Network Rail's response to ORR's Draft Determination: North West & Central

31 August 2023

Contents

Executive summary

North West & Central region welcomes the many positive areas of ORR's PR23 Draft Determination. We also understand the wider challenges ORR has identified across Network Rail's plans and have considered the recommendations made by ORR. It is important that the region makes the case on behalf of our customers and stakeholders for the best possible settlement. This document is our formal response setting out the region's position on key areas of the Draft Determination to support the best outcomes for passengers and freight users over the short-, medium-, and longer-term. It represents a further step in our planning.

Context

Our Strategic Business Plan (SBP) was developed at a point in time and reflected the economic assumptions at that time. Likewise, the assumptions underpinning ORR's Draft Determination have since been overwritten by stubborn inflationary pressure that is much higher than expected. This has increased the cost to deliver our plan and our approach will need to deploy radical approaches to maximise value for every pound spent as we develop our Delivery Plan.

We have updated our Control Period 7 (CP7) plans since the SBP to understand the scale of the impact of higher-than-expected inflation, and we expect continued cost pressure on our CP7 plans between now and publication of our Delivery Plan. Updates have been targeted given the timescales and have focused on refining our risk-adjusted plan and developing proposals for a further stretch in our plan to seek to mitigate the latest inflation forecasts. We have continued to protect safety and train performance while retaining 'right-sized' strategic priorities in our plan for the longer-term benefit of the network.

Given the increased cost pressure on our plans, this will require a flexible approach as we prepare for CP7:

- In developing our Delivery Plan and delivering our plans in CP7, we will be agile to respond to ongoing external financial pressure and to continue to optimise outcomes.
- We consider ORR's approach to developing its Final Determination will need to be similarly flexible to reflect the level of risk in our plan, particularly in setting the trajectories around outcomes.

Headlines

(i) North West & Central has the greatest decline in asset sustainability of all regions and the largest stretch in performance trajectory from SBP to ORR's proposed target. Our SBP train and freight performance trajectories are extremely challenging in the context of the scale of reduction in our funding recommended by ORR and we consider our forecasts for the first two years of CP7 are at the limit of what we think is realistic.

(ii) We have made difficult trade-offs to move to our reduced risk-adjusted plan impacting what we can deliver in CP7 and how we deliver.

(iii) We do not support ORR's recommendation to defer £300m from our WCML (N) renewals portfolio into later control periods. We propose an alternative to reduce our WCML (North) renewals portfolio by £100m in CP7 (in addition to the c.£60m reduction already reflected in the move to the risk-based plan). This is supported by an internal review led by Planning & Regulation, Capital Delivery Scotland and the Technical Authority that considered deliverability, asset condition, and alignment with cab fitment.

(iv) We have included a regional stretch of c.£150m recognising continued cost and income pressures to our plan, which include inflation, and have identified initial plans to address this through a challenge to delivery, productivity, and efficiency.

(v) We have also included an overlay of 2.1%(c.£160m) to fund increases in core assets across Network Rail and to respond to other funding pressures. This provides time to identify activities that could be de-scoped or deferred and further market-led and whole industry initiatives as we develop our Delivery Plan.

Safety: ORR seeks further assurance in our response that our approach to renewals prioritisation does not compromise safety on lesser used lines including through reliance on operational mitigations. Our response sets out that safety will not be compromised on any part of our network and provides assurance that safety is at the heart of all our decisions to prioritise expenditure. Our risk-adjusted plan, however, reduces our ability to improve safety – an example being the reduction in ambition to further improve safety at passive level crossings.

Performance: We have updated our performance trajectories to better reflect CP6 exit forecasts and the slower-than-anticipated recovery in service levels and passenger numbers resulting in an improvement to the 2024/25 On Time forecast. Our further reduced renewals expenditure since SBP is now predominately safety driven with little or no ability to undertake performance improving works and our train performance trajectories consequently reflect this. This factor, combined with anticipated recovery of service levels and passenger numbers merely delayed to CP7 means we will not be able to achieve the proposed ORR targets in the Draft Determination. This is based on detailed assessment of the factors affecting train performance and we would welcome dialogue where ORR considers we have been overly pessimistic.

Asset Sustainability: In addition to updating our WCML(N) renewals portfolio we have made targeted updates to our risk-based renewals and maintenance plans, integrating updates at Route level. We have reviewed and updated the phasing of our core workbanks in CP7.

Freight growth: Our growth trajectory, supported by ORR, remains unchanged. Our plans support growth through a focus on capability (including protecting funding in our plan to support heavy axle weight capability), capacity, and performance. We consider there is significant risk to this trajectory with key drivers outside our control, including economic factors.

Financial Risk: The increasing impact of inflation on our plans requires a radical approach to reduce the cost base of our business while minimising the impact on outcomes for passengers and freight users. We are exploring options including market led, whole industry initiatives. We have moved provision for input price inflation to general risk.

Accessibility: To maximise accessibility outcomes, we will keep accessibility-related renewals under review during CP7 and will pursue funding opportunities outside PR23, including through Access For All if confirmed for CP7. The reduction to our WCML(N) programme defers planned works into CP8 on c. 13 stations to improve accessibility, to prioritise disruptive asset renewals.

Efficiency: We welcome ORR's recognition that our efficiency plans are ambitious and realistic. We have continued to develop efficiency initiatives in more detail and have identified an efficiency stretch as part of proposals to meet cost and income pressures on our plan.

Stakeholder engagement: We have continued to engage with our stakeholders including through two further CP7 Challenge Panel sessions as we develop our plans.

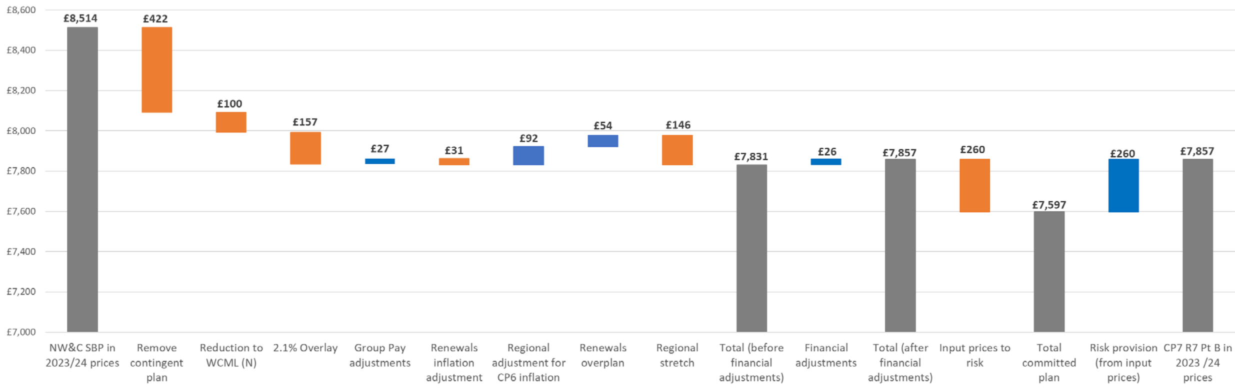
North West & Central's response to ORR's PR23 draft determination settlement document

1. Introduction and summary of key changes

This document is North West & Central's response to ORR's PR23 Draft Determination document for the North West & Central region. To inform this response, we have undertaken a targeted review of our CP7 Strategic Business Plan (SBP), as part of our iterative CP7 planning process. This update has also been reviewed and assured by subject matter experts. Recognising the limited time available to update, assure and consolidate CP7 plans, our approach has been necessarily targeted and high-level. The key changes we have made since submission of our SBP to ORR in February 2023 are summarised below.

Figure 1 & Table 1: Changes in expenditure between SBP and Draft Determination response

£m, 2023/24 prices, post efficient.



Key change	Description
Move to risk adjusted plan **(£422m)**	We have made targeted revisions to reconsider the difficult decisions needed to reduce our plan by £422m. We have made minor adjustments to the allocation of expenditure across asset disciplines and between maintenance and renewals to seek to protect outcomes as much as possible. We have also revised allocations to strategic initiatives. This changes what we said we could deliver in our fully allocated SBP. More detail is provided in our response.
Revised our WCML (North) renewals programme **(£100m)**	As described above, we have deferred £100m of renewals expenditure from WCML(N) from CP7 to CP8 and CP9 (in addition to the c.£60m reduction already reflected in the move to the risk-based plan). This delays the introduction of ETCS on the region and means completion of the renewals in the WCML (N) portfolio moves from 2034 to 2035, with likely disruption to passenger journeys when HS2 services commence.
Overlay **(2.1%, £157m)**	We have also included an overlay of 2.1% of our plan to fund increases in core assets across Network Rail and other funding pressures. This provides time to identify activities that could be de-scoped or deferred and further market-led and whole industry initiatives as we develop our Delivery Plan.

Key change	Description
Group adjustments **(£4m)**	We have updated our plans to adjust for revised pay, income and inflation and assumptions, with a net impact of £4m.
Regional adjustments **£146m**	We have updated our plans to reflect the higher costs of delivering work, increased pay assumptions, and higher utility rates (£92m) and an overplan in our renewals portfolio that we have not been able to address to meet the risk-adjusted guiderail (£54m). We have not yet been able to update unit rates in our renewals plans because there has not been sufficient time to develop bottom-up plans and we will do this in our Delivery Plan and anticipate that volumes in our plan will be lower than at the SBP meaning there is additional risk to our plan, compared to the SBP.
Regional stretch **(£146m)**	We have included a stetch in our plans to allow more time to robustly review the trade-offs required to absorb the higher costs of our plan. We have identified initial plans to address this through a challenge to delivery, productivity, and efficiency.

