

# Requirements for Network Rail's January 2013 Strategic Business Plan

**Issued by ORR, 15 March 2012**

## **Introduction**

1.1. The submission of your strategic business plan (SBP) to us on 7 January 2013 is crucial to the 2013 periodic review (PR13) process. It represents your response to the Secretary of State's and Scottish Ministers' HLOSs and your final submission to us before our draft determination in June 2013. We use the term SBP to refer to the plans in total – you should produce separate plans for each route including Scotland and a consolidated plan for England & Wales. Key GB wide data should also be presented.

1.2. We have had some helpful discussions about the content of the SBP and this letter formally records our requirements.

## Role of your SBP in PR13

1.3. You intend to work with the industry to produce a whole industry plan, building on the initial industry plan (IIP), with separate documents for England & Wales and Scotland.

1.4. The IIP was an important step in the planning process and we welcome the continued focus on whole industry planning. We published guidance to the industry on what we saw as the required content of the IIP, but we are not issuing any guidance on the January 2013 industry plan – we are taking the view that the industry planning process is now much better developed and the industry can decide on the best approach.

1.5. However, at this stage in the periodic review process we need to draw a distinction between the status of different documents. An industry plan will be helpful but it does not remove the need for a formal submission from Network Rail to us about your plans. This requirements note is about the contents of that formal submission.

1.6. That said, it should be clear how the industry plan and SBP are linked. Your SBP should show how the company will contribute to an efficient whole industry strategy to deliver the HLOSs, meet the reasonable requirements of its customers, and address the needs of passengers and freight users.

## Summary of requirements

1.7. We expect your plan to be well evidenced and robust. Specifically we expect your SBP to:

- Clearly describe the **outputs** you will deliver in CP5. You will need to explain how these meet customer reasonable requirements and link to the wider **outcomes** you expect them to achieve;
- Clearly set out the **expenditure levels and overall revenue** you believe you need to deliver these outputs;
- Identify the **key enablers**, such as improvements in asset management processes, which your plan relies on to deliver the CP5 settlement and improvements beyond;
- Highlight how you intend to **reduce costs and improve efficiency** in CP5, while improving safety;
- Set out your **evidence base and assumptions** including benchmarking studies and the quantified models you have used;
- Where you have had to make a trade-off between outputs or a policy choice, set out what **options** you have considered and how you reached your decisions;

- Contain **route level** plans, with a consolidated England & Wales plan and with key data presented at a GB level;
- Contain a clear statement, with explanations, of your **CP4 'exit' assumptions** for outputs, enablers and financial data;
- Make clear what assumptions you have made on **wider industry reform** e.g. on alliances with operators and infrastructure concessions;
- Explain and quantify your approach to **risk**;
- Set out and justify your approach to **safety**; and
- Focus on CP5 but in the context of a separate longer term **strategic direction statement** for Network Rail.

1.8. There are some further requirements arising from the Railways Act 1993 which we have grouped under the headings of the 'matching process' and 'adverse effects'. We have also included specific requirements relating to a deliverability assessment.

1.9. Much of the information you provide will need to be quantified. The agreed structure of the forecasting models such as the infrastructure cost model (ICM) sets out the required structure of this quantitative data. However we have also agreed the format of further detailed data tables with you.

1.10. We need to be **assured that you are making good progress** in delivering a high quality SBP. We have agreed a set of milestones with you which we will use to monitor progress, and this is included at Annex 1. If we are not satisfied with your progress at any milestone we may require you to do further work or commission our own analysis.

1.11. As far as possible we expect you to **publish** all the analysis and data supporting your SBP. This is an important part of our wider drive to improve transparency in the industry. You should discuss with us in advance and justify any areas where you believe it would not be appropriate to publish information.

1.12. The detailed content of your SBP must obviously reflect the HLOSs which will be published in July 2012. We are providing you with our requirements for the SBP now to give you time to plan, but we intend to set our further requirements to you in August 2012 following the publication of the HLOSs.

1.13. The following sections describe our requirements in more detail, following the structure of paragraphs 1.7 and 1.8 above. Your SBP should contain a table linking each requirement of this note with the section of the SBP where you have addressed the requirement, so we can quickly establish how comprehensive your submission is.

