

John Larkinson
Chief Executive



Andrew Haines
Chief Executive
Network Rail Infrastructure Limited
By email only

3 December 2020

Dear Andrew

Network Rail's delivery during the coronavirus pandemic

I wrote to you in May 2020 setting out how ORR would hold Network Rail to account during the pandemic¹. I said we would take a pragmatic approach to our monitoring and oversight of Network Rail and work collaboratively with you. I highlighted the flexibility built into PR18. I also set out how we would hold Network Rail to account across three phases: **initial response to the pandemic, reintroduction of services**, and **return to steady state**.

I am now writing to record our assessment of Network Rail's delivery against these phases to date, and to highlight those areas in which we consider risks may need further management. In setting out these views, I recognise that the situation remains fluid, particularly so in the context of the latest lockdowns, and that Network Rail will need to continue to adopt a flexible approach to ensure it responds to changing risks.

In summary, Network Rail has so far responded well to the challenges brought about by the pandemic. As well as introducing a number of contingency timetables it has retained focus on delivering planned maintenance and renewals work. Despite the impact on its financial position, Network Rail remains on course to deliver its efficiency plans for the year. However, while we are still in an uncertain planning and operating environment there remains significant risks to future delivery and there are some specific issues that we will be monitoring closely, notably in terms of efficiency in Scotland and wider maintenance activity.

Network Rail's initial response to the pandemic

In my previous letter, I acknowledged Network Rail's strong initial response to the pandemic. This included instigating an emergency timetable, changing its working practices and taking measures to support the wider sector. These actions helped to

¹ <https://www.orr.gov.uk/media/10537>.



ensure that passenger and freight flows were protected immediately following the introduction of social distancing measures.

Re-introduction of services

In response to the pandemic, Network Rail introduced a timetable with fewer services (approximately 54% of pre-pandemic levels) in March 2020. Since then, it has increased service levels through timetable changes in May, July and September. They are now at approximately 90% of the pre-pandemic levels.

In delivering these timetable changes, Network Rail has worked collaboratively with train operating companies and governments. It has helped identify those services which could be reintroduced while protecting levels of performance for passengers and freight. We have seen evidence of it carrying out strong analysis of performance to learn lessons from the current operating environment.

A good example of this is in Scotland where a Covid-19 rail recovery taskforce was formed comprising Network Rail, Abellio ScotRail, Caledonian Sleeper, Transport Scotland and Transport Focus. The group sought to implement a higher performing timetable in Scotland than that in place before the pandemic. The taskforce assessed a wide range of performance data, for example, identifying stations where train dwell times were exceeded during the contingency timetables and identifying the worst performing services. It used this analysis to inform 25 changes to timetables (such as increased dwell times) and changes to operations (such as removing crew changes at Glasgow Central Low Level). Network Rail Scotland reports that these interventions are delivering better performance.

We recognise the significant role played by Network Rail's System Operator function and the Industry Timetable Assurance Programme Management Office (PMO), and have seen good examples of it challenging proposed timetable changes to reduce risks to performance. We have seen early evidence of similar scrutiny of future timetable changes. It is important that this continues so that cross-industry risks to performance are identified and mitigated, including those from major engineering works.

Current pressures mean it has not been possible for Network Rail to adhere to the timetable planning process and timescales set out in the Network Code, or to publish timetables 12 weeks in advance (T12). We recognise that Network Rail and the industry have needed to respond to a high level of uncertainty, changing levels of passenger demand and available resource levels and to train operator efficiency proposals. Introducing timetables in a controlled way and informing passengers and freight users remains fundamental to all parties for the smooth operation of the railway. Alongside this letter, I have today separately written to you on the



performance of Network Rail's System Operator, setting out our concerns on this more fully².

The contingency timetables and lower passenger numbers have helped Network Rail and the passenger and freight train operating companies to run trains with improved punctuality and reliability. Alongside this, Network Rail and the wider industry have continued to focus on delivering train performance improvement plans. Currently, approximately 75% of services are arriving on-time, up from approximately 65% pre-pandemic, with performance improvements seen across all regions.³

Overall, Network Rail has managed the reintroduction of services well to date.

Resumption of a 'steady-state' in planning and delivery

Maintaining and renewing the network

The pandemic has had a major impact on staffing and working arrangements. Despite this, Network Rail has maintained a clear focus on delivery of the vital maintenance and renewal works needed on the network.

In the first half of 2020-21, Network Rail has largely delivered its planned renewals for most asset types. By region, there are some notable instances of lower delivery than plan to date (for example, overhead lines in Eastern, switches & crossings in Scotland, earthworks in Southern, and structures in Wales & Western). But the regions are currently largely forecasting to recover by the end of the year. Network Rail expects to be behind plan for the year for level crossing renewals, with a small number of schemes deferred to next year.

Where delivery was impacted by the pandemic at the start of the year, Network Rail has taken mitigating actions. It has put in place appropriate plans to deliver the majority of affected schemes later this year. Given the extent of disruption caused by the pandemic, we consider that Network Rail has performed well in its delivery of renewal works. We will monitor any changes to the current position over the remainder of the year.