Other key changes

- **Outcomes:** Our plans and the outcomes we are aiming for are ambitious within the funding envelope. We have made targeted updates to SBP trajectories for performance and the Composite Sustainability Index (CSI) as set out below, with all other success measure trajectories remaining as at SBP:
    - **Train and freight performance:** Our forecast trajectories have been reviewed considering updated forecasts for CP6 exit and a slower recovery to service levels and passenger numbers than forecast at SBP. They represent a higher level of ambition than at SBP because of further reductions in planned renewals since the SBP.
    - **CSI:** Our end CP7 forecast has been updated to -3.2% to reflect model recalibrations, updated definitions, and CP7 submission volume changes compared to those in our SBP.
- We have not made any further updates to CP7 forecast trajectories but consider there is a greater level of risk to freight growth trajectories (given major dependencies on areas outside of our control and low growth in CP6) and we are reviewing our plans in line with carbon targets noting funding pressures.
- **Income:** Our income position aligns to the SBP, with the exception of revisions to schedule 4 and schedule 4 ACS, and recognises that assumptions around key charges have changed since the SBP.

2. Safety

The purpose of this section is to respond to ORR's findings in relation to safety, as set out in the North West & Central region settlement document. Our response on closely related asset sustainability issues is described in the Asset Sustainability section below.

Managing the shift in risk profile because of conducting fewer renewals in CP7

ORR's Draft Determination sets out that it expects Network Rail to demonstrate how it will manage the shift in risk profile resulting from conducting fewer renewals and taking a more maintenance-based approach to management of the infrastructure.

Alongside all other regions, we have provided input to and support the approach to developing the bow tie risk assessment framework developed by our Technical Authority. This framework will allow us to assess and monitor the change in risk profile in CP7. We have also used it to demonstrate the alignment between our maintenance and renewals plans in CP7 which we discuss in more detail in the Asset Sustainability section. Please see the England & Wales overall response for more detail on the safety bow tie risk assessment.

As discussed in the overall E&W response, fully developing and populating the bow tie risk assessments at a national and regional level will take time. Therefore, we will continue to iterate and populate the safety bow tie risk assessment framework after our draft determination response, and this will be developed as part of our CP7 Delivery Plan.

We continue to take a market-led approach to further developing our CP7 plans. This approach aims to align the outcomes that we plan to deliver in CP7 to what the market values. Delivering a safe railway is paramount and is prioritised in our 'value of service' (VoS) planning approach. While we do not have sufficient funding to strategically renew all assets as they approach life expiry, our approach will maintain the overall level of control by adjusting the capability and capacity of the railway in those areas, so risk is managed appropriately, and we do not increase safety risk. If necessary, we will increase our level of risk analysis in CP7 to demonstrate that safety risk has not increased.

Our maintenance plans are appropriate to deliver the increased maintenance work aligned to the reduction in renewals in our risk-based plans. Where renewals are deferred, risk will be managed through the deferred renewals process which informs suitable mitigation measures. These may include tactical interventions such as refurbishment instead of full renewal or the imposition of operational restrictions. Where we introduce operational restrictions, such as speed restrictions or weight limitations, these will be managed in accordance with standards.

Reduced renewals expenditure on some assets (E&P, Signalling, and Telecoms) is not expected to significantly impact the maintenance organisation during CP7 because it can take a few years for reduced renewals spend to impact asset condition – although we consider this is a much bigger risk for CP8 and CP9.

We do, however, recognise that reduced expenditure on track renewals will put additional burden on the maintenance teams, and we understand ORR's need for clarity on how track condition will be managed on lowest VoS lines. While no strategic renewals are planned on the less heavily used lines, volumes are nevertheless prioritised to maintain safety. Our maintenance plans account for reduced track volumes and include additional expenditure. Risk-based maintenance (RBM) is a key approach to how we deliver maintenance more effectively. Track maintenance is planned to RBM regimes, and we are pursuing greater coverage of our switches & crossings (S&C) to help drive the right level of inspection and intervention. RBM regimes are incorporated into the Modernising Maintenance (MM) approach (outlined below).

Numerous key performance indicators (KPIs) are reviewed each period to monitor track condition. Any significant decline in scores triggers a review. Temporary speed restrictions (TSRs) may be necessary at times to maintain safety. However, track condition will be rectified if these cause unacceptable delays to trains.

A fit for purpose maintenance function

ORR’s draft determination states that it requires Network Rail to demonstrate that it will deliver the necessary efficiencies within the resources available and sustain the required capability to maintain the assets. We are committed to delivering £25m of saving of the overall £100m of savings achieved nationally by the end of CP6. This is enabled by a number of changes but the cost saving itself is primarily a headcount reduction. We think the benefits that we have identified for CP6 are stretching but realistic. As discussed in our overall response, we do not think there are any further, material opportunities from the maintenance modernisation programme in CP7, over and above the savings already identified to be delivered in CP6 (and these efficiencies have been factored into our CP7 starting position).

Alongside this, as part of the voluntary redundancy process, ensuring that we retain the right knowledge, capabilities and expertise in CP7 and beyond, was a key part of the selection panel process. Where experienced individuals are leaving the organisation through the voluntary redundancy programme, the go live criteria includes having a clear plan in place to address any capability gaps before going ahead with the proposal under modernising maintenance.

Our Modernising Maintenance (MM) plan goes live on 6 November 2023 and embeds new working practices - making us more agile, responsive, and effective custodians of our infrastructure. Our maintenance organisation has been designed to be more flexible to adjust to changes in key volumes required because of changes to renewals plans. Our MM plans have been robustly managed across our delivery units (DUs) with volumes of works in our plans carefully assessed against levels of resource. Thorough risk and safety assessments have been undertaken alongside ongoing engagement with our teams and stakeholders.

Individual rostering and collaborative working, combined with effective utilisation of our supply chain will enable us to respond effectively to changing requirements of the infrastructure.

We will continue to identify efficiencies to increase productivity. Our modern maintenance organisation will make better use of new and existing technologies, such as remote inspection and monitoring to increase productivity to deliver increased levels of work required due to the reduced renewals.

Managing earthworks, drainage, and weather resilience risk appropriately

We understand ORR's concerns about the reduction in earthworks renewals volumes from Control Period 6 (CP6). While CP6 expenditure on our earthworks assets has been at historic highs, expenditure in our CP7 risk adjusted plan is not as high as we would recommend. While the risk profile of our earthworks asset is increasing, we have several mitigating management approaches in place to optimise expenditure including the following:

- increasing maintenance productivity through Modernising Maintenance.
- the rapid development and rollout of the Convective Alert Tool (CAT) for use in intense storms, as part of a suite of extreme weather controls to significantly reduce the consequence of train accident risks due to earthworks failures at highest risk sites. This will be supported by increased levels of slope failure monitoring.

Our drainage data capture project (PoleStar) is mapping and assessing our drainage assets and aligning it to the earthworks and tunnel portal risk scores to enable our route teams to prioritise and plan work with a coordinated, risk-based approach. We are on target to complete this data capture project before the start of CP7, enabling drainage interventions to be targeted at correct locations, saving maintenance unit time, and reducing the risk of drainage-related delay.

Our North West route is the most exposed to stormy weather. Sites with the highest safety risk have been prioritised for monitoring and treatment and maintenance scheduled tasks (MSTs) are in place to inspect all at-risk tunnels on the route. PoleStar surveys will be complete before the start of CP7 so all drainage assets will have an MST in place for inspection and maintenance.

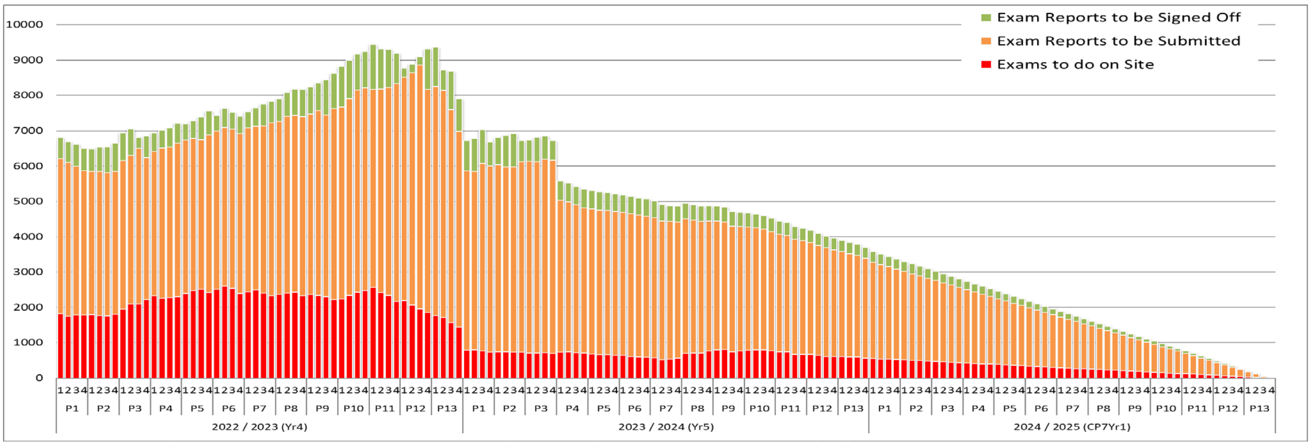
Following the Lord Robert Mair and Dame Julia Slingo report and based on PoleStar surveys, our plans include additional teams to carry out drainage inspections and maintenance. This is anticipated to reduce the need for complete renewal with greater focus on maintenance.

