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15 December 2015

Dear Richard,

### **Nichols Independent Assurance Report**

Following finalisation of the Nichols Independent Assurance Report on 30 November 2015, I am writing to you to set out our response to the conclusions reached and recommendations made.

The Nichols report provides independent assurance of the Hendy Review and was jointly commissioned by ORR and Network Rail to meet the requirements for external assurance of this review in the Secretary of State's Terms of Reference. We have worked closely and collaboratively with the Nichols team and with ORR throughout this process in order to fully support the review.

We welcome this comprehensive review of the extensive portfolio of rail enhancement projects. Nichols has presented a balanced view between the strong delivery capability of Network Rail and our supply chain and the broad range of risks that remain to be managed.

Many of the findings from the Phase 1 Nichols report, published in September 2015, and the Deliverability Reviews have already been incorporated into the Hendy Review, in particular relating to the re-scheduling of Regulated Milestones and the improvements made to the robustness of project costing following work on Quantitative Cost Risk Assessment (QCRA).

With regard to scheduling and milestone dates, we agree with Nichols' views that further work is required on our Quantitative Schedule Risk Assessments (QSRA) to increase confidence in the probability of projects being delivered on time (P80 schedule development). Our Enhancements Improvement Programme (EIP) therefore includes workstreams that will specifically improve our understanding of P80 schedule development. The periodic EIP

monitoring meetings that take place between ORR and Network Rail will provide the appropriate forum to review progress.

We welcome Nichols' confirmation that the project costs within the CP5 re-plan are more robust following adjustments we have made since the Nichols Phase 1 report was published. The EIP includes workstreams that are specifically focussed on delivering improvements in QCRA activity in order to deliver greater confidence in our project costings. We are also committed to implementing the outstanding recommendations made by Nichols as we continue to improve our cost planning processes.

We acknowledge that some of the adjustments made to the overall CP5 portfolio cost plan require a greater degree of evidence to increase stakeholder confidence in Network Rail's ability to successfully deliver projects on time and to budget. We agree with Nichols' recommendation that ranges should be used to express uncertainty where such uncertainty exists and this is something we will need to develop as we plan CP6.

Ensuring that we have robust schedules and costs for our major programmes (including Midland Main-line and Trans-Pennine Electrification programmes) will require Network Rail to undertake a greater level of detailed planning across our project portfolio. We are committed to performing a full assessment the impact of these programmes on the CP5 portfolio and the cost plan for CP5.

Assurance was not provided by Nichols on the finalised cost expenditure profile as this was not available at the time of the final report. We are meeting with Nichols and ORR on 17 December 2015 to review the scope and purpose of this further work.

We firmly believe that our comprehensive review of our capability to deliver the enhancements portfolio together with the external assurance provided by both Nichols and ORR will strengthen the rail industry's ability to successfully deliver major projects in the future.

Yours sincerely

Mark Carne  
Chief Executive

A handwritten signature in black ink, appearing to be "Mark Carne". The signature is fluid and cursive, with a large loop at the end.