

# CP6 route strategic plan review summary

## London North Western route

### Purpose

This document provides a summary of the key proposals in the LNW route strategic plan for control period 6 (CP6)<sup>1</sup> and a short high level overview of our review of this, as part of our 2018 periodic review (PR18). For our more detailed assessment of this and the other strategic plans, please see our PR18 draft determination [supplementary documents](#).

Over summer 2018, Network Rail's routes will be making targeted updates to their plans in line with our overall proposed decisions in the draft determination. For the final determination in October 2018, this summary will be expanded to include more detailed information on the settlement we are setting for the LNW route in CP6.

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### Summary of key proposals by the route

1. In its [route strategic plan](#) (RSP) which was published in February 2018, LNW route outlined the following priorities for CP6:
  - collaboration with the regional transport industry to adopt an integrated transport approach including planning of railway work with consideration of works to other modes (e.g. highways) and other factors such as major public events;
  - structured continuous improvement aspiring to provide brilliant services to customers by building strong relationships and partnerships and focusing on asset management capability;
  - embed a culture of cost efficiency and commercial awareness across the business to deliver value for money and encourage external investment in railway;
  - sustained growth whilst delivering improved passenger satisfaction by working collaboratively with the routes' customers; and
  - improving safety (passenger, public and workforce) whilst delivering its services more efficiently and reliably.
2. The route is transparent about the challenges it faces in CP6 including:
  - major third party enhancements such as High Speed 2 (HS2) and those relating to Northern Powerhouse Rail alongside major enhancements and renewals of

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<sup>1</sup> CP6 will run from 1 April 2019 to 31 March 2024.

the classic network including Crewe resignalling and East West Rail phase 2 and associated potential to disrupt route operations;

- increased traffic and longer operating hours resulting in reduced access to maintain more infrastructure (e.g. new electrification and route boundary changes – Worcester area);
  - introduction of new train fleets and refranchising during remainder of CP5 and throughout CP6;
  - delivery of customer expectations in CP6 taking into account aforementioned potential performance affecting factors and affordability constraints; and
  - prioritising expenditure to maintain asset condition and sustainability based on lowest initial cost whilst achieving a mature asset management approach.
3. LNW's RSP includes plans to improve the efficiency of its operating and renewals activities. These have been built-up from a detailed bottom-up programme of work.
  4. The route's approach for improving efficiency, includes:
    - developing a cost conscious culture in the route to promote value for money by raising awareness in teams through initiatives such as 'cost hours', (similar to 'safety hours');
    - exploring and collating efficiency initiatives through internal workshops, comparison with other routes and private sector organisations prior to sense checking by asset specific working groups; and
    - driving efficient delivery and outputs by empowering people to identify waste and inefficiency through the continuing 'LEAN' programme.
  5. The route has described plans to continuously improve asset management capability by establishing the route asset managers (RAMs) as a clear client including regular 'client review' with maintenance disciplines. It is proposed that asset management capability will be further enhanced by publishing asset management plans in an accessible, clear and structured system. Such a system is set up and undergoing development ('SharpCloud').
  6. The route is facing a key challenge relating to the Chiltern Automatic Train Protection (ATP) system which is becoming increasingly difficult to maintain primarily due to the obsolescence of key components. Network Rail and Chiltern Railways continue to work together to explore possible solutions and associated funding to upgrade/replace this system.
  7. Most enhancements are not within the scope of PR18, as the UK government has decided that new enhancement decisions in England & Wales will be made through the Department for Transport's enhancements pipeline process. Strategic

enhancements referenced in LNW’s RSP will be aligned with future renewals once funding is confirmed and outputs defined.

8. The route’s RSP (available [here](#)) sets out more fully what the route proposed to deliver in CP6. Within this, the route included a scorecard containing:
  - measures that have been developed with customers/local stakeholders, including particular train operator performance measures; and
  - a set of ‘consistent measures’ that apply to all of Network Rail’s geographic routes and which will enable comparison across routes during CP6.
9. The scorecard included the targets that the route has set itself against these measures. While the full scorecards are available within the [RSP](#), Table 1 below sets out the route’s targets for the consistent measures. The measures included in bold are those that we specifically required routes to include a target for<sup>2</sup>.
10. Some of the targets and trajectories over CP6 for train performance and asset sustainability are likely to change to reflect the process we have asked Network Rail to undertake in response to our draft determination decisions, as discussed later in this document.
11. Table 2 below then sets out its expenditure and income forecasts from the RSP.