Prioritisation of structures, fencing and vegetation management expenditure

We recognise ORR's concern around the reduction in structures renewals work on low criticality routes and the increasing reliance on people making safety critical decisions. While the volume of renewals is lower, locations of interventions will be robustly prioritised, guided by assessments and inspections to ensure safety levels are maintained.

We are confident that we can manage the impact of reduced volumes of structures renewals because we have fully funded the monitoring of our structures assets in our plan to reflect additional risk and be able to respond before safety and asset integrity are affected. The current backlog of examinations is being addressed by increased examiner resource in our plans to drive compliance by the end of 2024/25 as shown in the graph below (also see Operations / Support section).

Figure 2: Forecast path to structures examinations compliance by end 2024/25



A recent review of the TA assurance of the regional structures plans has identified a shortfall in our tunnels and retaining wall plans compared with other regions. We are reviewing this position to understand the need for additional activity particularly in tunnels where assets failures have a significant safety and performance impact.

Fencing and boundary renewals will continue to be based on a priority score derived from the cyclical inspection regime and subsequent renewals requests (rather than VoS prioritisation). Significant renewal has already taken place on VoS and 2 lines and will continue using the risk-based scoring methodology. VoS 3 and 4 will be reviewed using the same risk score methodology which will allow us to manage safety risk in line with the principle of so far as is reasonably practicable (SFAIRP) across all VoS groups. Overall, volumes will be lower in CP7 due to the significant works completed over CP5 and CP6.

Expenditure on vegetation management is prioritised using the common consequence tool, which considers factors such as line speed and focuses on derailment risk reduction and mitigation. This approach applies to three quarters of the workbank, whilst the remaining quarter has been prioritised using a high-level survey which accounts for factors including leaf fall score and information on station’s overshoot. These combined approaches ensure that we do not compromise safety on any VoS group in our region.

Level crossings

We appreciate ORR’s recognition of our planned expenditure on level crossings within our full SBP. However, development of our risk-adjusted plan has required reduction to expenditure, both to core renewals and our level crossing fund intended to improve safety at passive level crossings. This means that, while we will not be able to reduce level crossing risk as far as we would like, we will allocate the reduced funding to our prioritised initiatives for risk reduction at sites driven by risk and deliverability; to achieve the greatest improvement possible.

Electrical Safety Delivery programme

ORR asks regions to demonstrate how our plans address earthing and bonding of low voltage systems in relation to asset sustainability. Where we have undertaken electrification or enhancement schemes in the last twenty years, there has been a general requirement to enhance ancillary low voltage earthing and bonding, for example Distribution Network Operator (DNO) cabinets at stations and other low voltage sources. We will continue to combine low voltage earthing and bonding remediation into relevant schemes, such as Bushey power supply upgrade and Crewe programmes. In other areas, rectification is planned through maintenance and plans will be revised following the finalisation of Modernising Maintenance.

Occupational health and track worker safety (TWS)

We are pleased that ORR recognises the positive aims of our SBP with respect to workforce fatigue management, continued improvements in track worker safety, improving walkways and lighting in freight depots, removal of polychlorinated biphenyls (PCBs), and reduction in silica exposure. The region will be compliant with the Network Rail Special Inspection Notice (SIN) regarding the removal of polychlorinated biphenyls (PCBs) contaminated electrical equipment in CP7, which is itself compliant with current legislation. Our plans assume that the proposals set out in the Department for Environment Food & Rural Affairs consultation on proposed amendments to The Environmental Protection (Disposal of PCBs and other dangerous substances) are not implemented without a further national impact assessment, including any incremental funding that would be required to implement them.

Our core plans also focus on reducing instances of ill health from exposure to Diesel Engine Exhaust Emissions (DEEEs), with focus on air quality at Birmingham New Street, welding fumes, asbestos, hand arm vibrations (HAV), manual handling and musculoskeletal injury specifically. We are making the following progress in delivering occupational health plans and the wider health areas identified in the Draft Determination:

- working with the Technical Authority to implement the new business-wide rostering system to assist in the management of fatigue in accordance with the updated fatigue standard and close out our current temporary variations.
- expenditure has been included in our plans to continue to remove asbestos where it is identified directly in renewals schemes, in line with our approach in CP6.
- working with Route Services to reduce silica exposure where this can be done at source. Where not possible, we will implement necessary controls on site to prevent exposure.
- As part of the depot safety improvement plans for CP7, our routes are continuing to develop plans for the following elements to improve track worker safety:
    - enhancing protection systems for safe systems of work (SSOW).
    - dedicated funding for safe cess, access points and scrap removal.
    - earthworks schemes.
    - remote controlled monitoring to reduce time spent trackside.
    - better use of geofencing technology to provide a real-time monitoring system to identify if users accidentally move into unsafe zones on a worksite.

3. Performance

The purpose of this section is to respond to ORR's findings and draft decisions in relation to train performance, as set out in the North West & Central's settlement document. More detailed supporting evidence will also be shared with ORR.

ORR's Draft Determination states that our On Time and passenger cancellations forecasts do not provide a sufficiently ambitious trajectory. Its draft decisions set a point trajectory for On Time at 63.2% for the first three years, rising to 63.8% in year 4 and ending CP7 at 63.9%, and a passenger cancellations trajectory at 2.3% for each year of CP7. ORR assessed that the bottom of our region's range for freight cancellations is ambitious but realistic at 1 per cent.

We are committed to improving train and freight performance; however, we do not want to commit to targets that our plan cannot support and are concerned that the forecasts ORR proposes are not realistic or achievable for the following reasons:

- We consider that ORR has not justified its proposed regulatory baselines with sufficient evidence and analysis, and it has not set out the assumptions it has made on operator contributions or on external factors.
- We will need industry collaboration to improve performance, and we do not currently have a clear view of operator contributions. Infrastructure issues are only one cause of delay, and we are dependent on operators to be incentivised to reduce delay. We cannot direct operators on matters such as service recovery.
- The analysis we carried out to develop performance trajectories was robust, underpinned by historic evidence and forecast trends. It was informed by extensive engagement with operators to understand risks and opportunities, including changes in service levels. An independent reporter assessed our forecasts as realistic.
- Our reduced renewals expenditure in our risk-based plan is now predominately safety driven with little or no ability to undertake performance improving works and our train performance trajectories consequently reflect this.
- We cannot support an improvement in train performance trajectories while also reducing our expenditure on core renewals from our SBP position.
- Risk funding created by the move to the risk-adjusted plan has been absorbed by higher inflation costs which means we do not have significant risk funds in our CP7 plan. This is in stark contrast to CP6 where we funded significant performance recovery programmes, including Project Alpha, to respond to risks arising in CP6 that were not anticipated.
- Our analysis is based on ongoing passenger numbers and service recovery in CP7 from c.80 per cent towards c.95 per cent of pre-Covid-19 service levels. Modelling suggests a significant impact of service levels on performance, increasing congestion and dwell times, which we don't think has been sufficiently considered in ORR's analysis.
- Our VoS approach to prioritising expenditure recognises the end user impact and allocates funds to schemes with the greatest benefit for the greatest number of rail users. While this is the right thing to do for passengers and freight, it does not optimise On Time performance, because journeys on higher used lines have fewer station stops.
- While our CP6 exit forecast for On Time has improved since the SBP, we consider that current abnormal levels of cancellations are resulting in an artificially less congested railway, supporting this improvement. Further analysis will establish whether current cancellations are driving improvement, or whether this is a new normal post-Covid-19.

- Through ongoing engagement, some operators have raised concerns about ORR's trajectories due to increasing headwinds faced including fleet constraints, ongoing industrial relations activity, and increased traffic for HS2.

We have pursued opportunities to close the gap between our SBP forecast trajectories and ORR's targets including the following:

- It is critical that we continue to work with operators to build robust train performance plans. Since the SBP, we have engaged with operators to understand significant changes to risks and opportunities and to review confidence in delivery. This engagement has not yielded any changes to forecasts and the process has been constrained because there is no certainty of what operators will be specified or funded to deliver in the coming years affecting baseline performance.
- We have also reviewed the impact on CP7 forecasts of the improvement to our CP6 exit On Time forecast since the SBP. This improvement has been driven by a delay in the return of services and passenger numbers and an artificially uncongested network (as described above). We consider this supports an improvement to On Time forecasts in 2024/25 by c.2 percentage points compared to the SBP.
- However, our analysis assumes service and passenger number recovery will merely be delayed by a year, with On Time forecasts impacted per our SBP forecasts from 2025/26 from the May 2025 timetable update. Performance will be optimised through realisation of benefits from a range of initiatives highlighted in our SBP.
- We are reviewing underlying trends with the national performance team to understand if they are truly a "new normal" post-Covid-19. Initial outputs from this analysis show variation across operators but with almost all experiencing high traincrew cancellations. We will work with operators to understand if these issues will continue throughout CP7.

