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Jeremy Westlake,
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cc:
Paul Marshall (Director, Group Finance)
Paul McMahon (Director, Planning & Regulation)

By email

22 November 2024

Dear Jeremy,

Funding gap in Network Rail's CP7 plan for England and Wales

Thank you for the recent discussions between our teams on this matter. This letter is a follow up to those and the letter from Paul Marshall of 18 November. It also follows up on my previous correspondence with Paul McMahon in [March](#) and August. The funding gap in Network Rail's latest forecast for CP7 is approximately £0.58 billion (at rail period 6 or RF6).

In the discussions between our teams and in my previous letters we explained our concerns with the CP7 funding gap and the risks of delaying its resolution, in particular the risk to core renewals. We also recognise that Network Rail faces a challenging business planning environment in Control Period 7 (CP7) and that it faces difficult choices around closing the funding gap. Our final determination last year also recognised those pressures, particularly the impact of inflation on your plan. At the same time the final determination emphasised the importance of delivering outcomes, in particular the importance of maintaining asset condition and the delivery of core renewals.

Reductions in core renewals

The condition of the rail network and the delivery of core renewals is important, particularly as there will be some decline in asset condition over CP7, as recognised in our final determination of the periodic review (PR23).

We remain concerned that, if Network Rail leaves the decisions on how to close the gap until too late in CP7, then it may have to cut core renewals to close the gap. Doing this is likely to incur abortive costs, be disruptive to the supply chain and could adversely affect efficiency.

The RF6 forecast already shows that effective volumes over CP7 are anticipated to be reduced for some key assets, including for example structures and earthworks. The Technical Authority has also highlighted certain areas of concern at RF6.

We also note that Network Rail Scotland, whilst facing similar financial pressures to Network Rail regions in England & Wales, does not have a funding gap. Any decisions on closing the England & Wales funding gap which involve reductions to centrally provided services should not adversely affect the delivery of Network Rail Scotland's commitments.

Options for closing the funding gap

We recognise that decisions around closing the funding gap are difficult and that you need to go through an appropriate assurance process to ensure that CP7 outputs are protected. We also recognise that there are effects on delivery if a project is stopped early in a control period and you need to balance that with the abortive costs from later deferral/cancellation.

There are options available to Network Rail to resolve the funding gap which should be considered before reducing core renewals, some of which have already been reflected in your plan:

1. Generating additional income, e.g. by increasing property income.
2. Reducing expenditure on or re-phasing activities that do not impact on priority core renewals, e.g. the Tri-Link project which is undergoing further reviews.
3. Further efficiencies, e.g. the recent joint study on Network Rail's CP7 efficiencies found that plans were at a good point of development and that there were further opportunities to exceed early CP7 targets.
4. Draw down of risk funding.

In relation to the latter, we emphasised the importance of risk funding in our draft and final determinations – namely in providing certainty to the core renewals programme and added confidence to the supply chain. Therefore, it is important that risk funding is used where possible to mitigate financial pressures instead of cutting (or deferring) core renewals. We do, however, understand that this is affected by any update to the input price forecast (which we have not received an update of since the delivery plan) and other funding pressures (e.g. the recent rise in employer National Insurance contributions).

We do not anticipate the solution to be found in just one of the options listed above. Rather, we envisage a contribution from most, if not all, before cuts or deferrals of core

renewals are entertained (or become the only available option to match Network Rail's income and expenditure later in the control period).

Next steps

We welcome the recent letter from Paul Marshall which expresses your intention to reduce the funding gap to approximately £0.45 billion by the end of this financial year. Nevertheless, our view remains that the forecast funding gap should be reduced to zero.

The importance of this matter in terms of asset resilience and future network outcomes means that we will continue to escalate this matter with you. We are keen to work with you in resolving the funding gap and will be in touch shortly to arrange a senior level meeting to further discuss your plan to protect core assets and close the funding gap.

Yours sincerely

Will Godfrey
Director Economics, Finance and Markets