

# CP6 route strategic plan review summary

## South East route

### Purpose

This document provides a summary of the key proposals in the South East 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 South East in CP6.

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### Summary of key proposals by the route

1. In its route strategic plan (RSP), the South East route outlined the following:
  - Actions that address asset sustainability decline, however these interventions will not halt the decline in asset sustainability merely slow the rate
  - £14m of vegetation clearance activities to improve train performance and reduce safety risk
  - Move to preventative maintenance to prevent asset failures and provide additional response teams
  - Stakeholder priorities for the route and interventions linked to these priorities and a plan for increasing third party contributions to enhancements by 150%
2. The route also set out its plans for improving efficiency, which included:
  - Improving engineering access and safety by installing Negative Short-Circuiting Devices (NSCDs) to 60% of the route
  - Improved commercial arrangements with its delivery partners, in particular IP Track and IP Southern, and better Supply Chain Management
3. The route included a number of 'Vision' schemes above the level of funding allocated to them by Network Rail's central cost allocation process. These schemes deliver asset sustainability and performance benefits over and above that provided by their core plan.

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

4. The RSP covers the remaining impact from the Thameslink Programme which will be coming to a close in the early part of CP6. It does not contain any other committed enhancements for CP6. 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.
5. The route's RSP (available [here](#)) sets out more fully what the route proposed to deliver in CP6, including its full route scorecard. A summary of the key measures is set out in Table 1 below. Table 2 sets out its expenditure and income forecasts.

**Table 1: Summary of what the route proposed to deliver in CP6**

6. 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.
7. 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>.
8. 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.
9. 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)	0.457	0.385	0.313	0.242	0.170
	Train accident risk reduction measures	80%	80%	80%	80%	80%

<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
	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>3.03</b>	<b>3.04</b>	<b>3.00</b>	<b>2.90</b>	<b>2.79</b>
	<b>Freight delivery metric – route (FDM-R)</b>	<b>91.0%</b>	<b>91.0%</b>	<b>91.0%</b>	<b>91.0%</b>	<b>91.0%</b>
Asset management	<b>Composite sustainability index (CSI)</b>	-	-	-	-	<b>-4.3%</b>
	Reduction in service affecting failures (SAF)	1.0%	0.0%	0.0%	0.0%	0.0%
	Composite Reliability Index (CRI)	1%	1%	1%	1%	1%
	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	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m
	Financial performance measure (FPM) – gross enhancements only	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m
	Cash compliance – income and expenditure	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m

**Table 2: Summary of route'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	203	71	72	70	54	69	335
Operations	541	135	134	130	130	127	656
Maintenance	846	208	208	204	202	202	1,024
Renewals	1,975	451	562	515	440	408	2,376
Schedule 4&8	426	51	56	58	50	43	257
Traction electricity, industry costs and rates	543	134	140	140	150	150	713
System Operator	24	9	9	11	10	9	47
Route controlled risk funding	0	22	22	22	22	22	109
Route contribution to group portfolio fund	0	27	38	68	68	90	290
<b>Gross revenue requirement</b>	<b>4,559</b>	<b>1,107</b>	<b>1,241</b>	<b>1,217</b>	<b>1,125</b>	<b>1,118</b>	<b>5,808</b>
Other single till income	(662)	(107)	(109)	(102)	(105)	(107)	(530)
FNPO recharge	0	(42)	(47)	(47)	(45)	(47)	(229)
<b>Net revenue requirement</b>	<b>3,897</b>	<b>957</b>	<b>1,085</b>	<b>1,067</b>	<b>975</b>	<b>965</b>	<b>5,049</b>
<u>Recovered through</u>							
Variable charges	(840)	(216)	(228)	(230)	(223)	(217)	(1,115)
Fixed charges / Network Grant	(3,104)	(741)	(857)	(837)	(752)	(747)	(3,935)
<b>Total SOFA related income</b>	<b>(3,944)</b>	<b>(957)</b>	<b>(1,085)</b>	<b>(1,067)</b>	<b>(975)</b>	<b>(965)</b>	<b>(5,050)</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: Route'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	27	13	13	13	13	13	64
Central support costs	176	58	59	57	42	56	271
<b>Total support costs</b>	<b>203</b>	<b>71</b>	<b>72</b>	<b>70</b>	<b>54</b>	<b>69</b>	<b>335</b>