With inherent uncertainty in performance forecasting and without a clear view of operator contributions to train performance, we do not think that performance can be accurately forecast for all of CP7. We have written to ORR to set out our concerns with the draft determination approach, metrics and baselines.

Because the assumptions and plans will continue to evolve, flexibility is essential in CP7. This is wider than the Managing Change Policy, but it is likely that we will need to trigger managing change as operator and external assumptions impacting performance forecasts evolve.

ORR has proposed an alternative approach to train performance target setting which would set point values for the first two years of CP7 and indicative trajectories for the final three years which are subject to a 'reset', codified in the Final Determination. Whilst this approach does not mitigate all the challenges and significant uncertainties remain, we recognise it as an improvement over the approach in the Draft Determination and we are working with ORR to provide the information required. Given the approach has only emerged in the last few weeks we have agreed with ORR that we will provide evidence to support credible passenger performance trajectories as an addendum to this document on 14 September.

Taking these factors into consideration, we have not changed our On Time trajectories, except for 2024/25. However, sustaining our forecasts at SBP levels represents a greater level of ambition given that our plans are now based on a further reduced risk-based plan, which within the SBP was the lower end of the performance range. These forecast ranges are still evolving. Given the recent proposal on the '2+3' approach to setting performance trajectories, we will provide updates to ORR in supplementary performance information on 14 September.

The lower and higher tapers for freight cancellations have been revised to 0.96% and 1.56% respectively (from 1.0% and 1.9% in our SBP) solely due to revision to the calculation methodology to remove service variations.

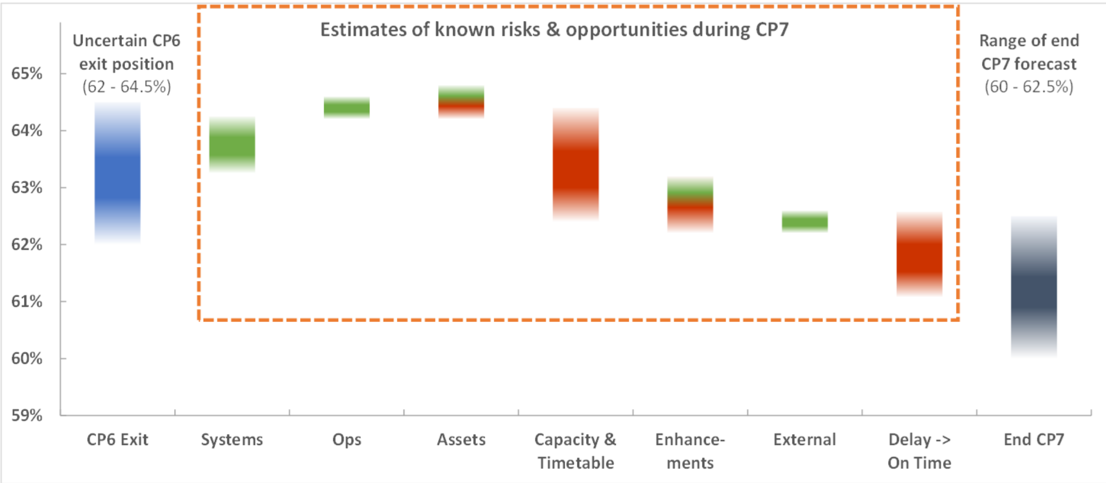
Our analysis will need to continue due to the inherent complexity of developing forecasts with so many risks. We will continue to engage with ORR as it develops its Final Determination.

Table 2: Train and freight performance success measure forecasts for CP7

	2024/25			2025/26			2026/27			2027/28			2028/29		
Measure %	SBP	DD	DD Resp	SBP	DD	DD Resp	SBP	DD	DD Resp	SBP	DD	DD Resp	SBP	DD	DD Resp
On Time *	59.4-61.1	63.2	61.4-63.1	59.2-61.0	63.2	59.2-61.0	59.6-61.7	63.3	59.6-61.7	59.8-62.4	63.8	59.8-62.4	60.0-62.5	63.9	60.0-62.5
Passenger cancellations	4.5	2.3	3.2-4.5	4.5	2.3	3.2-4.5	4.5	2.3	3.2-4.5	4.5	2.3	3.2-4.5	4.5	2.3	3.2-4.5
Freight cancellations	1.9	1.0	0.96-1.56	1.9	1.0	0.96-1.56	1.9	1.0	0.96-1.56	1.9	1.0	0.96-1.56	1.9	1.0	0.96-1.56

* SBP numbers are the lower taper of our SBP ranges, representing a higher level of expenditure than current plans.

Figure 3: Key drivers of changes to On Time forecasts through CP7



To meet the target proposed by ORR would require service levels (train kilometres and station stops) and passenger numbers to be sustained from CP6 exit point, alongside stability in operator annual business plans, around timetable and resource levels (stock and crews), including the Industrial Relations position.

ORR's approach must incentivise appropriate behaviours, including how it uses metrics (such as the balance of On Time performance and revenue generating services, and the balance of On Time and Cancellations as a network management approach) and setting realistic baselines. Because the assumptions and plans will continue to evolve, flexibility is essential in CP7. As part of this, we ask ORR for more certainty and transparency on the circumstances for flexibility and in-control period recalibrations of Schedule 8.

4. Freight growth

Our SBP set out a clear commitment to deliver our freight growth targets, which have been accepted in ORR's draft determination. Delivering our freight growth targets requires a combination of making sufficient paths available to freight operators and also that demand is there for these paths from freight users. The wider funding pressures we face in our plan mean that we are reviewing how we deliver the outcomes we set out in our SBP, including freight growth, and we will work with stakeholders to understand how best to deliver the freight target we have set ourselves.

We are currently developing a regional freight growth strategy in partnership with freight operators through our Strategic Freight Board. We have protected expenditure to improve heavy axle weight capability in the highest priority areas, despite funding challenges. Timetable improvements and our WCML(North) programme support capacity improvements.

The current economic climate presents a challenge for predicting freight growth and variability in planned versus actual number of freight trains operating makes forecasting a single point performance level particularly difficult because this is also influenced by the service level from a passenger perspective, which is another variable input. Freight transport is currently growing in North West & Central, although declining across the GB network and there is significant risk in our freight growth forecast because successful delivery of growth has major dependencies on the following areas outside of our control:

- our national freight team's ability to sell capacity on our network.
- macro-economic factors that influence the volumes of freight transported.
- the relative cost of rail vs road.

While ambitious, our freight growth trajectory remains aligned to our SBP and ORR's Draft Determination at 8.6 per cent over CP7, but we recognise significant risk in this forecast.

Table 3: Freight growth success measure forecasts for CP7

	2024/25			2025/26			2026/27			2027/28			2028/29		
Measure %	SBP	DD	DD Resp	SBP	DD	DD Resp	SBP	DD	DD Resp	SBP	DD	DD Resp	SBP	DD	DD Resp
Freight growth	1.7	1.7	1.7	3.4	3.4	3.4	5.1	5.1	5.1	6.8	6.8	6.8	8.6	8.6	8.6

5. Asset sustainability

The purpose of this section is to respond to ORR's findings and draft decisions in relation to asset sustainability, as set out in the North West & Central settlement document. This section provides details on changes to renewals and maintenance plans and supports the narrative in our Safety chapter.

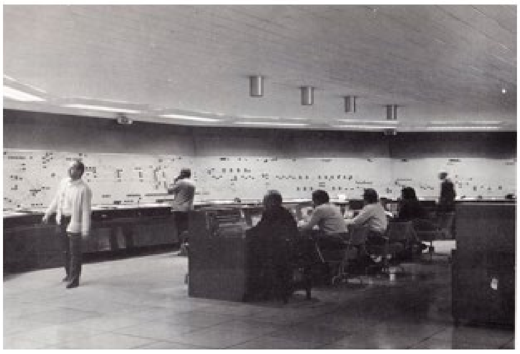
Updates to plans since the SBP

a) An alternative proposal for our WCML(North) renewals portfolio

ORR recommends reprofiling discretionary work on WCML (North) by £300 million to enable Network Rail to increase expenditure in other regions in CP7. We do not support this view and propose an alternative to reduce our WCML (North) renewals portfolio by £100m in CP7.

Our SBP (without risk-adjustment) included c.£1.2bn expenditure on core renewals to modernise 1970s infrastructure on the WCML (North) to meet commitments made by government in the Union Connectivity review and the Integrated Rail Plan for the North and Midlands. This includes renewals work at Crewe, North West route domestic asset renewals, and our WCML(North) renewals portfolio. This funding is not discretionary for the following reasons:

- Renewals at Crewe are in flight and delivering and will need c.£470m in CP7 to meet commitment made to funders including HS2 configuration state D date (early 2030s), at which point HS2 services run through Crewe.
- Our North West route plan for CP7 includes critical renewals of life-expired signalling, track, overhead line and other assets (c.£150m) that are required regardless of our WCML (North) renewals portfolio.
- The remaining c.£590m is for our WCML(North) renewals portfolio to progress a further portfolio of renewals (of life expired assets elsewhere on the WCML(North)).



