

Will Godfrey
Director Economics, Finance and Markets
(REDACTED)



Paul McMahon,
Director, Planning and Regulation, Network Rail
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28 March 2024

Dear Paul,

CP7 delivery plan and holding Network Rail to account

In our PR23 final determination and delivery plan notice, we set out our requirements for Network Rail's delivery plan for control period 7 (CP7), with our focus being on the four key objectives we outlined at the start of PR23, namely **safety, performance, asset sustainability** and **efficiency**. We also set out the other requirements from the UK and Scottish governments' High-Level Output Specifications (HLOS).

Network Rail's CP7 delivery plan was published on 28 March 2024 following approval by the Secretary of State. This has been developed in a challenging funding environment and against a backdrop of economic challenges (including inflation) and other uncertainties which have confronted the rail industry since the Covid-19 pandemic. Network Rail has had to make choices about how expenditure should be prioritised to deliver best value for the railway now and in the future. Network Rail must also meet the challenges of climate change by contributing to a low-emissions railway and planning for severe weather events.

We recognised these challenges in our final determination and set stretching but realistic requirements for the outcomes that Network Rail is expected to deliver for passengers, freight and the environment over CP7.

Our overarching assessment of Network Rail's delivery plan, is that it is consistent with the priority outcomes and budgets set through the periodic review. We recognise that this will be a challenging plan for Network Rail to deliver and it will need to carefully manage the pressures that emerge over the next five years. Our assessment of the delivery plan identified certain issues which I summarise below, alongside how we intend to monitor and hold Network Rail to account in CP7.

Key issues from our review of Network Rail's delivery plan and for our monitoring and holding to account in CP7

We updated our [holding to account policy](#) for CP7 as part of the suite of documents published with the final determination. In summary, we will use a comparable approach to that adopted in CP6, with a focus on the expectations we set in our final determination. Our holding to account activity works in tandem with our [managing change policy](#) which requires Network Rail to report and potentially consult us in relation to changes which may reasonably be expected to impact what it delivers in respect of operating, maintaining and renewing the network.

We set baseline trajectories for each success measure in our final determination, describing our expectations across a range of areas including performance, asset sustainability and efficiency. We will report on each region's performance against our baseline trajectories to publicly hold Network Rail to account. These baseline trajectories for England & Wales and Scotland are summarised in **Annex A**.

Performance

We welcome that Network Rail's success measure forecasts are consistent with almost all the baseline trajectories we set out in our final determination. Our assessment is that the baseline trajectories we set in our final determination remain stretching but realistic, and we will hold Network Rail to account to make sure it is taking all reasonable steps to deliver these. We note here that we are setting firm requirements for train performance baseline trajectories for the first two years of CP7, and indicative figures for the last three years which will be subject to a reset after year 2.

For freight performance in Wales & Western, the region's Freight Cancellations forecast does not meet the expectation we set in our final determination for the first year of CP7, as the region recovers from current poor performance levels. We will hold Network Rail to account to make sure it is taking all reasonable steps to recover performance for freight quickly in CP7. This will draw on findings from our ongoing investigation into Wales & Western's delivery of performance to both passengers and freight customers.

During our review of Network Rail Scotland's delivery plan, Transport Scotland asked for clarity on how we will hold Network Rail to account for its contribution in achieving that target (of 92.5% of the Scotland train performance measure each year) throughout CP7.

Our approach to monitoring and reporting on the delivery of the Scotland train performance measure remains consistent with our final determination, i.e. we will hold Network Rail Scotland to account for its contribution in achieving 92.5% to the greatest extent reasonably practicable, having regard to all relevant circumstances from year 1 of CP7. To help support this, we expect Network Rail to update its performance

forecasts for Scotland (including the Scotland train performance measure and Network Rail delay minutes per 1,000 miles) as it agrees schemes to be funded by the targeted performance fund. This should reflect the opportunities and assumptions Network Rail has identified to accelerate delivery of 92.5% ahead of year 4 of CP7.

The supporting measures for England & Wales and Scotland are summarised in **Annex B**. We have reviewed the supporting measure forecasts and we will assess each region's performance against these during CP7. We are engaging with your teams where we have identified concerns with these forecasts. For example, we have some concerns that the England & Wales Freight Cancellations and Lateness (FCaL) forecasts appear pessimistic with limited evidence to back them up.

Freight growth plans

In our final determination, we required Network Rail's regions and the System Operator to produce clear plans describing the actions they would take to support freight growth. This was to allow us to fairly and transparently hold Network Rail to account for its role in delivery of the freight growth target.

Our assessment of the freight growth plans provided as part of the delivery plan is that the plans would benefit from further detail on when and how some of its proposals will be delivered. We are writing separately to Network Rail to set out our expectation for how and by when this should be provided.

