CP6 route strategic plan review summary

Wales route

Purpose

This document provides a summary of the key proposals in the Wales route strategic plan for control period 6 (CP6)[1] 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 Wales route in CP6.

Summary of key proposals by the route

1.   In its route strategic plan (RSP), the Wales route outlined the following priorities for CP6:

     ■   increasing efficiency, resilience and reliability including resignalling at Port Talbot and moving to a "predict and prevent" approach for asset management;

     ■   protecting environment and heritage including renewing the timber viaduct at Barmouth and implementing an ISO 14001 style environmental management system;

     ■   developing people and culture to enhance the skills of the workforce in the route and increase diversity to better reflect the communities served; and

     ■   collaborating and building stronger relationships with stakeholders including capturing third party funding for enhancements.

2.   The route also set out its approach for improving efficiency, which included:

     ■   greater use of local contractors – building on recent successful experience with this approach – which it sees as having potential to deliver cost savings and also safety benefits (e.g. with contractors spending less time travelling long distances); and

     ■   making better use of possessions (when the route restricts operators' access to the track to allow for engineering work), by combining different project work more effectively, including by making use of a geographical planning tool.

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[1] CP6 will run from 1 April 2019 to 31 March 2024.

3. There are special circumstances affecting the Wales route where the current franchise competition for Wales & Borders was underway. This has led to less certainty on what the route and operators might deliver in CP6. The route's approach has been to base metrics and trajectories on engagement with both Transport for Wales (TfW) and Arriva Trains Wales, accepting that there will be a need to review these once the franchise has been agreed.

4. The new franchise will be managed by TfW who are expecting to see a step change in the train services provided, particularly in the Cardiff Valleys. Part of the proposal is to transfer ownership of the Core Valley Lines (CVL) from Network Rail to TfW. As this had not been finalised when the RSP was being prepared, the RSP assumed no transfer of ownership.

5. The RSP does not contain any 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.

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[2].

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.

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[2] 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.

Table 1: Route consistent measures on the route's scorecard[3]

Area	Metric	CP6 2019-20	2020-21	2021-22	2022-23	2023-24
Safety	Lost time injury frequency rate (LTIFR)	0.350	0.326	0.303	0.233	0.170
	Train accident risk reduction measures	80%	80%	80%	80%	80%
	Top 10 milestones to reduce level crossing risk	10	10	10	10	10
	Railway management maturity model (RM3)	This measure remains in development by Network Rail				
Train performance	**Consistent route measure – passenger performance (CRM-P)**	**1.54**	**1.54**	**1.54**	**1.53**	**1.52**
	Freight delivery metric – route (FDM-R)	**94.4%**	**94.4%**	**94.4%**	**94.4%**	**94.4%**
Asset management	**Composite sustainability index (CSI)**	-	-	-	-	**-1.5%**
	Reduction in service affecting failures (SAF)	2.0%	1.5%	1.5%	1.9%	1.5%
	Composite Reliability Index (CRI)	1.7%	3.0%	4.3%	5.9%	7.2%
	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	£0	£0	£0	£0
	Financial performance measure (FPM) – gross enhancements only	£0	£0	£0	£0	£0
	Cash compliance – income and expenditure	£0	£0	£0	£0	£0

[3] Definitions of the measures are available here.

Table 2: Summary of route's proposed expenditure and income for CP6

£m (2017-18 prices)	CP5 total	CP6 Total	2019-20	2020-21	2021-22	2022-23	2023-24
Support	90	129	27	26	26	26	25
Operations	159	209	42	42	42	42	41
Maintenance	359	337	69	70	68	67	64
Renewals	839	946	172	204	241	195	134
Schedule 4&8	40	46	8	10	9	12	7
Traction electricity, industry costs and rates	69	74	13	13	14	17	17
System Operator	12	21	4	4	5	4	4
Route controlled risk funding	0	32	6	6	6	6	6
Route contribution to group portfolio fund	0	102	9	14	24	24	31
Gross revenue requirement	**1,568**	**1,897**	**351**	**389**	**434**	**393**	**330**
Other single till income	(32)	(26)	(5)	(5)	(5)	(5)	(5)
FNPO recharge	(0)	(264)	(47)	(54)	(61)	(56)	(46)
Net revenue requirement	**1,537**	**1,606**	**299**	**331**	**368**	**331**	**278**
Recovered through							
Variable charges	(156)	(117)	(22)	(24)	(23)	(26)	(22)
Fixed charges / Network Grant	(1,580)	(1,489)	(277)	(307)	(344)	(305)	(256)
Total SOFA related income	**(1,736)**	**(1,606)**	**(299)**	**(331)**	**(368)**	**(331)**	**(278)**

Table 3: Route support costs

£m (2017-18 prices)	CP5 total	CP6					
		Total	2019-20	2020-21	2021-22	2022-23	2023-24
Route support costs	6	4	1	1	1	1	0
Central support costs	84	125	25	25	25	25	24
Total support costs	**90**	**129**	**27**	**26**	**26**	**26**	**25**

Table 4: Route operations costs

£m (2017-18 prices)	CP5 total	CP6					
		Total	2019-20	2020-21	2021-22	2022-23	2023-24
Route operations costs	160	207	42	42	41	41	41
Central operations costs	(1)	2	0	0	0	0	0
Total operations costs	**159**	**209**	**42**	**42**	**42**	**42**	**41**