Preston Power Signalling Box in 1973. It looks almost exactly the same today

Passengers queueing for a rail replacement bus at Carlisle. After HS2's introduction, these could be first-time rail users, put off forever by this experience.

Our proposed alternative £100m (in CP7) reduction to our WCML(North) renewals portfolio in addition to the c.£60m reduction already reflected in the move to the risk-based plan. This alternative proposed reduction is supported by the recommendations of an independent review led by Planning & Regulation, Capital Delivery Scotland and the Technical Authority carried out in June 2023 and considered deliverability, asset condition and alignment with cab fitment.

The total reduction to WCML (North) renewals portfolio of £160m has the following impact:

- **Digital signalling**: We have smoothed the expenditure profile of ETCS renewals as part of the wider response to funding constraints for CP7. The deferral of £105m means our programme will slip by one year and will now complete in 2035, rather than 2034. This will impact the reliability of HS2 services and cause passenger disruption in the first year of CP9. All works are ETCS works or works to support ETCS.
- **E&P**: Increase in overhead line failures in CP7, increasing to two or more incidents per year (with a £2m to £8m potential Schedule 8 cost) due to conductor heating and cracking because of increased power demand from existing rolling stock and future bi/tri mode freight.
- **Buildings**: ORR commented positively on the c.£20m in our plans to spend on accessibility interventions at up to 13 stations to meet compliance requirements. This spend has been deferred to CP8 to prioritise remaining funding on core and disruptive asset renewals, although we will pursue other funding opportunities as set out in the Accessibility section later in this response.

Table 4: WCML (North) renewals portfolio funding changes (£m, 2023/24 prices, pre-efficient)

Asset discipline	SBP	Contingency	SBP (risk-adjusted plan)	£100m reduction	Net position
Signalling	428	(43)	385	(62)	323 305 (digital) 18 (life-extension)
Level Crossings	12	(1)	11		11
E&P	77	(8)	69	(17)	52
Track	53	(5)	48		48
Buildings	23	(2)	21	(21)	0

Total	**593**	**(60)**	**533**	**(100)**	**433**

Table 5: WCML (North) renewals portfolio phasing changes (£m, 2023/24 prices, pre-efficient)

Asset discipline	Plan	2024/25	2025/26	2026/27	2027/28	2028/29	Total
Signalling	SBP (risk adj.)	13	28	71	122	151	**385**
	DD response (total)	6	15	48	105	149	**323**
	DD response (digital)	*5*	*13*	*43*	*99*	*145*	***305***
	DD response (life extension)	*1*	*2*	*5*	*6*	*4*	***18***
Level Crossings	SBP (risk adj.)	1	1	3	5	1	**11**
	DD response	1	1	3	5	1	**11**
E&P	SBP (risk adj.)	7	15	15	15	17	**69**
	DD response	0	3	15	16	18	**52**
Track	SBP (risk adj.)	0	0	0	27	21	**48**
	DD response	0	0	0	27	21	**48**
Buildings	SBP (risk adj.)	0	0	10	0	11	**21**
	DD response	0	0	0	0	0	**0**

Deferral of WCML(N) expenditure from CP7 means we are reliant on sufficient funding in CP8 and CP9 (c. £800m to £1bn) to ensure timely completion of the modernisation of the WCML(North) renewals portfolio with minimal disruption to passengers.

In addition to changes to expenditure on WCML(North), we have also updated our strategic approach to optimise delivery. Following an industry consultation process and several workshops the railway industry has concluded that the best rollout strategy for the ETCS is from north to south, starting in Carlisle. This is a change from the original Long Term Deployment Plan and our SBP and reflects better understanding of the challenges of cab fitment and driver training for operators on the WCML.

As part of our ongoing challenge to our unit rates, and as the development of the ETCS renewal programme matures, we have made some adjustments to the scope of certain add-ons, which in turn has led to corresponding adjustments to the cost of this work. There is risk around these rates, depending on the supplier that the programme is allocated to as part of the framework contract and the need for product development and approval for use on the UK network. The WCML(North) renewals portfolio includes life extension funding for Warrington due to the change in rollout strategy and asset condition at Warrington.

b) Further changes to core renewals plans

We have continued to make targeted updates to our risk-based plan since the SBP. For renewals this includes the following changes:

- Minor reallocation of renewals expenditure between asset disciplines to better balance risk across the portfolio of renewals and maintenance. Structures, buildings and signalling expenditure is slightly increased on NW Route compared to our risk-based SBP to address regional assurance findings. This is offset by reductions to assets where we are confident we can manage and mitigate the risks more effectively, and to better integrate maintenance and renewals expenditure. We are continuing to refine annual phasing of works.
- We have considered the latest position in relation to deferral of works from CP6, consistent with our annual business planning process (including through review of CRAM scores to inform prioritisation and substitution) and will review on an ongoing basis as we finalise our Delivery Plan.
- We have made a minor reallocation of expenditure from renewals to maintenance (c. £26m) to target train performance and improve train accident risk reduction through increased volume delivery, reduce the backlog of maintenance works we are managing due to the impact of Covid-19 and industrial action.

We have not yet been able to update unit rates in our renewals plans and we will do this in our Delivery Plan and anticipate that volumes in our plan will be lower than at the SBP meaning there is additional risk to our plan, compared to the SBP.

c) Changes to non-volume capital expenditure initiatives (Other renewals)

Updating our risk-based plan has also required difficult decisions to confirm reductions in expenditure on key strategic initiatives. The impacts of these reductions changes outcomes we described at the time of the SBP. The table below summarises the key changes and impact of reduction to regional initiatives.

Table 6: Regional HQ Other Renewals expenditure changes (£m, 2023/24 prices, post-efficient)

Strategic Initiative	SBP Total	Cont-ingency	Risk-adjusted	Impact of reduction
Level crossing safety fund	24	7	17	Impact to delivery of risk reduction through: • Reduction in delivery of c.25 VAMOS and c.50 Meerkat sites. • Reduction of c.25 crossing closures by diversion or purchase of crossing rights. And c. 8 crossing closures via footbridge installation.
Transition of road fleet to ZEV	14	3	11	We are continuing to review plans against target delivery dates and target reductions to scope 1&2 emissions over CP7. At this point in time our forecasts are consistent with the risk-adjusted SBP.
Traffic management	18	6	12	Reduced opportunity to implement strategic improvements linked to train service / reliability, safety and efficiency.

Strategic Initiative	SBP Total	Cont-ingency	Risk-adjusted	Impact of reduction
Crime & security	16	5	12	We will deliver our security enhancements on a risk-based approach, targeting our most critical locations based on intelligence.
Commercial Property	47	0	47	No impact and can sustain associated income forecasts and retail investment at stations.
Workplace management	43	25	17	Deferral of MDU expenditure with reviews underway with Routes to consider funding options, supporting by our Property team.
On track plant	16	0	16	No impact and ability to maintain safety and capability of current fleet protected.
Total	**178**	**46**	**132**	

d) Targeted updates to operating expenditure

We are continuing to further develop our maintenance plans for CP7, which will be a key area of focus of the CP7 Delivery Plan. As highlighted above, we have made a minor reallocation of expenditure from renewals to maintenance (c. £26m) to target train performance and improve train accident risk reduction through increased volume delivery.

We have initially estimated the impact of inflation on uplifts to CP6 rates for maintenance works and increased utility rates. For our region, this currently represents an c.£92m stretch on operating expenses and we are exploring options to address this in our Delivery Plan and anticipate the impact of inflation on our operating expenditure will increase further between now and the Delivery Plan.

e) Integration of maintenance and renewals plans

In its Draft Determination, ORR sought assurance on alignment of our maintenance plans with plans for core asset renewals, particularly recognising renewals expenditure has reduced since our Initial Submission for CP7 in March 2022. ORR's draft determination did not account for our latest maintenance plan submission to ORR, provided in April 2023, which showed greater alignment between our maintenance and renewals plan but recognised that further work was required. All routes on North West & Central were rated highly by Technical Authority's maintenance assurance report, with North West route plans assessed as best practice across the country.

We summarise the key elements below and are continuing to further develop our maintenance plans for CP7, which will be a key area of focus to the CP7 Delivery Plan.

Throughout the iterative CP7 planning process, we have prioritised our plans to balance asset interventions across maintenance and renewals expenditure to optimise outcomes within a changing funding envelope. Our devolved operating model has been instrumental in supporting deeper integration of maintenance and renewals planning at route level. This means we have one accountable owner in each of our three routes, the route infrastructure director, who makes decisions on prioritisation across maintenance and renewals spend. Having one accountable owner in each route has supported an integrated asset management approach, breaking down siloes that may have existed in previous control period planning activities.

Volumes in maintenance plans have been reviewed in parallel with proposed renewals activities to assess the appropriate approaches. This process includes the consideration of any deferred renewals (as highlighted in the Safety section) within the control period to ensure they are factored into the annual activity-based plan (ABP), assessing potential risks and opportunities, noting that the impact of reduced renewals is not immediate because the asset declines gradually over a period of years.