**Table 2b: Route'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	524	135	133	130	129	127	654
Central operations costs	17	1	1	1	0	1	3
<b>Total operations costs</b>	<b>541</b>	<b>135</b>	<b>134</b>	<b>130</b>	<b>130</b>	<b>127</b>	<b>656</b>

**Table 2c: Route'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	833	207	204	203	201	201	1,015
Central maintenance costs	13	1	4	1	1	1	8
<b>Total maintenance costs</b>	<b>846</b>	<b>208</b>	<b>208</b>	<b>204</b>	<b>202</b>	<b>202</b>	<b>1,024</b>

**Table 2d: Route'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	1,582	348	436	392	331	289	1,796
Central renewals costs	393	103	126	124	109	118	579
<b>Total renewals costs</b>	<b>1,975</b>	<b>451</b>	<b>562</b>	<b>515</b>	<b>440</b>	<b>408</b>	<b>2,376</b>

## Our approach to assessing the plan

10. Our assessment of the RSP involved a mix of scrutiny at a route-level and of individual activity types.
11. 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: performance trajectories; track; earthworks; signalling; operational property; Electrification & Plant and structures. 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>. We also put questions to the route via correspondence; and
  - a cross-route deliverability assessment.
12. 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.
13. 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 South East.
14. 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.

## Our draft determination

15. 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

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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.

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.

16. Reflecting this, we are not requiring detailed top down changes to be made to the England & Wales routes 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.
17. 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.
18. These issues will likely have implications for the South East route, and below we highlight these links and include references to where they are discussed in more detail.
  - **Asset sustainability:** the South East 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:** we considered that in a number of areas more work would be needed 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. More information is available in our supplementary document on [health & safety](#).
  - **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 South East route. More information on this (and deliverability) is available in our supplementary document on our [review of Network Rail's proposed costs](#).

- **Performance:** across England & Wales, we are providing an additional opportunity for routes and passenger operators to agree suitable performance targets for delivery across CP6. More information is available in our supplementary document on [scorecards and requirements](#).

## Route stakeholder engagement

19. 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.
20. We have assessed the South East 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.

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

21. The South East route used a variety of methods to engage a wide range of stakeholders, and sought to tailor its engagement to the needs of different stakeholders. For example, it held two workshops in February 2017 focused on different parts of the route, and followed this with a 'drop-in session' open to all key stakeholders. Other means of engagement included a written questionnaire, presentations at Route Investment Review Group (RIRG) meetings and regular and ad hoc bilateral meetings.

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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 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).



22. Several stakeholders, including operators and local authorities, praised the quality of the South East route's workshops. Southeastern reported that the route consulted it on a workshop agenda; this may have helped the route to ensure that the workshop met its stakeholders' needs.
23. The South East route adopted a stakeholder management plan, establishing accountability for different aspects of engagement and discussing its activities in some detail, although this was not issued until May 2017.
24. The South East route's engagement was **well governed** and **inclusive**.

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

25. The South East RSP set out 'key themes' and stakeholder requirements in a number of places, but the relationship between them, and the process that the route employed to highlight these requirements over others, is unclear. However, the route did a good job of explaining what it planned to do to address some of these requirements.
26. For example, the supporting information provided with the South East RSP included a requirements and responses log setting out in detail the requirements expressed by their stakeholders and the route's responses to them.
27. Stakeholders have reported that the South East route did a good job of recording and reflecting on their priorities, even where they were not happy with the contents of the final strategic plan.
28. The South East route also sought to secure passengers' input to the plan. It worked with Transport Focus to carry out research on passengers' views on asset sustainability, saying that this was the only area in which passengers' views remained unclear following the workshops.
29. The South East route demonstrated good **transparency** in its engagement, particularly in its detailed requirements and responses log. However, it could have been clearer about how it analysed these recorded requirements as a whole to arrive at its view of which were priorities.

### **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?**

30. The South East RSP was upfront about the fact that the route could not meet all stakeholder requirements with the funding available. For some stakeholder requirements, it explained how the route would address them in its constrained base plan and how it would address them under a 'vision scheme' (where more funding

was available to it). However, the plan was not sufficiently clear about which stakeholder needs the route was unable to meet.

31. The South East route could have done more to demonstrate a line-of-sight between its stakeholder priorities and the actions that it has committed to in CP6.
32. The South East route could also have done more to demonstrate that its engagement was **effective**, by showing more clearly how the stakeholder needs it identified influenced its plan, although the identification of a constrained base plan and vision schemes went some way towards this.

## Next steps

33. 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.
34. We will then review the updates to the South East 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 South East route.



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