## Detailed requirements

### Outputs

1.14. At this stage we do not know what outputs the HLOSs will specify. The DfT has indicated that it is likely to continue to specify a PPM requirement. It will specify a set of enhancement schemes many of which are already committed and is likely to specify capacity metrics as it did in the 2007 HLOS. The Scottish Government Infrastructure Investment Plan 2011 sets out plans for rail infrastructure investment over the next 10 to 20 years, including the major projects of EGIP, Borders, Aberdeen-Inverness, Highland main line, Aberdeen to central belt improvements and wider electrification of the network. The SBP will need to include forecasts of required outputs supported by an analysis of how they will be delivered. Whatever the precise specifications you need to be clear what Network Rail will do in order to deliver the HLOSs and what you are assuming others (e.g. train operators, funders) will do to deliver those outputs.

1.15. You should also set out how you are meeting any reasonable requirements of your customers which go beyond HLOS requirements for which you can secure funding.

1.16. We expect you to demonstrate how the outputs link to outcomes for rail users and the wider economy and environment, where it will be important to distinguish Network Rail's contribution from the wider industry one. The best way of demonstrating this is likely to vary depending on the outcome; we want to agree these with you shortly. In our incentives consultation we suggested that the following outcomes are relevant: passenger satisfaction, freight customer satisfaction, economic growth, connectivity (for example, inter urban journey times) and environmental sustainability.

1.17. You will need to set out how you will monitor and manage delivery – specifically you will need to forecast monitoring KPIs (such as asset condition measures). You will need to set out how you plan to develop the current asset management and safety enablers. Enablers and monitoring KPIs are described from paragraph 1.47 below.

1.18. You should explain how you sought input from train operators, passengers, freight customers, suppliers and other stakeholders in the development of your plan, what input you received, and how you have taken it into account.

### Expenditure levels and revenue requirements

#### *Support costs*

1.19. This area of costs was poorly justified in your PR08 plans. We are therefore reflecting this in our requirements. You must forecast and justify each component of your industry support costs and rates.

1.20. For your own support costs, we will require a fully supported plan that identifies information on income and costs by both income or cost type (e.g. pensions) and

activity, e.g. NDS. In particular, the methodology for allocating costs to Scotland in CP5 onwards should be clearly and robustly justified, explained and compared to CP4.

1.21. Therefore you will need to:

- justify what support work is needed and why, the outputs of that work and the efficient income and costs (and why they are efficient e.g. by citing external comparators) required to do that work to an appropriate standard.
- identify the key activities and the income and costs of those activities. In particular, you will need to identify the income and costs of activities that can either be compared to an external organisation, e.g. finance, or for which you can carry out a bottom-up type assessment, e.g. insurance.
- identify the drivers of support costs and show whether the plan provides value for money and is consistent with minimising whole life/industry costs.
- reconcile the costs transferred out of opex to maintenance and the capitalised opex included in renewals and enhancements.
- identify any possible trade-offs between outputs and support costs.
- identify how the assumptions on costs like maintenance, renewals and enhancements are consistent with the operating cost assumptions, e.g. pension costs and show there are no double-counts or omissions.
- identify the main risks and opportunities that could affect the other operating cost forecasts and how Network Rail intends to manage those risks and exploit the opportunities.
- identify the efficiency and income generating initiatives that have been actioned since the PR08 SBP. Where possible you should quantify the savings and identify the effect on each category of expenditure, i.e. opex and renewals etc. Network Rail should also identify the cost of the initiative and what type of cost it was, e.g. opex or renewals etc.

### *Operations*

1.22. We are currently discussing your planned operating strategy and your SBP will need to update the business case for this strategy. You are planning a network-wide strategy, but in your plans you need to justify your approach in both England and Wales and in Scotland. You will need to provide evidence that the costs of your strategy are efficient.