We have answered the 25 questions that the Technical Authority has developed, which enable us to assess the level of alignment between our maintenance and renewals plans (including that the funding provisions for maintenance activities in CP7 are scaled appropriately) and identify any gaps which we will seek to address as part of the development of the delivery plan and into CP7.

Integrated route plans are robustly assured and tested by our regional Directorate of Safety and Engineering, and by the Technical Authority. In the Technical Authority's assurance report on CP7 plans, North West & Central were rated highly in large part because of the recognition of the mitigations we have deployed to manage a reduction to renewals expenditure.

Our CP7 maintenance plans also address our people's competencies. Principal engineer teams work with DU engineers to identify competencies that complement the renewals and maintenance strategies. Where it is assessed that these are not currently adequately held by DU people these are modelled and added to profiles of relevant people. We will continue to monitor and adjust plans as necessary as this will be an evolving picture and different at each DU. We will take action to ensure that any competencies that require mentoring and demonstration of use are not given to people and then subsequently lost before they can be used.

f) Wider asset sustainability issues

Consistent with the E&W response, we have continued to review the requirements for **high output capability** and support retention of our high output ballast cleaning system (BCS) in CP7. Ahead of our Delivery Plan, we will update our plans to include cost and volumes for the BCS delivery in CP7.

ORR estimated the impact of increases to core renewals expenditure on the **composite sustainability index (CSI)** in draft baselines in the Draft Determination, and ORR asked that in our draft determination response that we provide more accurate forecasts. Having reflected changes to our renewals expenditure in our cost and volume plans for CP7, and we are now able to provide a more accurate forecast of CSI. This is based on:

- Updated renewals volumes submitted by regions.
- Revised changes in inventory and expected condition at the end of CP6.
- Recalibrated model results.

ORR agreed with our SBP forecast for CSI of -3.5 percentage points change. This forecast assumed that the WCML (North) programme would be implemented in full and would have to be revised further should this not be the case. This has been updated to -3.2% to reflect model recalibrations, updated definitions, and CP7 submission volume changes compared to those in our SBP.

CP7 will be the second successive control period with a CSI reduction of c. 3 per cent. This is significant in terms of the renewals backlog that is being generated, the financial value of which is c.£4bn, a similar value to a renewals expenditure over an entire control period. This level of decline and renewals backlog will require careful management in CP7, particularly recognising that North West and Central carries the highest freight volumes (itself the subject of a c.9% growth across CP7) of any region and has the highest passenger revenue route in the UK.

Table 7: CSI forecast trajectories over CP7

	2028/29		
Measure %	**SBP**	**DD**	**DD Response**
CSI	-3.5	-3.5	-3.2

Since publish of the Draft Determination, ORR has cited concerns around delays or descoping of the **Bushey Power Supply Upgrade** and potential impacts on train performance, freight growth and asset resilience. North West & Central does not anticipate any impact on these areas as a result of the delay. Bushey is an enhancement project funded via RNEP. It was originally planned for entry into service in Dec 2023, but programme risks have driven project costs up to an unaffordable level. Engineering review through modelling has determined that the increased power capacity is not required until 2025 (which we have shared with DfT). Therefore, the construction and build element of the project was paused in June 2023, allowing the design work to continue to support better value for money.

We are working closely with our contractors to develop the solution and plan the delivery of this project through application of SPEED principles. Both Network Rail and DfT expect the project cost to rise above its current authority, but we will manage this together through change control. We anticipate the project being in contract for the build phase in early 2024. The new electric locomotives planned for freight growth are not expected until 2025 and therefore we do not anticipate any impact on performance or resilience because of this delay.

6. Environmental sustainability

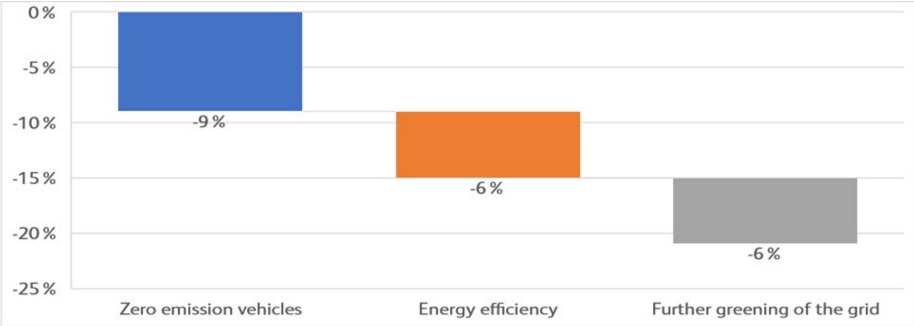
ORR agrees with the success measure trajectories we proposed for carbon emissions scope 1 & 2 (21 percentage points reduction by the end of CP7) and biodiversity (4 percentage points improvement by the end of CP7).

At this stage, we are not anticipating the purchase of carbon offsets to meet our CP7 targets. The **carbon efficiencies** will be achieved from further greening of the grid, investment in our infrastructure and programmes such as zero emission vehicles (ZEV). The diesel and petrol road fleet is currently c.2,500 vehicles and accounts for c.20% of our scope 1 & 2 emissions. Transitioning to ZEV is likely to reduce road fleet emissions to c.5%.

We are reviewing our plans in line with carbon targets noting funding pressures and will provide more detail as part of the Delivery Plan. Our review will further consider the extent of carbon reductions likely to be achieved through renewals works and the opportunities through energy investment at managed stations, which are within our top 10 highest energy consuming sites.

Survey work is being undertaken within the remainder of CP6 to understand the scale of possible carbon reduction which will then inform business cases within CP7.

Figure 4: Planned initiatives to reduce scope 1 & 2 carbon emissions.



We will always attempt to follow the **biodiversity** offsetting hierarchy where practicable, but on some projects, offsite factors such as the linear nature of the railway, its operational needs and the availability of land/habitat may require the purchase of biodiversity offsets. We will look to increase the use of nature-based solutions when undertaking resilience improvements and will collaborate with third parties to support activities undertaken outside the railway boundary (e.g. catchment based flood management schemes).

We are still embedding the new biodiversity measure. While we are using the best methodology available, there is a margin of error that must be considered in monitoring year-on-year percentage changes. Qualitative assessment will likely be an important part of ORR's monitoring in this area to provide a balanced assessment throughout the Control Period, and we will work with ORR to agree the right approach to this, including the development of supporting for the evaluation of progress in this area.

Table 8: Environment & Sustainable Development success measure trajectories over CP7

	2024/25			2025/26			2026/27			2027/28			2028/29		
Measure %	SBP	DD	DD Resp	SBP	DD	DD Resp	SBP	DD	DD Resp	SBP	DD	DD Resp	SBP	DD	DD Resp
Carbon emissions	-4.2	-4.2	-4.2	-8.4	-8.4	-8.4	-12.6	-12.6	-12.6	-16.8	-16.8	-16.8	-21.0	-21.0	-21.0
Biodiversity units	0.0	0.0	0.0	1.0	1.0	1.0	2.0	2.0	2.0	3.0	3.0	3.0	4.0	4.0	4.0

Issues raised by ORR around weather resilience and climate change adaptation will be addressed through the updated WRCCA Plan. Further detail on circular economy and social value initiatives will be included in delivery plans.

7. Accessibility

We understand ORR's concerns that our plans will not be able to address all lifts and escalators that are beyond design life and that aging lifts and escalators could lead to failures or outages resulting in accessibility and performance impacts. We have planned targeted accessibility improvements through renewals of lifts and escalators, alongside improved lighting and wayfinding. In order to maximise accessibility outcomes, the region will keep accessibility-related renewals – including lifts and escalators across the whole region - under review during CP7 and will pursue funding opportunities outside PR23, including through Access For All if confirmed for CP7. We will look to make use of the DfT station accessibility data sets to help identify and prioritise locations for these accessibility improvements.

As highlighted in the WCML(North) section above, our SBP included c.£20m in our WCML(North) renewals portfolio to address accessibility issues for stations at which HS2 will call. To seek to address an overall reduction to this programme in CP7, we have prioritised the remaining funding on core and disruptive asset renewals so have removed this expenditure from our plan. We will continue to work with West Coast Partnership Development (WCPD) – the HS2 shadow operator – to try to secure funding for and deliver accessibility improvements at HS2-served stations.

8. Efficiency

We are committed to delivering the ambitious 10% opex and 15% capex efficiency targets for CP7 that we set out in our SBP, noting that at face value, net efficiencies have reduced because there has been a reduction in our pre-efficient, post-input price renewals workbanks. Achieving this level of efficiency will be increasingly challenging. This is because of inflation and changing workbanks that continue to be refined as we understand the cost pressure in more detail.

We consider we can stretch our CP7 efficiency commitment by £50m to manage, in part, the impact of inflation. We believe we can deliver this by challenging those assets and routes with lower forecasted efficiency percentages and consider a possible split of £40m for capital expenditure and £10m for operating expenditure. Between now and the Delivery Plan, we will develop robust and credible plans to support delivery from April 2024.

We also note that around 30% of Network Rail's total CP7 efficiencies relates to our share of industry reform savings, and that this may be more challenging to achieve given delays to reform legislation. Not all reform initiatives require legislative reform (e.g. joint property strategies, workforce modernisation and optimising access initiatives) and ORR support for driving forward / delivering these whole-system savings will be instrumental.