**Table 1: Route consistent measures on the route’s scorecard<sup>3</sup>**

Area	Metric	CP6				
		2019-20	2020-21	2021-22	2022-23	2023-24
Safety	Lost time injury frequency rate (LTIFR)	0.450	0.380	0.310	0.240	0.170
	Train accident risk reduction measures	80%	80%	80%	80%	80%
	Top 10 milestones to reduce level crossing risk	8	8	8	8	8
	Railway management maturity model (RM3)	This measure remains in development by Network Rail				
Train performance	<b>Consistent route measure – passenger performance (CRM-P)</b>	<b>1.62</b>	<b>1.61</b>	<b>1.62</b>	<b>1.62</b>	<b>1.59</b>
	<b>Freight delivery metric – route (FDM-R)</b>	<b>93.9</b>	<b>93.9</b>	<b>93.9</b>	<b>93.9</b>	<b>93.9</b>
Asset management	<b>Composite sustainability index (CSI)</b>	-	-	-	-	<b>-3.6%</b>
	Reduction in service affecting failures (SAF)	1.0%	1.0%	1.0%	1.0%	1.0%

<sup>2</sup> There will also be other consistent measures that the route will report against in CP6 (but will not necessarily have a specific target for), including end-user measures such as passenger satisfaction with the route. These are discussed in our [scorecards and requirements](#) supplementary document.

<sup>3</sup> Definitions of the measures are available [here](#).

Area	Metric	CP6				
		2019-20	2020-21	2021-22	2022-23	2023-24
	Composite Reliability Index (CRI)	1.3%	2.6%	3.9%	5.2%	6.5%
	7 key volumes	95%	95%	95%	95%	95%
	Top investment milestones	80%	80%	80%	80%	80%
Financial performance	Financial performance measure (FPM) – gross excluding enhancements	£0m	£0m	£0m	£0m	£0m
	Financial performance measure (FPM) – gross enhancements only	£0m	£0m	£0m	£0m	£0m

**Table 2: Summary of LNW's proposed expenditure and income for CP6<sup>4</sup>**

£m (2017-18 prices)	CP5 total	CP6					Total
		2019-20	2020-21	2021-22	2022-23	2023-24	
Support	454	124	125	126	130	127	633
Operations	654	168	169	170	170	171	849
Maintenance	1,664	382	387	377	374	373	1,893
Renewals	2,918	561	638	749	680	572	3,200
Schedule 4&8	310	73	64	70	61	62	329
Traction electricity, industry costs and rates	622	147	154	155	175	177	807
System Operator	12	12	13	15	14	12	67
Route controlled risk funding	0	26	26	26	26	26	130
Route contribution to group portfolio fund	0	34	49	86	86	114	369
<b>Gross revenue requirement</b>	<b>6,634</b>	<b>1,528</b>	<b>1,625</b>	<b>1,774</b>	<b>1,716</b>	<b>1,633</b>	<b>8,276</b>
Other single till income	(564)	(108)	(109)	(108)	(108)	(110)	(542)
FNPO recharge	0	(278)	(297)	(318)	(311)	(297)	(1,499)
<b>Net revenue requirement</b>	<b>6,070</b>	<b>1,142</b>	<b>1,220</b>	<b>1,349</b>	<b>1,297</b>	<b>1,227</b>	<b>6,235</b>
<u>Recovered through</u>							
Variable charges	(1,134)	(257)	(256)	(263)	(256)	(258)	(1,290)
Fixed charges / Network Grant	(6,386)	(886)	(964)	(1,086)	(1,042)	(969)	(4,946)
<b>Total SOFA related income</b>	<b>(7,520)</b>	<b>(1,143)</b>	<b>(1,220)</b>	<b>(1,349)</b>	<b>(1,297)</b>	<b>(1,227)</b>	<b>(6,236)</b>

<sup>4</sup> In the CP5 total column, all of the numbers represent actual income and expenditure (including a forecast for the rest of the control period). This means that in the CP5 total column, the fixed charges/network grant number includes income for expenditure that in CP6 is outside of the SoFA and not included in this table (British Transport Police costs, financing costs and corporation tax). For CP6, Network Rail has calculated: the gross revenue requirement to be equal to its proposed expenditure; the net revenue requirement to be equal to the gross revenue requirement less other single till income; and the fixed charges/network grant line to be equal to the net revenue requirement less variable charges. Also, some total values are affected by rounding applied to constituent values.

