. Project Reach would involve replacing existing cables, which were not due for renewal until control period 8. Network Rail believes this project would pre-empt that renewal work and save money in the long run.

1.9 While we recognise Network Rail's position that there is a valid business case for delivering Project Reach in CP7, we think it represents a lower priority than the additional core renewals.



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- 1.10 Network Rail's plan includes costs for High Output plant in Route Services (£38 million) but there are no associated volumes in the regional plans. Network Rail has advised that it is working to resolve this issue. It needs to reach internal agreement on, and then present to us, a credible plan for how it will operate this service in CP7 with future control period demand considered as part of this.
- 1.11 A more detailed assessment of the proposed costs is covered separately in our [PR23 draft determination: supporting document on sustainable and efficient costs](#). We also cover Network Rail's methodology for allocating National Functions costs to each of the regions in that document.
- 1.12 In reviewing the plans, we have assessed the level of stakeholder engagement that has been undertaken in developing them. Overall, there is evidence to suggest that external engagement (e.g., with the supply chain and industry bodies) has taken place where appropriate and that the requisite internal engagement (e.g., with the Network Rail regions and the System Operator) has been undertaken. We believe that National Functions have matured and improved with regard to their approach to stakeholder engagement compared with CP6.

## 2. Our expectations of National Functions in CP7

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- 2.1 Network Rail's licence sets out clear expectations about the responsibilities of the regions and the System Operator. It also places a number of specific requirements on Network Rail as an organisation to ensure that the regions and the System Operator have appropriate autonomy to carry out their responsibilities so that they can be meaningfully held to account. These include a requirement to enable regions and the System Operator to choose how to procure the goods and services they need, including those provided by National Functions (unless Network Rail demonstrates this would be inconsistent with the licence or another legal requirement).
- 2.2 In monitoring the National Functions, we apply a greater focus on the 'core' functions, which are Route Services and the Technical Authority. Although, for the most part, the services they provide do not directly deliver outcomes for rail users, these are functions which have a significant impact on the efficiency of, and delivery by, the regions and the System Operator. For example, the Technical Authority provides an internal assurance function to the regions on rail engineering matters.
- 2.3 The intention of our monitoring approach to the National Functions has been for it to be measured and proportionate given our regionally led regulation of Network Rail, while also ensuring we have sufficient oversight and assurance on spend and responsibilities that remain centralised in Network Rail's operating model and likewise on associated risks.
- 2.4 We have enhanced our monitoring of the National Functions as CP6 has progressed and Network Rail's new organisational structure has been established to be able to assess how this is working in practice. This has included understanding their governance arrangements with the regions, reviewing their functional business plans and assessing internal scorecard performance.
- 2.5 Due to the regulatory framework for CP7 being outcomes-based, it focuses on measures of delivery by the regions and System Operator. The responsibilities of the National Functions do not therefore explicitly feature in the success or supporting measures set out in this framework.

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- 2.6 Nevertheless, the National Functions are important in supporting the provision of a safe, sustainable, performing and efficient railway. As a result, we have identified a set of expectations in CP7 in relation to the National Functions. We consider that this will enable us to continue our approach of engaging with National Functions on their spend and activity and the extent to which they are held accountable to support the delivery of outcomes by the regions and System Operator.
- 2.7 Our approach to holding the National Functions to account in CP7 will be based on assessing the extent to which they are operating in line with these expectations. More detail on our approach is provided in our Holding to Account policy.

Expectation	Comments
Clear governance arrangements which facilitate customer engagement and internal holding to account	<p>Lines of engagement between the National Functions and the regions should be transparent and structured.</p> <p>The regions should have means by which they can challenge the National Functions and ensure their views are taken into account in decision making.</p>
Transparency around their activities and how they are assessing and delivering against the needs of stakeholders	<p>We expect to be provided with clarity on, for example, the business plans, priorities and challenges for the National Functions.</p> <p>As stakeholder engagement has supported the development of their SBPs, we expect this engagement (and delivery against the outcomes from this) to be a continued focus for them across CP7.</p>
Timely and efficient delivery of core programmes on behalf of the regions	<p>In CP7 the National Functions have responsibility for some organisation-wide programmes.</p> <p>Timely and efficient delivery of these is key for the benefits (e.g., performance, safety, asset management) of these to be realised.</p> <p>Clear measurement and reporting of the benefits delivered by the programmes.</p>
Clarity over how they are responding to concerns raised by Network Rail's regions and System Operator, ORR or wider stakeholders	<p>We expect to be provided with assurance that these concerns are being prioritised and addressed in a timely fashion.</p> <p>Our approach here will be in accordance with our Holding to Account policy.</p>



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