It is important that Network Rail develops and maintains a clear set of actions and timescales for their delivery, so that we can fairly and transparently hold the company to account for its role in delivery of the freight growth target for each region. Throughout the control period we will continue to hold the System Operator and each of the regions to account on their actions to support delivery of the freight growth targets.

Asset sustainability

Prior to our final determination we set out our initial estimate of the additional spend on core asset renewals (including track, drainage, earthworks and structures) that would be required to address the main vulnerabilities on the network.

In response to increased cost pressures since the final determination, Network Rail regions have reduced the volume of renewals in some core asset groups below the level which supported our conclusions in the final determination but increased spend in relation to elements of maintenance activity. Network Rail has explained the changes to renewals spend and provided reassurance on its asset management strategy.

Nevertheless, our final determination outcomes are likely to be at greater risk because Network Rail is proposing to undertake fewer renewals and has a funding gap to close (which I address in the next section). As well as holding Network Rail to account against the outcomes defined in our final determination, we will enhance our

monitoring in CP7 of Network Rail's planned delivery of renewal and maintenance activities – with priority focus on the areas identified in our final determination – and test the practical application of market-led and minimum viable product approaches. We will do this by:

- tracking the volume of renewals delivered and maintenance activity (for example, expenditure and type of maintenance activity compared to Network Rail's forecasts);
- tracking and holding the company to account on the asset and environmental sustainability targets set in our final determination;
- monitoring the resilience of Network Rail's infrastructure (for example, monitoring service affecting failures);
- undertaking targeted assurance reviews including reviews of key asset areas and key technology programmes;
- ensuring alignment on findings from safety inspections; and
- continuing to assess the long-term forecast cost of achieving a steady state whole asset system performance (including through technology adoption and European Train Control System (ETCS) deployment).

In our final determination we set environmental sustainability requirements, including baseline trajectories for each Network Rail region to reduce its carbon emissions (scope 1 & 2) across the control period. However, Network Rail has reprofiled its delivery plan forecasts for the first four years, from those we set in our final determination. We will hold Network Rail regions to account against the baseline trajectories set in our final determination. Following our Independent reporter review assessing Network Rail's forecasts, we are monitoring Network Rail's implementation of its plan to address the recommendations from that review.

Funding gap

Since our final determination, costs have increased in the delivery plan we reviewed, and a funding gap of approximately £400 million remains. However, we consider that this is resolvable and needs to be closed within the first six months of CP7. This is important because as more spend is committed to non-core activities, the opportunities to address the funding gap (without also reducing renewals and maintenance spend) will recede. This in turn would have negative implications for asset sustainability, resilience, safety and efficiency.

We expect Network Rail to set out a clear time-bound and assured action plan capturing initiatives and milestones for how it will reduce the funding gap between income and expenditure within six months from the start of CP7. The plan to do this could include initiatives from the market-led approach or application of the minimum viable product approach, but as noted above should ensure that volumes of core renewals are protected. Should this not happen, further efficiencies would need to be committed to protect core renewals.

For the RF3 update of your plans, we expect to see progress against this through inclusion of robust activities in spend reductions and assessment of any impacts. We will provide a report to funders on our assessment of this in summer 2024.

Health and Safety

In our final determination we sought from Network Rail evidence of the maturing and embedding of the critical safety and risk management initiatives described in its Strategic Business Plan (SBP). We asked for more details to demonstrate that delivery was credible by requiring evidence of the specific outputs, milestones and funding details for priority safety and health programmes.

Network Rail's CP7 delivery plan has provided the additional detail and assurance required on health and safety, and we are satisfied that Network Rail's planned CP7 activities have the potential to continue present levels of risk management and legal compliance. This is dependent on comprehensive implementation of what we called for in the final determination, and we will closely monitor the delivery of this across the control period.

We will focus particularly on those elements that are critical to Network Rail achieving the safe stewardship of its infrastructure over CP7. We will check how successfully Network Rail develops and embeds its safety risk assessment framework (known as the bow tie model) to assure its plans. The delivery plan depends on implementing fully key programmes such as Modernising Maintenance, Infrastructure Monitoring, Electrical Safety Delivery (ESD) and the revised Competence Strategy. We will scrutinise progress in these areas closely and be ready to intervene if delivery is not sufficient.

Efficiencies

Network Rail has produced an efficiency profile for CP7 for each of its regions and National Functions that aligns in total with our final determination. The supporting documentation to the final delivery plan provided more detail on regional efficiencies. This is positive but we have not yet seen sufficient information about how these efficiencies will be delivered.

It remains vital that Network Rail has robust plans in place to achieve the substantial efficiencies required in CP7. The importance of this matter means that we are initiating an independent reporter review early in CP7 of the efficiency plans. If we identify any concerns, we will seek early resolution from Network Rail.