Table 5: Route maintenance costs

£m (2017-18 prices)	CP5 total	CP6					
		Total	2019-20	2020-21	2021-22	2022-23	2023-24
Route maintenance costs	354	332	68	68	67	66	63
Central maintenance costs	5	5	1	2	1	1	1
Total maintenance costs	**359**	**337**	**69**	**70**	**68**	**67**	**64**

Table 6: Route renewals costs

£m (2017-18 prices)	CP5 total	CP6					
		Total	2019-20	2020-21	2021-22	2022-23	2023-24
Route renewals costs	729	798	142	172	201	170	113
Central renewals costs	109	149	30	32	40	25	21
Total renewals costs	**839**	**946**	**172**	**204**	**241**	**195**	**134**

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; 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 we 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[4]. 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.

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[4] 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.

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 Wales.

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 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 any of the England & Wales RSPs 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. These issues will likely have implications for the Wales route, and below we highlight these links and include references to where they are discussed in more detail.

- **Asset sustainability**: the Wales 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 PR18 overview.

- **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 £585m of savings in England & Wales, to be found across the company, including within the Wales route. More information is available in our supplementary document on our review of Network Rail's costs.

- **Performance**: across England & Wales, we are providing an additional opportunity for routes and passenger operators to agree suitable targets for delivery across CP6. This includes the Wales route, as it relates to Great Western Railway, CrossCountry, Virgin Trains, West Midlands Railway (nb – as noted, the ATW target has been agreed with TfW, in the expectation that there will be an update once the new franchise is agreed). More information is available in our supplementary document on scorecards and requirements.

Route stakeholder engagement

18. 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.

19. We have assessed the Wales 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)[5]. Our findings with respect to each of these three areas are discussed below.

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[5] 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;

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

20. The competition for the new Wales franchise was ongoing during the route's engagement process. The Wales route recognised that it would need to treat Transport for Wales as the proxy for the principal TOC due to the timing of the franchise award and to help it to capture the priorities of end-users in Wales. It also invited franchise bidders to participate in the engagement process.

21. The Wales route engaged with a range of stakeholders, including local authorities and suppliers. It held a separate suppliers' workshop in April 2017 and followed this up by establishing a Delivery Integration & Efficiency Team formed of the route, IP and the supply chain to work on the outcomes from the workshop.

22. The Wales route held two CP6 workshops to which all stakeholders were invited. The route also adopted targeted methods for engaging with elected representatives and community rail groups, and engaged with TOCs and FOCs using a variety of methods. The route gave its stakeholders a dedicated email address to use for CP6 planning related issues.

23. Stakeholders' views on the effectiveness of the Wales route's workshops were mixed. Transport for Wales said that the format was relaxed and fairly open to input. However, the Welsh Government said that there was limited opportunity for stakeholders to engage in discussion at the first workshop, but that this was better in the second workshop.

24. Stakeholders reported mixed views on the level of information they received during the engagement process. Transport for Wales and Amey reported respectively that this was "somewhat useful" and "very useful", while the Welsh Government said that it had asked for additional information and not received it.

25. The Wales RSP provided a good table listing each stakeholder and stating whether and how they have been engaged and what their level of interest in the process was. The RSP also included a good explanation of the purpose and content of its stakeholder workshops, and the route appears to have engaged according to a plan.

26. The Wales route's engagement seems to have been **inclusive** and generally **well governed**.

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).

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

27. The Wales RSP presented stakeholder needs grouped into ten themes, and it explained the two-stage process the route used to do the grouping. These themes were expressed at a very high-level, which makes it difficult to understand how the more detailed stakeholder priorities have been dealt with.

28. The Wales RSP discussed how the route proposed to address each priority theme, linking them to short- and long-term route objectives and giving each of them a RAG rating for achievability. All themes with a red or amber ratings are accompanied by an explanation of why they had that rating.

29. The supporting information provided alongside the Wales RSP included a record of feedback received at the February 2017 workshop.

30. The Wales RSP was not clear about how the route had informed its view of passengers' priorities and how it reflected on what it plans to do to meet them.

31. The Wales route showed good **transparency** in explaining its process for grouping stakeholder needs into themes, although it could have set these out in more detail.

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?

32. The Wales RSP did not explain in detail how the route traded-off competing stakeholder priorities, and it could have been clearer about which stakeholder needs the route was not able to meet (although the RAG ratings do go some way towards addressing this).

33. The Wales RSP said that expectations for a safe, reliable, affordable and growing railway would form the core of the route's CP6 plan, and that the outputs of the route's stakeholder engagement would be "used to make subtle adjustments to elements of our plans to exceed our customers' expectations".

34. To some extent, the Wales RSP established a line-of-sight by linking prioritised stakeholder needs to the Wales route's short and long-term objectives. However, it could have gone further in linking to this to concrete actions the route will take in CP6.

35. The Wales RSP could have more clearly demonstrated that the route's engagement was **effective** by explaining in more detail how engagement has influenced its plans for CP6.

Next steps

36. 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. We also expect the Wales route to continue to engage with TfW and the Welsh Government as part of this.

37. We will then review the updates to the Wales 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 Wales route.