### *Maintenance and renewals*

1.23. There are a number of areas where your work to date has caused us concerns, and you need to address these.

1.24. Network Rail, ourselves and the reporter, AMCL, have developed an agreed trajectory for Network Rail to reach best practice in asset management during CP4. AMCL has recently assessed your asset management capability as at July 2011 and this raised concerns over progress, most notably over maintenance planning. AMCL is updating its evaluation to reflect your capability in September 2011 to compare to the agreed trajectory for IIP. Network Rail must make sure that it has plans in place to deliver the agreed trajectory for the SBP and that it delivers its plans.

1.25. In September 2011 you submitted draft asset policies in support of your contribution to the IIP. While these are an improvement on previous versions significant issues remain and must be resolved for the SBP. We have set out previously our criteria for assessing asset policy on the basis of robustness, sustainability and minimum whole lifecycle (and whole industry) cost. Your draft asset policies for IIP are of varying quality but none passes all three tests. We will apply the same tests to your asset policies presented in support of your SBP.

1.26. No asset policy has been fully justified through minimum whole lifecycle cost analysis. You are in the process of developing your whole lifecycle cost models. Before submission of SBP you must demonstrate that these are sufficiently developed to inform the optimisation of policy, and have been used to do so.

1.27. You have not yet adequately demonstrated the link between asset policy and network outputs, and with changing output requirements (for instance owing to change in climate or of usage requirements). We expect you to demonstrate a much stronger understanding of this link at SBP. You should consider the link between asset policies and KPIs / outputs at an asset category level and across asset categories.

1.28. Your draft asset policies for IIP do not yet fully address the management of risk. For example, there is little consideration of risk across asset categories. There is also still insufficient recognition of the potential to realise efficiencies through a more risk based approach to maintenance and inspection activities. Your SBP must consider these areas in further detail.

1.29. In some areas the asset information upon which your plans are based needs improvement. In particular, we require you to further demonstrate your understanding of asset degradation. We also expect you to demonstrate that you have adequately addressed the relevant asset condition information recommendations that our reporters have made in the appropriate timescales.

1.30. You have developed and presented the detail of your IIP plans through your Infrastructure Cost Model. In some areas the modelling appears well developed but in others we expect much further development by SBP. Your modelling of civil structures is currently unsatisfactory. It does not reflect policy and introduces a large uncertainty into your planning. For some assets, for example electrical power and signalling assets, your plans are built on workbanks that have been developed outside of the models submitted. Further work is required to demonstrate that these workbanks have been developed in line with policy.

1.31. In your SBP you should demonstrate that your modelling of future activities and expenditure is consistent (as far as could be reasonably expected) with bottom-up workbooks. You must demonstrate that these workbooks reflect consistent application of your asset policies.

1.32. In developing your plans for IIP you have forecast the efficiencies that you believe are available during CP5. In your SBP you should clearly set out how your forecast efficiencies have been developed. This should include a clear demonstration of the underlying evidence and the assumptions you have made. We expect you to demonstrate further progress in your international benchmarking of costs and asset management practice, in line with the recommendations made by the independent reporter. This work should be complemented by comprehensive internal benchmarking of costs and practice.

1.33. There is also significant work required to further develop and justify your plans on an operating route basis. In your SBP we expect you to clearly identify costs, volumes, unit costs, outputs and efficiencies by operating route.

#### *Enhancements*

1.34. We have been discussing your project development work which has been funded by the CP5 development fund. We expect this to provide a good basis for part of the SBP submissions. We have also been discussing your cost analysis and we are not convinced that you are making fast enough progress, specifically in being able adequately to justify project cost elements (e.g. project management costs or risk provision) through modelling or benchmarking.

1.35. The SBP must cover the portfolio of enhancements in a way which:

- sets out the planned outputs and costs, demonstrating how HLOS requirements will be delivered at an efficient cost.

1.36. You should provide supporting information on individual schemes consistent with their stage in GRIP and make sure it:

- shows costs disaggregated by: development costs, construction costs, management costs, risk allowance for quantified risks, contingency allowance for unidentified risk, efficiency overlay, and other costs such as Schedule 4 or Schedule 8 costs, land purchase or legal fees;
- includes the latest version of the project business case (including whole-life costed options, scope, outputs, risk allocation, and benefit cost analysis) and the latest end of GRIP stage reports;
- clearly distinguishes between forecast CP4 and CP5 costs, particularly for committed schemes;
- is complete, taking account of all relevant stakeholder input;
- is consistent between types of schemes and across routes;

- is clear on rolling stock and depot assumptions;
- takes account of interactions between schemes and with asset renewals; and
- is clear on its process and programme to develop schemes through the GRIP process.