**Table 2a: LNW's proposed support costs for CP6**

£m (2017-18 prices)	CP5 total	CP6					Total
		2019-20	2020-21	2021-22	2022-23	2023-24	
Route support costs	(2)	12	12	12	12	12	60
Central support costs	456	112	113	114	118	115	573
<b>Total support costs</b>	<b>454</b>	<b>124</b>	<b>125</b>	<b>126</b>	<b>130</b>	<b>127</b>	<b>633</b>

**Table 2b: LNW's proposed operations costs for CP6**

£m (2017-18 prices)	CP5 total	CP6					Total
		2019-20	2020-21	2021-22	2022-23	2023-24	
Route operations costs	663	166	167	168	168	168	837
Central operations costs	(9)	2	2	2	2	3	11
<b>Total operations costs</b>	<b>654</b>	<b>168</b>	<b>169</b>	<b>170</b>	<b>170</b>	<b>171</b>	<b>849</b>

**Table 2c: LNW's proposed maintenance costs for CP6**

£m (2017-18 prices)	CP5 total	CP6					Total
		2019-20	2020-21	2021-22	2022-23	2023-24	
Route maintenance costs	1,646	377	374	373	370	367	1,862
Central maintenance costs	18	5	12	4	4	5	31
<b>Total maintenance costs</b>	<b>1,664</b>	<b>382</b>	<b>387</b>	<b>377</b>	<b>374</b>	<b>373</b>	<b>1,893</b>

**Table 2d: LNW's proposed renewals costs for CP6**

£m (2017-18 prices)	CP5 total	CP6					Total
		2019-20	2020-21	2021-22	2022-23	2023-24	
Route renewals costs	2,410	420	481	593	557	474	2,525
Central renewals costs	508	141	158	156	122	98	675
<b>Total renewals costs</b>	<b>2,918</b>	<b>561</b>	<b>638</b>	<b>749</b>	<b>680</b>	<b>572</b>	<b>3,200</b>

## Our approach to assessing the plan

- Our assessment of the RSP involved a mix of scrutiny at a route-level and of individual activity types.

13. We reviewed the proposed costs in the plan, along with the asset management, health and safety, scorecards and performance, and stakeholder engagement aspects. In particular, we carried out:
  - three ‘main’ meetings with the route overall, including with the route managing director. This included the route presenting its plan in December 2017. These built on our engagement with the route prior to the SBP submission;
  - several ‘deep dive’ meetings, including on: track; earthworks; signalling; level crossings; operational property; and off track (vegetation, fencing, etc.). These allowed the ORR teams to meet with the specialists in each relevant area. Our targeting of deep dive meetings was risk based. Where did not hold deep dive meetings on particular assets/areas with the route, the deep dive meetings that we held with other routes on these helped to inform our assessment<sup>5</sup>. As well as deep dive meetings, we also held an analytical meeting on performance with the route. We also put questions to it via correspondence; and
  - a cross-route deliverability assessment.
14. We also considered as part of our review the comments we received from stakeholders. This included responses to our invitation to stakeholders to provide their high-level and material points on the SBPs to inform our review.
15. In addition:
  - our consultants Gleeds met with the route to discuss its approach to cost planning (i.e. the process to understand the cost of delivering each item of work). Understanding what drives cost is important to the effective scoping of work and selection of the preferred option or technical solution, and as such has a direct effect on efficiency; and
  - together with Network Rail, we commissioned Nichols, an independent reporter, to provide assurance to us on the reasonableness of the efficiency plans of each of the geographic routes. As part of this, Nichols met with all the geographical routes, including Wales.
16. We also discussed, with Gleeds and Nichols together, the conclusions of both of their studies. This was so that we could draw out any common issues, check that the boundary between their reviews was clear and decide how we could incorporate their work into our draft determination. We also considered whether there was any cross-over between these two workstreams and the study we commissioned by our consultants CEPA on Network Rail’s financial risk assessment and management.

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<sup>5</sup> This was also supplemented by information gained from other aspects of our review. For example, our discussions with Network Rail’s Safety, Technical & Engineering (STE) directorate’s technical specialists for each asset type, consideration of Network Rail’s STE’s assurance review of all the routes, and responses from the ‘main’ route SBP meetings.