In our Efficiency Annex, we provide a high-level breakdown of the efficiency initiatives that underpin our plans. This includes providing more detail on operational efficiencies as requested by ORR. We have a gross estimate for Operations efficiencies of £81m in CP7. As well as strategic initiatives to reduce operational spend (such as workforce reform (£18m) and station asset management (£36m), we have developed a range of local operational initiatives such as:

- Exploring the opportunity to an integrated operating model for our route control centres across our region (£2.6m).
- Opportunities to remove or reduce MOM activities (£3.3m).
- Consolidation of signalling roles or workstations (£2.3m).
- Review of signaller or shift signaller manager work patterns or grades (£0.6m).

Table 9: Updated efficiency success measure trajectories over CP7

Measure £	2024/25 SBP	2024/25 DD	2024/25 DD Resp	2025/26 SBP	2025/26 DD	2025/26 DD Resp	2026/27 SBP	2026/27 DD	2026/27 DD Resp	2027/28 SBP	2027/28 DD	2027/28 DD Resp	2028/29 SBP	2028/29 DD	2028/29 DD Resp
Opex	15.2	15.2	17.3	32.0	32.0	34.4	47.6	47.6	50.3	63.7	63.7	66.7	80.5	80.5	81.7
Capex	27.3	27.3	38.6	69.2	69.2	73.9	121.8	121.8	116.1	138.3	138.3	124.5	166.4	166.4	133.3
FPM	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

9. Operations and Support Costs

In CP6, we have invested in our **operations** delivery to improve train service delivery and to make improvements in management of fatigue in our operations workforce as part of delivering our regional operating strategy. Our aspiration is to have completed these improvements by the end of CP6, with CP7 plans supporting sustained improvements that are broadly consistent with CP6 on a like for like basis.

To support delivery of our operating strategy, we have included c.£12m capital investment in decision support technology to provide tools to our operational staff to support better decisions more often, especially during incidents and subsequent recovery periods. Our plans also include capital investment in level crossing closures and a dedicated level crossing fund of c.£17m to continue the initiatives we have delivered in CP6 to reduce safety risk.

Our regional **support** costs for CP7 support delivery of key strategic and compliance-related initiatives including:

- additional resource to support structures examinations compliance by the end of 2024/25.
- additional resource to improve environmental management, manage biodiversity improvements and legislative compliance, support weather resilience activities, and to deliver the Climate Adaptation pathways work.
- an uplift in crime and security expenditure including an increase in dedicated disruption teams, enhanced security at stations, delivery of line of route and Passenger Operations Control Centre surveys, and awareness campaigns.
- leasing costs to support the transition of our road fleet to zero emissions vehicles.

Comparison between CP6 and CP7 operations and support costs are difficult for the following reasons:

- changes in expenditure need to take account of changes implemented part-way through CP6 that have a full control period impact in CP7.
- We also dedicated expenditure to one off items in CP6 that we have not included in our CP7 plans, such as additional costs to protect our workforce and passengers during Covid-19, Project Alpha (our train performance improvement plan in CP6), and targeted initiatives to improve reliability for passengers travelling to the Commonwealth Games.
- CP7 operating costs bear the full control period impact of the pay awards agreed to resolve the recent industrial dispute which were not accounted for in the SBP.

- costs for certain activities have been realigned between operations, maintenance, and support between CP6 and CP7 (for example station costs are included in Operations in CP7 but were in Support in our CP6 baseline).

The waterfall charts below describe the key changes to operations and support opex costs, including one off costs, key changes in CP6 that impact CP7, as well as those between CP6 to CP7. Operations and support costs will be updated in our Delivery Plan.

Figure 5: Changes in operations costs from CP6 to CP7

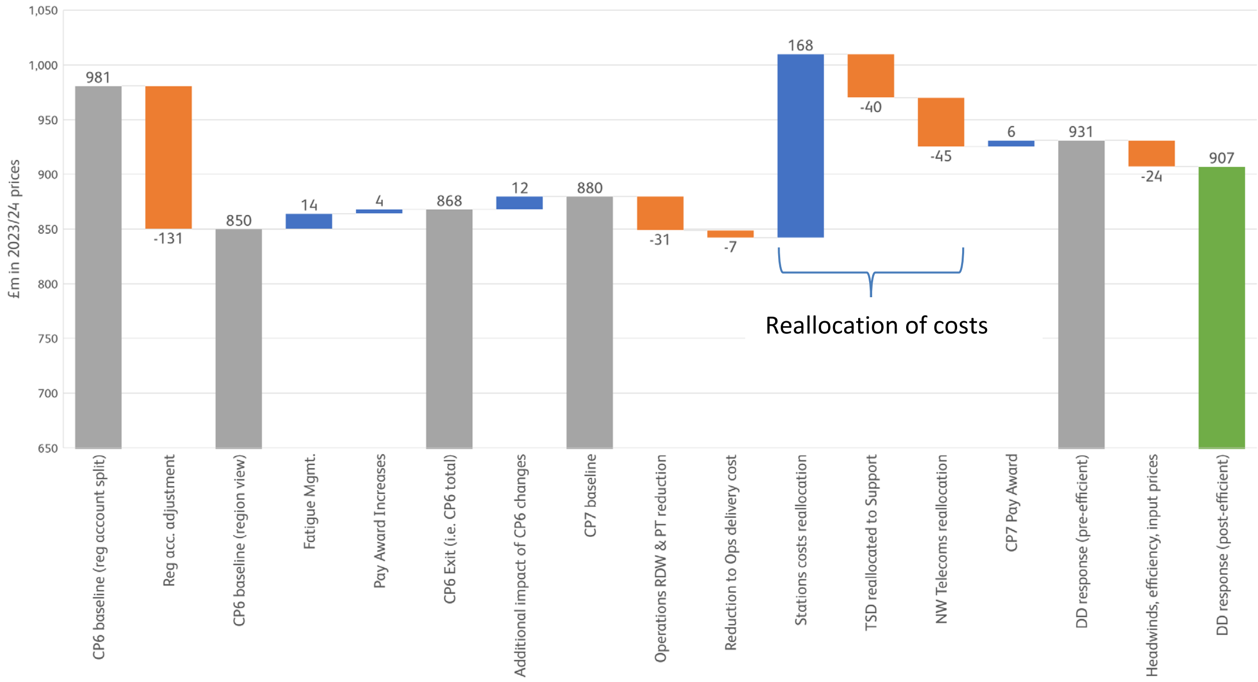
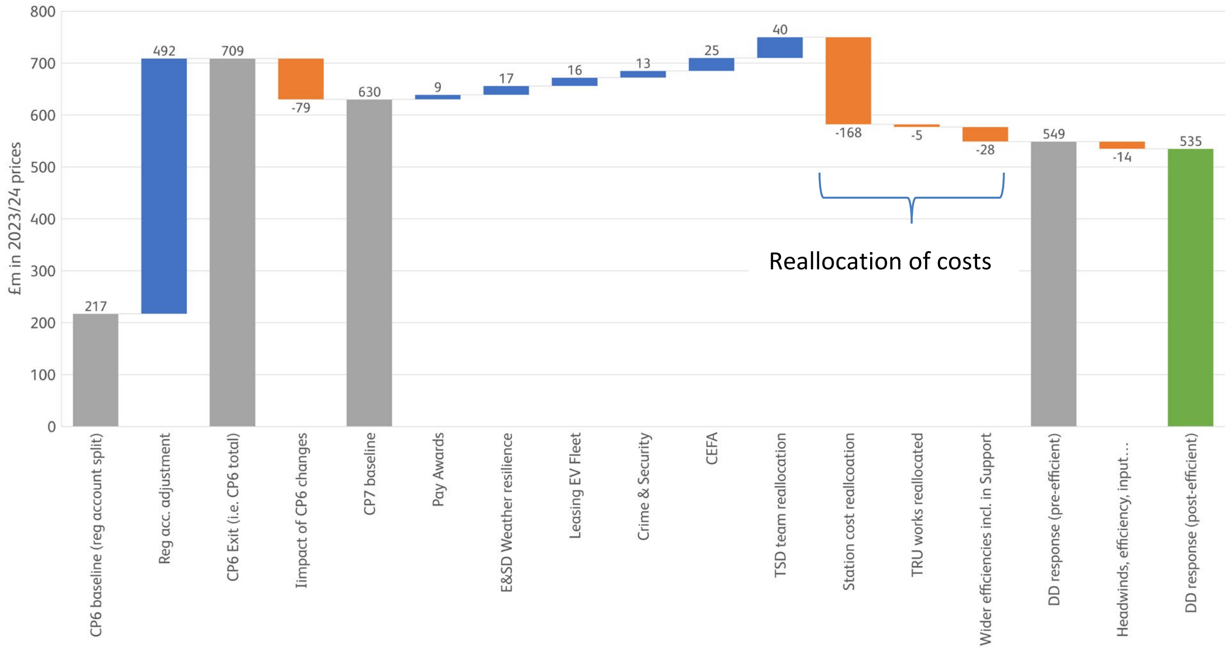


Figure 6: Changes in support costs from CP6 to CP7



10.Financial risk and inflation

We accept ORR's proposal to move to our risk-adjusted plan, with contingent expenditure in our SBP now been moved to cash risk funding, noting that this is then required to address the impact of recent, higher inflation forecasts.