1.37. In addition to scheme level cost information the SBP should show aggregated portfolio costs, with portfolio efficiencies clearly quantified and supported.

1.38. The SBP should demonstrate that Network Rail has selected the most cost-effective combination of projects that deliver the HLOS outputs, for example taking into account different combinations of infrastructure, rolling stock and timetabling solutions.

1.39. Wherever possible, cost elements should be substantiated either by benchmarks from the internal enhancement cost database or benchmarks from international comparisons and other (rail and non-railway) industry comparisons.

1.40. Work by the reporter in 2010 concluded that Network Rail has a process in place to capture and use cost data but this was at an early stage and further work was needed to make sure it could be used in PR13. Last year we instructed the same reporters to revisit this and check progress. They concluded that you will be able to use this database for some of the proposed schemes but coverage is not sufficient for cost estimates for all proposed schemes. We have therefore brought forward the next audit, originally planned for later in 2012, and have instructed the reporters to review immediately Network Rail's process for costing its projects. This needs resolving quickly so that you can make a robust submission to us.

#### *Other single till income*

1.41. For the SBP, you need to provide both the total other single till income and property income forecasts for each operating route and for the whole of England & Wales.

1.42. You will need to identify all the existing and potential income streams considered clearly, highlighting the assumptions driving your forecasts (for example where you have used trend analysis to forecast, provide supporting data). In particular, you will need to:

- provide a robust database supporting the property sales and developments numbers for each country and by routes, on scheme by scheme basis;
- identify the drivers of income and show they provide value for money. The analysis should also identify the other properties in Network Rail's property portfolio that could be sold and the analysis should explain how Network Rail decided whether or not to sell them;
- show how the assumptions behind the income forecasts are consistent with the cost assumptions;



- identify the main risks and opportunities that could affect the income forecasts and how Network Rail intends to manage those risks and exploit the opportunities; and
- for each scheme included in this schedule, reconcile the income to the RAB addition including separately the cost of financing and amortisation amounts.

### *Financial issues*

1.43. Financial models and a financial model handbook for England & Wales, Scotland and Network Rail as a whole should be completed and assumptions should be shown separately in each model. The plan should be prepared on a cash (not accruals) basis in the same way that we required in PR08.

1.44. Network Rail's assumption for amortisation charges should be in line with our amortisation policy. The assumptions on amortisation should be demonstrated to be consistent with your forecast of renewals elsewhere in your plan. You will also need to justify any adjustment made (for example for financial sustainability reasons).

1.45. The roll forward of the RAB in CP4 should be in accordance with the latest regulatory accounting guidelines and the PR08 determinations, e.g. a forecast of the IOPI adjustment.

1.46. You should include separately for England & Wales and Scotland your evidence and assumptions for corporation tax, allowed return, cost of capital assumptions for both PR13 and the investment framework, interest costs, financial indemnity mechanism (FIM) fee, risk buffer, approach to unsupported debt, ring-fenced fund, financeability, treasury strategy (e.g. hedging, embedded interest costs and approach to index-linked debt).

### *Key enablers*

1.47. By 'enablers' we mean developments in your capability that are pre-requisites for efficient and effective delivery in CP5 and beyond. We currently monitoring your progress for the key enablers of:

- excellence in health and safety culture and risk control;
- excellence in asset management

1.48. We need to agree with you shortly which enablers you will provide forecast trajectories and action plans for in your SBP. In our consultation document on incentives we proposed that how you manage your supply chain could also be an enabler, and it may also be necessary to include change management.

1.49. Your SBP should also propose monitoring KPIs that will not be obligations on the company but which we both (Network Rail and ourselves) could use to monitor progress. You should explain any differences from the CP4 approach.