## Our draft determination

17. As set out in our PR18 draft determination overview, we found the route plans to be an important step forward. The evidence from our work – informed by conclusions from our consultants – was that the RSPs were broadly fit for purpose, and the process followed to prepare them was an improvement on PR13. Further, we welcome the ownership that the routes have demonstrated of these plans. However, we have identified a number of significant adjustments – including to efficiency – that should be made and which provide sufficient funding to allocate at least a further £1bn to improving asset condition across England & Wales.
18. Reflecting this, we are not requiring detailed top down changes to be made to the LNW RSP as part of our draft determination. Instead, we have agreed with Network Rail a process for the routes to make targeted adjustments to all of the route plans.
19. Deliverability is also an important issue as overall activity levels peak in years three and four of the control period, especially in signalling. Network Rail has not yet provided sufficient assurance that its proposed profile of work is deliverable and that it would be the most efficient way of delivering the work, after taking account of the supply chain.
20. These issues will likely have implications for the LNW route, and below we highlight these links and include references to where they are discussed in more detail.
  - **Asset sustainability:** the LNW route set out plans that would result in an overall fall in asset condition over CP6. This reflects a broader trend across England & Wales, and we have asked Network Rail to add around £1bn of additional work to improve asset condition within CP6, and to set out proposals for how this should be allocated across the routes. More information is available in our [draft determination overview document](#).
  - **Safety expenditure:** from our review of route plans, we considered that in a number of areas Network Rail would need to do more work to meet the required legal safety standards in CP6. This was particularly the case in respect of user-worked level crossings and driver/worker safety in depots, where we have allocated additional funding. As part of the additional work that Network Rail will consider in respect of improving asset condition (discussed above), we have also asked it to consider prioritising certain assets (including earthworks) where this is needed to control precursors to catastrophic failure.

In LNW, we had specific concerns that investment set aside for level crossings (c.£58m) was based on limited renewals activity, routine maintenance and inspection only, with safety risk reduction schemes/initiatives included in Appendix D investment options. We have proposed that an additional £25m should be spent on reducing risk at level crossings in LNW based on certain



investment options identified in LNW's RSP which may be necessary to meet legal requirements. We have included this amount in our funding assumptions. More information on our overall health & safety review is available in our related [supplementary document](#).

- **Efficiency:** we did not consider that Network Rail had provided sufficient justification for its overall efficiency challenge, and have asked the company to identify a further £586m of savings in England & Wales, to be found across the company, including within the LNW route. More information on this (and on deliverability) is available in our supplementary document on our review of Network Rail's proposed costs.
- **Performance:** At this stage, only Merseyrail has agreed forecast CP6 performance trajectories with the LNW route. As with other routes in England & Wales, we are providing an additional opportunity for LNW and the passenger operators that use its route to agree suitable targets for delivery across CP6. During CP6, the route and train operators may agree changes to these targets to reflect changes in circumstances. More information is available in our supplementary document on [scorecards and requirements](#).

## Route stakeholder engagement

21. As part of our SBP review, we have assessed how well Network Rail's routes and the System Operator (SO) engaged with their stakeholders to inform their strategic plans. We wanted the routes/SO to engage with their stakeholders to help them to understand and meet their stakeholders' requirements, and to allow them to use operators' railway expertise and understanding of operations, access and costs to make their plans more efficient, realistic and credible.
22. We have assessed the LNW route's approach with respect to three areas (scope and methods of engagement; recording and analysis of priorities; and trade-offs and line of sight)<sup>6</sup>. Our findings with respect to each of these three areas are discussed below.

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<sup>6</sup> We have summarised our assessment of the route's engagement using the following terminology:

**Effective:** The engagement is effective in supporting delivery of our overall PR18 aims and, specifically, that it enables stakeholders to influence priorities and challenge performance (where necessary). The engagement should also be proportionate to what it is seeking to achieve (so that money on engagement is well spent);

**Inclusive:** The overall engagement should seek to involve all relevant stakeholders (without undue discrimination) and should adopt different approaches to reflect differing stakeholder capabilities and interests;

**Well governed:** There should be processes that encourage meaningful engagement and accountability, as well as providing mechanisms for challenge and escalation; and

**Transparent:** On **performance:** There should be provision of appropriate and relevant information and data to enable stakeholders to influence and challenge in an effective and timely way. On **engagement:** It should be clear how engagement arrangements have been implemented and what impacts they have had