Risk funding

It is important that Network Rail follows the agreed risk funding principles for CP7 (as set out separately for England & Wales and Scotland) to ensure transparency of how this ring-fenced funding is used. We intend to enhance our monitoring of this in CP7.

We expect this to include Network Rail showing clear reasons for drawing down risk funding after other options have been considered to mitigate the risk in question and the company's overall governance for determining and overseeing its use.

Governance and planning

We acknowledge that Network Rail's plan has been developed at pace and the constrained timescales have meant that our review of the delivery plan has been conducted in parallel with Network Rail's own internal assurance processes. Nevertheless, we found the presentation of the plan challenging in places.

We have previously been clear on our expectations, for example, in our guidance to Network Rail on the preparation for its strategic business plan. There are some learning points from this assurance process – including on the allocation of costs – that we will take forward with your team to ensure that future iterations of the plan are clear. One option would be to use the regulatory accounting guidelines for the basis of the plans you provide to us, DfT and Transport Scotland.

Next steps

Throughout CP7 we will provide a structured update to funders on Network Rail's delivery against our final determination and its 2024 delivery plan (DP24) at two points each year: once covering RF6 and then RF11. We will also report publicly in CP7 on Network Rail's delivery, including through our Annual Assessment of Network Rail and our Annual Efficiency and Finance Assessment.

I am copying this letter to Conrad Bailey at the Department for Transport, Alison Irvine at Transport Scotland, Jodye Kershaw at the Welsh Government.

I am happy to discuss any of the points in this letter with you.

Yours sincerely,

Will Godfrey
Director Economics, Finance and Markets

Annex A: Success measures in our CP7 outcomes framework

The tables below contain our final determination baseline trajectories for each success measure for England & Wales and Scotland respectively.

On Time CP7 baseline trajectories by year

Region	2024-25 (year 1)	2025-26 (year 2)	2026-27 (year 3)	2027-28 (year 4)	2028-29 (year 5)
England & Wales	66.9%	66.9%	67.1%	67.1%	67.1%

Note: We have set firm requirements for On Time baseline trajectories for the first two years of CP7, and indicative figures for the last three years which will be subject to a reset after year 2.

Scotland train performance measure CP7 baseline by year

Region	2024-25 (year 1)	2025-26 (year 2)	2026-27 (year 3)	2027-28 (year 4)	2028-29 (year 5)
Scotland	92.5%	92.5%	92.5%	92.5%	92.5%

Cancellations CP7 baseline trajectories by year

Region	2024-25 (year 1)	2025-26 (year 2)	2026-27 (year 3)	2027-28 (year 4)	2028-29 (year 5)
England & Wales	3.6%	3.5%	3.4%	3.3%	3.2%
Scotland	2.3%	2.3%	2.3%	2.3%	2.3%

Note: We have set firm requirements for Cancellations baseline trajectories for the first two years of CP7, and indicative figures for the last three years which will be subject to a reset after year 2.

Freight Cancellations CP7 (flat) baseline trajectories by year

Region	2024-25 (year 1)	2025-26 (year 2)	2026-27 (year 3)	2027-28 (year 4)	2028-29 (year 5)
England & Wales	1.3%	1.3%	1.3%	1.3%	1.3%
Scotland	1.4%	1.4%	1.4%	1.4%	1.4%

Composite Sustainability Index (CSI) percentage point (pp) change during CP7 year 5 baselines

Region	2028-29 (year 5)
England & Wales	-2.5pp
Scotland	-2.1pp

Financial Performance Measure CP7 (flat) baseline trajectories by year

Region	2024-25 (year 1)	2025-26 (year 2)	2026-27 (year 3)	2027-28 (year 4)	2028-29 (year 5)
England & Wales	0	0	0	0	0
Scotland	0	0	0	0	0

Efficiency CP7 delivery plan forecasts by year

Efficiency (£ million, 2023-24 prices):

Region	2024-25 (year 1)	2025-26 (year 2)	2026-27 (year 3)	2027-28 (year 4)	2028-29 (year 5)	Total
England & Wales	225	497	691	843	988	3,245
Scotland	29	69	94	103	115	410

Efficiency (£ million, cash prices):

Region	2024-25 (year 1)	2025-26 (year 2)	2026-27 (year 3)	2027-28 (year 4)	2028-29 (year 5)	Total
England & Wales	232	516	729	907	1,080	3,464
Scotland	31	72	101	112	127	444

Note: As described in our final determination, we will monitor Network Rail's delivery of efficiencies against the forecasts in its CP7 delivery plan. Therefore, the annual baselines have been updated in the above table to reflect Network Rail's figures provided to ORR on 21 March 2024. We are content these are aligned with our final

determination as the total efficiency forecast in real terms (i.e. in 2023/24 prices) to be delivered during CP7 is the same as the requirement we set in our final determination.