## Plans to reduce costs and improve efficiency

1.50. The SBP should include a full explanation of how you have derived your assumptions on the scope for efficiency savings, covering both the size of, and timing of the efficiencies. It should be clear what assumptions you have made about the CP4 outturn. It should also be clear how these relate to the actions that you are assuming others in the industry will take. You should include specific new initiatives such as the work on standards.

1.51. The analysis should include how you have used the results from top down/econometric analysis and bottom up analysis/benchmarking. We require evidence based on internal Network Rail comparisons, comparisons with other (international) rail infrastructure managers and comparisons with other companies undertaking functions similar to Network Rail.

1.52. For each main category of spend you will need to set out your assumptions on efficiency improvement (distinguishing scope and unit cost in each case) and your assumptions on input prices.

1.53. You should make it clear in your route plans where you are making different efficiency assumptions by operating route and why.

1.54. We expect you to seek the views of stakeholders and where stakeholders have submitted evidence of efficiency improvements that they consider Network Rail should be able to achieve; the SBP should explain how it has taken these into account. Where Network Rail does not agree with these assessments it should explain why this is the case.

## Evidence base and assumptions

1.55. The SBP must identify the main economic and policy assumptions underpinning it and identify what existing policy commitments have been assumed where necessary. At the time of submitting the HLOS/SoFA, we expect DfT and Transport Scotland will provide their assumptions on the main economic inputs, for example the levels of forecast passenger demand.

1.56. Network Rail will need to use forecasts of passenger and freight demand. The SBP should set out the basis for these forecasts and the extent to which they represent an agreed view with industry and user representatives.

1.57. The analytical and modelling work underpinning the SBP needs to:

- (a) show the linkage between outputs, asset policies, work plans and the derivation of costs;
- (b) model geographic disaggregation of costs, in particular to provide separate output, activity and cost information for each operating route; and
- (c) model how activity and expenditure vary with traffic levels.

1.58. You will need to make clear in the SBP what you are assuming in terms of delivery from the rest of industry (for example, where an enhancement requires a change to rolling stock depot provision, you need to set out clearly your assumptions regarding the cost and income consequences, and who is responsible for its delivery).

#### Options

1.59. Where you are setting out a major decision or a particular policy choice we would expect to see an analysis of which options you have considered, what analysis you carried out and how you reached a decision.

#### Route level data

1.60. Network Rail has devolved significant responsibility to its operating route businesses and to a large extent the success of the company in CP5 will depend on delivery from the routes. The SBP needs to make clear what each route will deliver and how route based activities support the HLOS and other cross-network outputs. It should be presented as a set of operating route SBPs with national (England & Wales) reconciliation. Expenditure by category should be presented at a route level.

#### CP4 exit assumptions

1.61. You will need to include your forecasts for (and explanations of) each output obligation, the enablers and all the main financial variables so we can be clear whether you are forecasting you will meet the CP4 determination.

#### Wider industry reforms

1.62. You are working on proposals for alliances with train operators and on infrastructure concessions. You should explain what assumptions you have made about these and other areas of industry reform.

#### Risk

1.63. The SBP must set out Network Rail's approach to risk management, identifying and quantifying the main risks the company perceives to delivering its projections. It should be clear where you have made specific risk allowances e.g. for an enhancement project.

#### Safety

1.64. In our PR08 determination we said:

- (a) the SBP was not strategic from a safety perspective, in that it did not set an end point or strong direction nor was there the coherence of actions necessary to deliver the strategic objectives;

(b) the SBP did not contain evidence that initiatives proposed in the plan had been assessed for safety implications. The changes to the railway required for CP4 were dependent on significant changes to technology, processes and workforce performance, but the SBP did not give us assurance that the changes had been fully assessed by Network Rail's Safety and Compliance function;

(c) the safety trajectory dealt with the railway 'as is' and did not deal with changes during CP4, such as the planned increase in traffic levels and the effect of this on access for inspection and maintenance; and

(d) the SBP has implications for health and safety within Network Rail and on overall rail system risk (which accounts for over 90% of catastrophic risk), but it was not evident to us how this system risk had been assessed and planned for. The delivery of the plan depended on other duty holders, but the plan did not give details of the management of safety risk nor the apportioning of risk controls, costs and funding with other duty holders.

