

John Larkinson
Director, Railway Markets and Economics

25 July 2017

Charles Robarts
Director, Planning & Regulation
Network Rail
1 Eversholt Street
London
NW1 2DN

Dear Charles

Supplementary guidance on Network Rail's strategic business plan and planning assumptions for England & Wales for CP6

We provided guidance to Network Rail on its Strategic Business Plans on 23 February 2017¹. This guidance stated that in the Strategic Business Plans (SBPs), Network Rail should set out its plans for operating, maintaining and renewing the network, and how it intends to improve its capability and efficiency. It also stated that Network Rail's strategic plans should contain forecasts of expenditure and income, the outputs it expects to deliver and its assessment of the revenue it requires.

This information will allow us to assess whether: Network Rail's plans are consistent with the requirements set out by the UK and the Scottish governments in their high-level output specifications (HLOSs); there is sufficient funding available (to be set out in the statements of funds available (SoFAs)) to allow the company to deliver these requirements; and the plans are consistent with the safe and sustainable management of the network.

The Department for Transport (DfT) has published its HLOS and ORR has extended the deadline for finalising both documents to 13 October 2017.

¹ The guidance and related consultation is available from: www.orr.gov.uk/rail/consultations/pr18-consultations/consultation-on-draft-guidance-on-Network-Rails-strategic-business-plans

In response to the publication of the HLOS, we have written to Nick Joyce at DfT setting out the next steps on the HLOS/SoFA process². This letter is available on our website. In our letter we said:

We all agree it is essential that Network Rail has enough information to develop its route based strategic business plans over the summer and autumn. You recognise that at this stage the HLOS and initial SoFA together do not provide the necessary detail and you supported our suggestion of providing Network Rail with supplementary guidance to the previous guidance we provided³. Accordingly, in due course we will provide Network Rail with a set of planning assumptions that it can draw upon. These will be our assumptions and we will make it clear that these do not represent government decisions.

Reflecting this, this letter sets out our view on whether the original guidance needs to be amended or materially supplemented, and provides an update on our approach to providing guidance on the assumptions that Network Rail should adopt to support the continued development of its business plans for England & Wales. It does not include enhancements which will be covered separately by DfT.

Supplementary guidance on the SBPs

We have reviewed the guidance we previously issued to Network Rail, and consider that the substance of our guidance is unchanged by the material contained in the HLOS and initial SoFA. In part this reflects that our guidance was explicit in stating that Network Rail's strategic plans for control period 6 (CP6) will need to take account of *inter alia* the requirements set out by national funders in the HLOSs. It also remains important that the route and SO plans benefit from ongoing stakeholder engagement, as set out in our original guidance.

Furthermore, the emphasis placed in the DfT's HLOS on providing plans to improve efficiency reflects the requirements included in our original guidance. Our previous guidance stated that Network Rail should provide “... a robust demonstration that its plans of activities deliver the outputs / objectives it forecasts, and that the funding sought for the work reflects a realistic but challenging level of efficiency.”

Our guidance on the calculation of the revenue requirement also remains valid, which requires Network Rail to forecast *inter alia* the likely levels of other single-till income (OSTI). This guidance also required each of the routes' plans and the NSO plan, as well as the consolidated plans for Scotland and for England & Wales, to include information on risk ranges of possible income and expenditure outcomes and a central forecast of these effects for each year.

² This letter is available [here](#).

³ Our previous guidance was published on 23 February 2017 and is available [here](#).

On enhancements, the DfT's HLOS states that these will be dealt with separately. In line with our existing guidance, this means that Network Rail should exclude these projects from the calculation of the revenue requirement, while including suitable expenditure to cover projects that are already underway, which are expected to extend into CP6 and which are not being separately funded.

Planning assumptions

To support its ongoing business planning process, Network Rail needs to make a series of assumptions so it can produce its plans. For example, decisions on the appropriate level of maintenance, renewals and enhancement activities are linked, and all depend upon the level of assumed access to the track to undertake the necessary work.

The planning assumptions you should draw on are contained in the annex.

There is uncertainty associated with potential funding levels. In response, we expect Network Rail to continue its planning in a way that allows a degree of variation of, in particular, renewals and maintenance activity. This is likely to involve Network Rail identifying how its approach might change if its renewals assumption in its SBP means that in total the funding it is saying it requires is above the funding in the SoFA. Network Rail will also need to set out how its plans compare to those that supported the ongoing process of stakeholder engagement on the business plans.

Next steps

As discussed, we have also commissioned an independent reporter to review Network Rail's progress on the development of its efficient expenditure plans and we are pleased that you have agreed on the importance of this work in providing greater assurance on progress.

In the light of all these developments we need to review the overall 2018 periodic review (PR18) programme plan and timetable and will be discussing this with you and other stakeholders shortly. We will, of course, continue to work with Network Rail over the summer, ahead of your submission of SBPs.

Yours sincerely



John Larkinson

ORR guidance on assumptions to support Network Rail's ongoing planning for CP6

Topic	Assumption(s) for SBPs
Enhancements	DfT to provide
Digital Railway	<ul style="list-style-type: none"> - Include expected costs of running the programme team associated with digital signalling. - To the extent that any expenditure is included relating to the deployment of digital signalling, this should be separately identified in the SBP, together with the impact of removing this expenditure. - Consistent with the above, the renewals and maintenance plans should either not include any adjustment for the anticipated deployment of digital signalling during CP6 or clearly identify the adjustments that have been made in anticipation of deployment of digital signalling.
HS2	<ul style="list-style-type: none"> - Expenditure relating to HS2 should be separately identified in the SBP.
Renewals	<ul style="list-style-type: none"> - The volume of renewals work must be higher in CP6 than in control period 5 (CP5). In our advice to the Secretary of State we provided a range of estimates of potential renewals spend, measured at pre-efficient cost levels. - In light of likely deliverability constraints, Network Rail should plan around a volume of renewals activity commensurate with a pre-efficient funding assumption of £19bn (2016/17 prices), as set out as one of the scenarios in our earlier advice to DfT. - It will be important for Network Rail to consider the impact of deliverability constraints on the level and phasing of work, including by explaining how the implied annual delivery of renewals compares to the peak annual volume of renewals spend achieved in CP5.
Maintenance	<ul style="list-style-type: none"> - The plans for maintenance should optimise maintenance strategies against the above renewals scenario, and set out the implications in terms of performance and other outcomes, and the impact on the profile of spend.
Operations	<ul style="list-style-type: none"> - Continue to plan in line with Network Rail's current

Topic	Assumption(s) for SBPs
	assumptions.
Efficiency	<ul style="list-style-type: none"> - In line with previous guidance, Network Rail will need to set out its plans to improve efficiency across OMR, recognising the need for the company to improve in this area. - It should also explain how the plans for CP6 build on successes and address identified weaknesses, and should represent a realistic but challenging level of efficiency improvement.
Other Single Till Income	<ul style="list-style-type: none"> - OSTI should be forecast by Network Rail based on a level of proceeds assumed from CP5 asset sales which will be set out by DfT separately.
Financial Risk	<ul style="list-style-type: none"> - Reflecting the ongoing discussions on the appropriate treatment of risk, Network Rail should provide the following: <ul style="list-style-type: none"> o a description and quantification of the significant risks associated with the CP6 plan; o its view on the appropriate way to fund the company to manage these risks; and o any changes to its approach and plans that it anticipates might be required in light of the finalisation of the funding available.
Price Base	<ul style="list-style-type: none"> - The plans should be set out by year in 2017-18 prices except where agreed with ORR.