Carbon emissions scope 1 and 2 percentage point (pp) change in CP7 baseline trajectories by year

Region	2024-25 (year 1)	2025-26 (year 2)	2026-27 (year 3)	2027-28 (year 4)	2028-29 (year 5)
England & Wales	-4.0pp	-8.0pp	-12.3pp	-16.3pp	-20.3pp
Scotland	-4.4pp	-8.6pp	-12.8pp	-17.0pp	-21.2pp

Biodiversity Units percentage point (pp) change in CP7 baseline trajectories by year

Region	2024-25 (year 1)	2025-26 (year 2)	2026-27 (year 3)	2027-28 (year 4)	2028-29 (year 5)
England & Wales	0.3pp	1.2pp	2.2pp	3.2pp	4.2pp
Scotland	0.0pp	1.0pp	2.0pp	3.0pp	4.0pp

Freight net tonne kilometres moved (growth) CP7 baseline trajectories by year (cumulative from start of CP7)

Region	2024-25 (year 1)	2025-26 (year 2)	2026-27 (year 3)	2027-28 (year 4)	2028-29 (year 5)
England & Wales	1.5%	3.0%	4.5%	6.0%	7.5%
Scotland	3.8%	4.3%	5.7%	8.7%	8.7%

Annex B: Referenced supporting measures in our CP7 outcomes framework

Network Rail submitted forecasts to us for all the supporting measures in our outcomes framework, as defined in our [PR23 final determination: supporting documents on outcomes](#). It has not included all these forecasts in its published documents, as it considers some are too technical. We will assess and publicly report Network Rail's performance against these forecasts during CP7.

We have summarised Network Rail's forecasts below, for supporting measures that will be key to monitoring some issues we have highlighted in this letter.

Performance

Network Rail forecast: Passenger Only Delay Minutes per 1,000 Miles Train Travel

		2024-25 (year 1)	2025-26 (year 2)	2026-27 (year 3)	2027-28 (year 4)	2028-29 (year 5)
England & Wales	Total	56.3	56.3	54.8-59.5	54.8-59.5	55.2-59.8
	Network Rail contribution	34.1	34.1	33.8-36.0	33.2-36.0	33.4-36.1
	Operator contribution	22.3	22.3	21.7-23.5	21.7-23.5	21.8-23.6
Scotland	Total	30.50	29.00	28.00	25.00	25.00
	Network Rail contribution	18.00	17.00	16.50	14.75	14.75
	Operator contribution	12.50	12.00	11.50	10.25	10.25

Network Rail forecast: Freight Cancellations and Lateness (FCaL)

	2024-25 (year 1)	2025-26 (year 2)	2026-27 (year 3)	2027-28 (year 4)	2028-29 (year 5)
England & Wales	9.6%	9.6%	9.6%	9.6%	9.6%
Scotland	5.7%	5.5%	5.5%	5.5%	5.5%

Issue raised with Network Rail that we will consider when monitoring CP7 performance: The level of challenge of regional forecasts in England & Wales appears to remain at current performance levels, instead of returning closer to historic levels. We are unclear what the rationale is for this. The forecast for Scotland in CP7 year 1 is not aligned with the requirement in the Scottish Government's HLOS.

Freight growth

We expect Network Rail to publish its freight growth plans early in CP7, so its obligations are clear to freight operators, customers, funders and other stakeholders. As described earlier in this letter, we are writing separately to Network Rail to set out our expectation for how and by when this should be provided.

Asset sustainability

As stated in our [PR23 final determination: supporting document on sustainable and efficient costs](#), we will use the effective volumes which supported the CP7 delivery plan to monitor Network Rail through the control period.

Network Rail forecast: CP7 effective volumes

	Units*	Eastern	North West & Central	Southern	Wales & Western	England & Wales	Scotland
Track – Plain line	km	1,478	906	887	704	3,975	568
Track – S&C	No. of units	577	341	374	196	1,488	128
Signalling	Signalling Equivalent Units	1,829	1,061	1,446	491	4,827	694
Structures	Square metres	21,985	19,834	26,620	12,439	80,878	19,167
Earthworks	No. of 5-chain-lengths	414	534	435	630	2,013	474
Electrification & Fixed Plant	No. of units (AC/OLE) km (DC/third rail)	244	193	160	0	597	22

Source: Network Rail Technical Authority, 1 March 2024

*Within each asset category there are many different types of activity. Different activities are given different weightings, based on the additional life they add to the asset. For example, in earthworks a full renewal earns six times more effective volume than a refurbishment of the same length. The weightings are set so that different activities can be added together as a total for each asset type.