1.65. It is important that you address the above points in your SBP, which should:

(a) state your strategic vision for health and safety;

(b) include a reasoned health and safety assessment of the business, making explicit what assumptions have been made;

(c) show how you will move from a largely standards based regime towards competent people taking sensible risk-based decisions within a framework of guidance;

(d) provide costed safety specific initiatives for each area of safety risk which includes details on the apportionment of costs with other duty holders where applicable;

(e) clearly demonstrate that initiatives proposed in the plan have been assessed for safety implications;

(f) provide details of the risk reduction resulting as a secondary benefit from other activities and output improvements;

(g) show how improvements in risk have been extrapolated from recent trends;

(h) take account of the changes being implemented during CP5 in its safety trajectory;

(i) show where the plans include any material organisational changes to the arrangements for managing health and safety during CP5;

(j) explain the implications for the management and measurement of safety where asset management regimes (including policies and overall levels of expenditure) affect health and safety; and

(k) explain how Network Rail will work with others to deliver health and safety improvement.

1.66. This should include analysis of the top pre-cursors to train collision risk and associated costs and arrangements for their control.

1.67. Where possible, you should benchmark how these improvements compare with other relevant infrastructure owners and operators.

1.68. You should, in developing an investment strategy, include details of how you propose to remove, so far as is reasonably practicable, the top pre-cursors to train collision risk and address any other areas of safety risk requiring investment.

#### *Railway Management Maturity Model*

1.69. In order to demonstrate effective safety management Network Rail should continue progress and show excellence in safety management as assessed by the Railway Management Maturity Model (RM<sup>3</sup>).<sup>[1]</sup> As Network Rail is not at this point it needs to set out in its SBP how, and how quickly, it expects to reach excellence (including associated milestones), and how it then intends to sustain excellence going forward. We would look to challenge the pace of change if we felt that it progress could be achieved more quickly.

1.70. It is important that Network Rail demonstrates that it is adopting best practice in the management of health and safety. Network Rail should therefore commit to an independent assessment of its capability and progress towards excellence as measured by the Railway Management Maturity Model at the beginning, middle and end of the control period - with the aim that it should achieve excellence in all areas by the end of the control period. This will provide greater assurance that health and safety is not being compromised in driving greater performance, efficiency and value for money.

#### *Asset Safety*

1.71. It is important that Network Rail improves its capability to understand and model the risks associated with its asset base so that it can deliver improvements in the design of works, plant and equipment and demonstrate, so far as is reasonably practicable, that the safety risk is being effectively managed through development of meaningful key performance indicators. We expect to see evidence of this in the asset policies which support your SBP.

1.72. We would expect Network Rail's contribution to the Precursor Indicator Model via the infrastructure risk element to continuously improve throughout the control period and be significantly lower by the end of CP5. The SBP should forecast its trajectory over the control period and explain how this will be delivered.

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[1] See the 'Railway Management Maturity Model' shown under related documents at: <http://www.rail-reg.gov.uk/server/show/nav.1098>

### *Red zone working*

1.73. The use of red zone working – where track workers either inspect or undertake work on the line whilst train operations continue - is one of the greatest safety risks to track workers. This is in line with the workforce's increased exposure to the railway environment and the hazardous nature of the work carried out in the railway industry. We believe that more could be done to reduce the associated risks further without importing additional cost to the railways through deployment of alternative ways of working, and/or adoption of available or new technology. Reducing red zone working should also increase efficiency, requiring fewer staff for lookout duties for example.

1.74. Network Rail should therefore look to move towards removing red zone working as a method of working and in particular should not use red zone working in the following circumstances:

- (a) during the hours of darkness;
- (b) at junctions or within 200m of a junction;
- (c) on lines where the line speed is greater than 100mph; or
- (d) where there is a moving red zone work such as patrolling.

1.75. Network Rail, drawing on a risk based assessment and taking account of cost effective and practicable alternative ways of working, should in the SBP set out the implications of achieving this and the benefits that would be realised or provide justification that to do so would result in costs that are disproportionate to the safety benefits to be obtained.