Network Rail's SBP assumed £2bn of risk provisions in England & Wales based on £500m of funding in Group with £1.5bn held as contingent activity across region plans. The impact of recent higher inflation forecasts on our CP7 plans means that we have already had to absorb £1.5bn of additional cost through our move to the risk-adjusted plan (i.e. removing contingent activity from our plans by £422m). This leads us to start CP7 with lower risk funding compared to the SBP.

We have, however, identified a proportion of our input price provisions to sit within risk funding to reflect that there is some uncertainty about whether the previously observed relationship between CPI inflation and our own costs will re-establish themselves after we move on from the high inflation environment that we are currently in.

We think the plan is currently deliverable. However, any material changes in future inflation, material Schedule 8 payments or other significant unplanned financial outlays will mean we need to review of plans to further prioritise activity to live within the funding available for CP7. Changes to plans during CP7 would be taken through the managing change process.

We note that Schedule 4 & 8 costs are a significant driver of financial risk and the level of our exposure will depend on ORR's decision on payment rates, which will be decided as part of the final determination.

Increases in inflation forecasts since the start of the year mean that the cost of our CP7 plan is significantly higher than we assumed in our SBP (£1.5bn higher across England & Wales using May 2023 Bank of England forecasts). Recent forecasts increase the cost of our plan by £265m in cash terms. Whilst we have not had time to reflect the latest August 2023 Bank of England inflation forecasts in our region response, but the forecast is similar to the May 2023 forecast. We set out the high-level assessment of the impact of this latest forecast on our CP7 plans in our overall Network Rail response. Our overall Network Rail response explains how we are seeking to balance funding pressures, including inflation, across our CP7 plans, such as moving to the risk adjusted plan. We will continue to monitor the impacts of inflation as we move towards the delivery plan as it is one of the major risks to the delivery of our CP7 plans.

11.Schedule 8

As discussed in our overall response, we do not support ORR's decision to not fully implement the lower Network Rail Schedule 8 Payment Rates at the start of CP7. We believe the new proposal (average 45% reduction in CP7 rate compared to CP6) is not appropriate as it does not reflect the latest empirical evidence and economic best practice, resulting in train operators being overcompensated by delays caused by Network Rail. We are not clear on ORR's justification for this proposal nor on how ORR have accounted for the risks of defunding vital infrastructure works that would arise from the overpayment to train operators as a result of unrealistic benchmarks and unjustified payment rates. Therefore, we think that the full reduction (75%) should be applied from the start of CP7.

12.Income

We have reviewed our CP7 income forecasts as part of the development of our draft determination response, and our overall position aligns to our SBP, with the exception of revisions to schedule 4 and schedule 4 ACS, and includes the following updates for reflect changes to charging assumptions:

- a loss of TOC insurance income following agreement between TOCs, DfT, TS, TfW, and ORR to cease this income stream from FY24 onwards.
- an increase in expected Freight VTAC income.
- access charging income reflects the draft price lists and our latest view of our traffic forecasts for CP7. We note this is higher than our SBP as charging rates are assumed to increase in real terms between CP6 and CP7.
- a reduction to station and depot income, partly offset by an improvement in Station Long Term Charges driven by an increase in operating expenditure.
- increases in income from DfT and TS contracted train operators are offset by a reduction in FTAC to align to the SoFA.
- commercial income is unchanged from the SBP. While income forecasts have been reduced since the SBP due to latest forecasts on retail units, footfall and spend per passenger which reduces our income by c.£12m over CP7, we consider this a realistic stretch to include in our plan.

13.Outcomes

Our plans for CP7 and the outcomes we are aiming for are ambitious. There is significant uncertainty around CP7, in particular, the financial/economic pressures to our plan which, alongside considering how we address the current overlays in our plan, creates additional risk to forecasting and delivering our outcomes. We will have to make difficult choices about how we manage the risk this creates to outcomes in our plans but are committed to providing the best outcomes we can to passengers, freight, and taxpayers. Flexibility in the regulatory framework must recognise the need to balance activity and outcomes across our plans.

14. Stakeholder engagement

We note ORR's comments in relation to North West & Central region's stakeholder engagement on CP7 and recognise the continued importance of this as we refine our plans both over the remainder of CP7, and CP7 itself.

As highlighted in the performance section, we have continued to engage operators to develop whole industry forecasts for train performance.

Wider engagement has been led by our routes and Capital Delivery function to seek input to the ongoing development of our plans and to our Draft Determination response. This includes further multi-lateral roundtable events with a wide range of stakeholders, alongside bilateral partnership boards. We attended a Rail Industry Association (RIA) supply chain event in June to discuss our plans – which complemented regular engagement with our supply chain as we remit works for CP7. Our existing Supply Chain Partners have been kept informed throughout the CP7 planning process so that they can shape their business offering and positioning in the market to be successful in the latest tenders for CP7.

We have also held two further CP7 Challenge Panel sessions since the SBP. Our panel has been universally positive about ongoing engagement with our region and how this can support effective delivery and ongoing responsiveness to local needs. At our last panel on 6 July 2023, we provided an opportunity for our diverse range of panellists to provide input to our emerging response to ORR's Draft Determination. Some members of the panel reflected a view that any reduction to investment in North West & Central that would benefit the north could be perceived poorly from a levelling up perspective and, instead, could include an option to reinvest within the region to support closing the performance gap.

We are continuing to optimise our plans to address discussion at our panel and wider stakeholder feedback on the need for 'smart working' in relation to limiting maintenance line closures on bank holidays and main school holidays, which can deliver efficiencies, minimise disruption and target growing markets, particularly leisure.

Some members of our panel also supported the prioritisation of funding to our Commercial Property initiatives, recognising the wider benefits to local communities of our proposed investments in stations and the local environments. Furthermore, some panellists shared ORR's concerns about the risk to safety on lower used lines on our network, which has supported the development of a clearer response to better describe our approach. It was perceived that describing lines of route as lower value misrepresented the disproportionately significant socioeconomic and environmental benefit that less used routes, rural lines provide to a local community, and their scope to provide greater value into the future. We have further reflected on the terminology we use in relation to our ‘value of service’ framework.

Annex A: Updated financials

£m in 2023/24 prices	Direct costs			Allocated costs			Total costs		
	CP6 (RF3)	SBP	DD Response	CP6 (RF3)	SBP	DD Response	CP6 (RF3)	SBP	DD Response
Operations	981	899	907	51	0	0	1,032	899	907
Maintenance	2,653	2,333	2,299	103	146	139	2,756	2,479	2,438
Support	217	554	534	737	822	792	954	1,376	1,327
Industry costs and rates *	0	0	0	391	446	450	391	446	450
Electricity for traction (EC4T)	0	0	0	682	1,018	1,130	682	1,018	1,130
Total operating expenditure (excl. EC4T)	**3,851**	**3,786**	**3,740**	**1,283**	**1,414**	**1,381**	**5,133**	**5,200**	**5,121**
Renewals	3,754	4,490	4,090	154	113	99	3,908	4,603	4,190
Other capital expenditure	133	238	26	449	537	457	581	775	483
Total capital expenditure	3,887	4,728	4,117	602	650	556	4,490	5,378	4,673
ETCS enablers	0	0	0	0	192	192	0	192	192
Risk funding	0	0	0	0	0	131	0	0	131
Total Expenditure (excl. EC4T)	**7,738**	**8,514**	**7,857**	**1,885**	**2,256**	**2,261**	**9,623**	**10,770**	**10,118**
Input prices moved to risk funding			281			19			300

* Excluding BTP

£m in 2023/24 prices	Direct costs			Allocated costs			Total costs		
	CP6 (RF3)	SBP	DD Response	CP6 (RF3)	SBP	DD Response	CP6 (RF3)	SBP	DD Response
Passenger access charges (VUC, EAUC, FTAC)	-2,291	-2,050	-2,079	284	-50	-50	-2,007	-2,099	-2,128
Stations and Depots: Station LTC, Stations Lease, QX and Depots	-501	-774	-746	0	0	0	-501	-774	-746
Freight and open access track access charges	-103	-127	-137	0	0	0	-103	-127	-137
Electricity for Traction (EC4T)	0	0	0	-678	-1,021	-1,130	-678	-1,021	-1,130
Property and other income	-178	-283	-274	-29	-98	-43	-207	-381	-317
Schedule 4 access charge supplement	-411	-469	-233	-48	-140	-118	-459	-609	-351
Schedule 4 and 8	461	509	260	-19	129	118	442	638	377
Network grant	0	0	0	-6,786	-7,418	-6,816	-6,786	-7,418	-6,816
Total Income	-3,023	-3,194	-3,209	-7,278	-8,597	-8,039	-10,301	-11,791	-11,248
Total Income (excl. EC4T)	**-3,023**	**-3,194**	**-3,209**	**-6,600**	**-7,576**	**-6,909**	**-9,623**	**-10,770**	**-10,118**

Annex B: Sign-off

Job Title	Name	Date
Region Managing Director (Interim)	Dave Penney	31/08/2023