Network Rail has continued to deliver the majority of its maintenance works despite the pandemic, which has impacted resource availability and required changes to working practices. It has responded positively to these challenges, but some maintenance activities remain in backlog and must be recovered. Examples include inspections of track, overhead lines and drainage assets. Changes to working arrangements have highlighted some opportunities to adopt an improved risk-based approach to maintenance activities.

² <https://www.orr.gov.uk/media/21842>

³ I am writing to you separately on Network Rail's contribution to train performance.



We continue to find some inaccuracies in the reporting of maintenance volumes, and expect Network Rail to make improvements over the next six months.

The number of service-affecting asset failures has decreased in the first half of 2020-21. Whilst some of this reduction will be due to improvements made by regions, we consider that it is predominantly the result of a reduction in train services during the pandemic, which has led to assets being put under less stress.⁴ That said, we fully acknowledge the dedication of Network Rail's workforce in delivering vital maintenance works to ensure the continuation of safe operations during this time. As train services are being reinstated, we will closely monitor the rate of asset failures to understand whether a sustainable level of improvement has been achieved.

Financial performance and efficiency

The pandemic has also had a significant impact on Network Rail's financial performance. Year-to-date financial performance has been £40m worse than planned (using the Financial Performance Measure (FPM)⁵). This reflects £26m of underperformance in England and Wales and £14m of underperformance in Scotland. The underperformance is mostly due to reduced property income⁶ and higher than expected maintenance and renewals costs which have been impacted in part by changes in working practices (to maintain social distancing) and increased costs for cleaning and PPE. These increased costs have been partly offset by reduced staff costs and lower than expected Schedule 8 costs⁷ as a result of better operational performance.

Despite this, Network Rail is reporting that it is making good progress with its 2020-21 efficiency plans. It is forecasting to deliver £570m of efficiency improvements in 2020-21, up from £385m in 2019-20 and in line with its delivery plan for Control Period 6 (CP6). Regions in England and Wales are broadly on target to deliver their efficiency plans but Scotland is projecting to achieve efficiencies within the range of £43m to £58m against a target of £63.6m. This is due to later than anticipated awarding of contracts and challenges with achieving target unit rates (not wholly due to the pandemic). Scotland's efficiency shortfall is offset across Great Britain by Network Rail's national functions forecasting to exceed their targets.

⁴ While this has a positive impact on performance, it is likely to have a smaller long-term impact on costs due to the high fixed costs of managing the rail network.

⁵ This compares income and expenditure to the financial assumptions underpinning Network Rail's CP6 funding.

⁶ For example, Network Rail has supported tenants by providing some payment breaks relating to retail units at stations.

⁷ Network Rail has paid less money to train operators through the 'Schedule 8' performance incentive regime, because less delay has been attributed to it.



We are currently reviewing Network Rail's efficiency plans for 2020-21 and 2021-22 and will report on these when this work is complete.

At this time, Network Rail expects to be able to manage its financial position through use of the contingency funds that we established in PR18, delivering its planned operations, maintenance and renewals in CP6 despite the challenges the pandemic continues to present. This is positive. We will continue to work with you to monitor the financial impacts of the pandemic closely, including further review of any regional impacts on unit costs and efficiency, as more information becomes available.

Network Rail's business planning

The coronavirus pandemic continues to mean a very uncertain planning and operating environment, and it is clear that we are not yet at steady state. However, Network Rail has begun to review and amend its business plans. As it does so, it is important that it continues to focus on maintaining high levels of performance and agreeing appropriately challenging / stretching target levels of train performance with its customers and funders. These should be reflected in Network Rail's scorecard targets and delivery plan for 2021-22. We will engage with you over the coming months to gain assurance that the process for developing these targets and plans is robust.

Management of risks

Delivery during the coronavirus pandemic has been good. But it is important to highlight certain risks which ORR considers need continued focused management over the coming months.

- **Covid-19 leads to staff shortages or requires changes to staff working arrangements**

Network Rail must continue to monitor staffing levels and absence rates closely, and keep mitigations and contingency plans updated so that it is responsive to change.

- **Resilience of timetable and train performance eroded by changes in service levels and / or changes in passenger numbers**

Network Rail must continue to focus on retaining current good levels of train performance as the impacts of the pandemic continue to unfold. It must continue to analyse the impact of train services on performance levels to make sure future timetables are robust and resilient. It must also consider the impacts of changes in passenger numbers, travel patterns and social distancing requirements and work with the industry to ensure that there is the right level of capacity and that the timetable is resilient to changes in station dwell times.

- **Timetabling resource fatigue**

Network Rail and the train operating companies must continue to manage risks associated with fatigue and wellbeing of timetable planners. These



colleagues have been working very intensively to deliver the contingency timetables and it is important to manage the impact fatigue may have on timetable quality.

- **Insufficient focus on cross-industry risks to the timetable**
Network Rail's PMO must continue to strengthen its role in assuring a joined-up approach to timetable risk identification, including understanding the impacts of major engineering works (for example, King's Cross renewals).
- **The coronavirus pandemic leads to further financial impacts**
Network Rail must continue to monitor the financial impacts of the pandemic closely, and capture these in transparent reporting to ORR and funders.

In all of these areas, we will continue to work closely with Network Rail over the second half of 2020-21 to monitor its governance and management of risk.

A copy of this letter will be published on our website.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'John Larkinson', written in a cursive style.

John Larkinson
Chief Executive