### *Improvement in Occupational Health Risk Management*

1.76. Network Rail's efficiency would improve further through effective occupational management to reduce the level of work related illness and costs associated with ill-health (e.g. liability claims). Network Rail therefore needs to show in the SBP how it intends to develop and implement robust processes to better manage occupational risks and set out the efficiency savings that would arise from this.

### *Possessions*

1.77. After red zone working, staff working within possessions face the highest risks on the network. Each possession is different in terms of its location, length, type of work being undertaken and associated risks. It is therefore important that Network Rail adopt a risk based approach to planning and taking possessions rather than rely on a standards based approach. Network Rail should set out how it intends to achieve this in the SBP.

### *Robust strategy for train protection systems*

1.78. As part of the SBP you should explain how Network Rail will work with train operators, freight operators and other stakeholders to secure the reliability and optimisation of train protection systems, in particular the safe-life extension of TPWS, ATP and AWS. This should include the strategic management of train protection as a shared system, working to optimise efficiency, manage system safety risk effectively and mitigate performance impact.

### Beyond CP5 – longer term strategy

1.79. Your CP5 plan should be set in the context of a longer term strategy for the company. The longer term strategy should be presented in the form of a separate strategic direction statement.

1.80. This statement should provide longer term projections for at least 25 years beyond the end of CP5 and demonstrate that sustainable policies are being adopted. This will require you to understand potential changes in desired outcomes from rail over this time frame, as well as a changed context for delivery against those outcome expectations (for instance, your strategy needs to be robust to potential changes in climate over the long term).

1.81. Your plan must make clear how your proposals for CP5 are consistent with your longer term strategy.

### Specific requirements for our matching process – adverse effects

1.82. The Secretary of State and Scottish ministers will submit HLOSs which, at the time of submission, they believe will be affordable. It is our role to assess whether each HLOS is affordable given the SoFA. To enable any possible mismatch to be addressed quickly the SBP should also present a range of options which could be adopted, for each HLOS, to reduce the CP5 public funding requirement. These should be selected to reflect the views of Network Rail and its industry partners about how best to achieve maximum benefits for rail users within a constrained budget.

1.83. Network Rail should identify any adverse effects which may arise for train operators from any element of the SBP as it becomes aware of them, so that we can consider them and whether there may be scope for mitigation (in line with our duties under the Railways Act 1993).

### Deliverability

1.84. Network Rail has carried out a number of deliverability assessments for its capital programme in CP4. You should provide a deliverability assessment for the CP5 capital programme covering:

- (a) what is the scale of the programme, as set against existing capability and record of delivery?

- (b) is the forecast resource requirement stable, and how confident are you in the forecast?
- (c) what is the contingency in planned resource – to what extent are you resourced to cope with materialisation of risks to the programme?
- (d) what contingency measures to cope with risks have you planned for?
- (e) what would the consequence of risks to the programme materialising?



## Annex 1 Monitoring milestones

#	Issue	Milestone	Deadline
1	Asset management benchmarking	<p>Arup to assess evidence to answer the questions:</p> <p>What further progress has Network Rail made on bottom-up benchmarking programme?</p> <p>How will this feed into Network Rail's efficiency forecasts?</p> <p>What further work is planned and does this address current deficiencies?</p> <p>Does the evidence indicate that the SBP will be based on sufficiently robust evidence by operating route?</p>	Arup draft report to ORR by 31/08/12
2	Operating route analysis	<p>Network Rail to provide evidence to answer the following questions:</p> <p>What is the process being used to ensure production of robust business plans by operating route? (To include process map and clarification of the role and interaction of asset policy, strategic planning models, route based asset management plans, efficiency benchmarking.)</p> <p>How will route based asset management plans be presented in the SBP? (Include draft templates and descriptions.)</p>	<p>Network Rail evidence by 30/04/12</p> <p>ORR complete review by 30/05/12</p>