## Scope and methods of engagement: Which stakeholders did the route engage with and how well did it do so?

23. The LNW route engaged with a range of stakeholders including a large number of suppliers. The route's engagement was **inclusive**.
24. The LNW route began its engagement on its plans for CP6 in October 2015. It organised five stakeholder workshops and an additional workshop for suppliers (although the latter did not take place until January 2018, which may have limited the extent to which suppliers' views could have been reflected in the plan).
25. The LNW route sought to tailor its engagement approach to its different stakeholders. Two stakeholder workshops were aimed at operators, while the other three targeted local authorities and local enterprise partnerships. Passenger transport executives, funders, RDG and Transport Focus attended both sets of workshops.
26. The LNW route also discussed CP6 planning with its stakeholders at existing groups such as Route Investment Review Group (RIRG) meetings (including a special session purely on CP6 renewals proposals for track and signalling), other regular meetings and a number of specific bilateral meetings. The route also attended the FNPO route's stakeholder workshops.
27. Stagecoach Group (on behalf of Virgin West Coast) has expressed reservations on the effectiveness of the LNW route's engagement and said that engagement in advance of CP5 was better. In response, the route has said that it held many meetings with Virgin Trains and gave it opportunities to provide formal feedback, which were not taken up. The route also listed eight ways in which stakeholder feedback led to changes in its RSP.
28. Other stakeholders took a more positive view of the LNW route's engagement, with CrossCountry describing the workshops as 'best practice'. However, Chiltern said that the route's workshop took place too early in the planning process. With respect to this, it is worth noting that both stakeholder workshops aimed at operators took place in February 2017, with those targeted at local authorities and local enterprise partnerships taking place later in the year.
29. A re-franchise process took place in parallel to the development of the LNW RSP (whereby the West Midlands Franchise was awarded to West Midlands Trains in August 2017, replacing the incumbent franchisee in December 2017). Abellio (representing West Midlands Trains) said it was surprised that the route had not made any effort to engage with it in advance of taking over the franchise. However,

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on Network Rail's actions and delivery. For example, there should be a record of key points made by different stakeholders and how they have been acted on (or, if not, why not).

the route has said that it continued to engage with the incumbent franchisee until December 2017, and that many of the individuals it engaged with continue to work for the new franchisee. It has also said that Abellio attended its February 2017 workshop in London.

### **Recording and analysis of priorities: How well has the route recorded, analysed and reflected on its stakeholders' priorities?**

30. The LNW RSP lists 16 'prioritised needs', but does not explain the rationale or methodology for identifying them.
31. The LNW RSP stated the extent to which each 'prioritised need' could be addressed, although in some cases, the RSP could have been more specific about exactly what it is committing to do.
32. An appendix to the LNW RSP listed 25 themes of the stakeholder feedback received from the workshops, although there was no commentary on how this list was consolidated into the list of priorities in the main body of the RSP.
33. The supporting information supplied with the LNW RSP included logs of issues raised by stakeholders, stating the owner of each issue within the route and, for some of the issues, the route's response.
34. The LNW route included a specific section on passenger priorities in its RSP. This referred to two Transport Focus reports, but the engagement with the findings and explanation of how they have influenced the RSP was limited.
35. The LNW route showed good **transparency** in how it recorded stakeholder comments, although it could have been clearer about the process it followed to prioritise them.

### **Trade-offs and line-of-sight: Has the route demonstrated a robust process for deciding between competing stakeholder priorities? Has it demonstrated a line-of-sight between stakeholder priorities and the actions it has committed to in its RSP?**

36. The stakeholder engagement section of the LNW RSP did not clearly discuss how the route traded-off competing priorities for CP6. Appendix D of the RSP listed a number of additional investment options that the route could have pursued in the event that it had more funding, and stated that some of these were based on stakeholder feedback. However, the RSP did not explain why some stakeholder needs were addressed in the core plan and why some were reserved as options in case more funding was available.
37. The LNW route did seek to demonstrate in its RSP a line-of-sight between stakeholder priorities and actions: for each stakeholder issue listed in Appendix G of the RSP, the RSP gave a reference to where in the RSP the subject matter of the issue was dealt with.

38. The LNW RSP went some way towards demonstrating that the route's engagement was **effective**.

### **Next steps**

39. Each of Network Rail's England & Wales routes will now undertake a targeted update of their route business plans. We expect this update to build on the existing stakeholder engagement, by ensuring that operators have an opportunity to comment on the proposed updates to the plan.
40. We will then review the updates to the LNW RSP, alongside the evidence of meaningful stakeholder engagement, when reaching our final determination. At this point, we will set out more detail on what this means for the LNW route.



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