#	Issue	Milestone	Deadline
3	Asset management	<p>Network Rail to provide evidence to answer the following questions:</p> <p>What further progress has been made on development of:</p> <ul style="list-style-type: none"> <li>a) asset policy;</li> <li>b) strategic planning models (tier 1 and 0 models);</li> <li>c) whole lifecycle cost modelling (tier 2 models);</li> <li>d) key network and asset sustainability / performance measures?;</li> </ul> <p>(Include update on risk based maintenance, level crossings policy)</p> <p>How has Network Rail addressed, or plans to address relevant reporter recommendations from IIP review of policy and modelling?</p>	<p>Network Rail provide evidence by 31/07/12</p> <p>ORR to complete review by 7/09/12</p>
4	Unit costs	<p>Network Rail to provide evidence to answer the following questions:</p> <p>How has Network Rail further improved the coverage, confidence and accuracy grading of its maintenance and renewals unit costs.</p> <p>Has Network Rail developed appropriate understanding of actual unit costs and forecast unit costs for planning purposes by operating route? Can Network Rail demonstrate that SBP will be based on suitably robust unit costs?</p>	<p>Arup draft report by 31/7/12</p> <p>Network Rail provide evidence by 31/8/12 (Arup draft report follows SBP, by 28/2/13)</p>

#	Issue	Milestone	Deadline
5	Support/Income analysis	<p>Network Rail to provide evidence to demonstrate that its projection of support costs in the SBP will be robust. This includes:</p> <ol style="list-style-type: none"> <li>1. projection of efficiency for support costs in the SBP, e.g. this can be shown by top-down and bottom-up studies.</li> <li>2. calculation of pre-efficient support cost assumption in the SBP, e.g. the interaction of support costs with other parts of Network Rail's cost base.</li> <li>3. integration of its pre-efficient support cost assumption and its efficiency assumption in the SBP, e.g. that it has appropriately taken account of industry reform and its latest projection of CP4 efficiency</li> </ol>	<p>Network Rail to provide evidence by 28/09/12</p> <p>ORR review complete by 30/10/12</p>
6a	Enhancements data	<p>Network Rail to provide evidence to demonstrate whether:</p> <p>processes for selecting the most cost effective portfolio of projects and efficiently costing these (including benchmarking) are likely to be robust</p>	Nichols draft report by 29/06/12
6b	Capital programme deliverability	<p>Network Rail to provide evidence to demonstrate:</p> <p>process for determining its capability to deliver the portfolio of projects will be sufficient</p>	<p>Network Rail evidence by 28/09/12</p> <p>ORR review complete by 26/10/12</p>
7	Operating strategy	<p>Network Rail to provide evidence to demonstrate:</p> <p>Is the business case for the operating strategy developing sufficiently to inform the SBP and in an appropriate format to justify the level of efficient operations expenditure during the assessment of the SBP?</p>	<p>Network Rail evidence by 29/06/12</p> <p>ORR review complete by 31/7/12</p>

#	Issue	Milestone	Deadline
8	Outputs	<p>Network Rail to provide evidence to demonstrate:</p> <p>Clear outputs/enablers/monitoring KPIs structure is being established. Expect to see templates for all variables to be forecast and the level of disaggregation. Will feed into ORR consultation on outputs</p>	<p>28/09/12</p> <p>ORR review as part of consultation on outputs</p>
9	Outputs	<p>Network Rail to provide evidence to demonstrate:</p> <p>Plan is in place to address HLOS specification and convert specification into deliverables for SBP and delivery plan. Expect to see examples of output plans across range of output areas</p>	<p>28/09/12 Network Rail evidence on process for converting HLOS outputs.</p> <p>31/10/12 Draft output plans for each output area.</p> <p>ORR review complete by 30/11/12</p>
10	Charges	<p>NR to provide evidence of underlying costs (initial aggregate cost estimates for variable usage costs, electrification asset usage costs and freight-only line costs)</p> <p>Network Rail consult on charging policy</p>	<p>Network Rail share cost evidence by 30/04/12</p> <p>Network Rail consult by 30/08/12</p>
11	Financial forecasts	<p>Network Rail to provide evidence that it will be able to demonstrate that its projection of financial costs in the SBP is robust, e.g. cost of capital and interest.</p>	<p>Network Rail evidence by 28/09/12</p> <p>ORR review complete by 30/10/12</p>