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OFFICE OF RAIL REGULATION

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Richard Parry-Jones
Chairman
Network Rail Infrastructure Limited
Kings Place
90 York Way
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Dear Richard

Network Rail's performance in 2013-14

I am writing to set out the ORR Board's view of Network Rail's performance in 2013-14, as input to your Remuneration Committee's consideration of your performance during the year. As 2013-14 is the final year of Control Period 4 (CP4) there are also some more general references to your performance over the five years of CP4.

There are a number of notable successes to report:

Growth – growth in 2013-14 continued to exceed expectations with the number of passenger journeys increasing by 5% and the amount of freight moved by 6%. Passenger journeys for the control period have increased by 27% and freight moved has increased by 18%.

Impact of severe weather – the industry worked well together to cope with some very challenging weather conditions, including a lengthy sequence of winter storms affecting large parts of the network. The restoration work at Dawlish, and the re-opening of the line at Easter ahead of schedule, should be particularly celebrated.

We welcome work you have already undertaken to improve the resilience of the network and the publication of the flood defence plan for Western. We look forward to seeing equivalent plans for the remaining routes by September 2014.

Safety – You have achieved a 30.9% risk reduction at level crossings in CP4, exceeding your target of 25%. This has mostly been achieved through closing 804 level crossings, 54 more than your target.

Train accident risk, as measured by the industry's Safety Risk Model, reduced by 9.3% over CP4 and we recognise Network Rail's contribution to this.

We are pleased you have recognised the need to significantly improve your Occupational Health performance and have made some important steps in the last year in the right direction. However as you recognise there is much to do.

There are areas for improvement that I outline later in the letter.



INVESTOR IN PEOPLE

Disruptions to passengers and freight from planned engineering work – You are on course to achieve the year-end target for disruption to freight customers from planned engineering works. However there is a risk that the target for disruption to passengers will not be achieved although the high volumes of activity seen in the final quarter and the disruption to the programme of work caused by the severe winter weather may have been factors.

Enhancements – You are generally on course in delivering the substantial programme of investments agreed for CP4. Notable milestones this year were the achievement of Thameslink Key Output 1, completing work at Nuneaton and completing your part of the East London Line work.

Asset management – Some encouraging progress has been made on asset management. The ORBIS programme, which aims to provide the infrastructure owner with better asset information, should deliver real benefits through improved decision making.

You have successfully delivered the £250 million fiscal stimulus package on projects which can demonstrate a reduction in safety risk to the network and have generally been good value for money.

But as you are already aware the company has fallen short against a number of crucial targets it was funded to deliver.

Punctuality and reliability - PPM in each of the three sectors (long distance, London and Southeast and regional) has not met the regulatory outputs. Only the regional CaSL target has been achieved. You have not met – over a sustained period - the levels of performance you committed to achieving in your various sector recovery plans. Delays from network management/other and track assets were 26.6% and 27.3% respectively worse than target. All other categories of Network Rail delays fell short of your commitments.

In the long distance sector an order is already in place specifying a sliding-scale reasonable sum payable in respect of the missed PPM commitment. We will consider whether you have done everything reasonably practicable to achieve the target and the extent to which it was not reasonably practicable to achieve the target having regard to all relevant circumstances. We will advise you of our decision on the reasonable sum early in 2014-15. We will also consider whether you have done everything reasonably practicable to achieve your regulated performance outputs in all other sectors and in Scotland. We will advise you in early 2014-15 if we have found that you have breached your licence.

Efficiency¹ – Your latest estimate for the end of 2013-14 for cumulative operating, maintenance and renewals (OM&R) efficiencies is 15.5% – down 0.3 percentage

¹ Much of the financial data in this letter is still provisional and we may make appropriate adjustments to the figures.

points on the figure achieved for 2012-13. This is also 8.0 percentage points behind the 23.5% OM&R efficiencies you agreed to deliver by the end of CP4.

You have forecast £1.2bn of financial outperformance across all items of income and expenditure by the end of 2013-14 (using Network Rail's own Financial Value Added (FVA) measure). However this is a gross figure before any reduction, for example for missed outputs.

Safety – Although we served fewer enforcement notices in 2013-14 than in 2012-13 (seven rather than ten) these related to some serious and significant matters that have network-wide implications: the rise in track geometry twist faults; the significant number of unearthed/unbounded location cabinets, including some on station platforms; and the absence of sufficient vegetation clearance to enable you to examine earthworks adequately.

Asset management – We need to see further progress in your maintenance strategy towards implementing a reliability-centred model which will allow you to move from “find and fix” to a predominantly “predict and prevent” approach.

We also remain concerned about the effect of deferred renewals – in particular in plain line track - on the sustainability of the network, reducing its tolerance to any further under-delivery in CP5.

Customer satisfaction – Although ‘customer satisfaction’ is not a regulatory target, we note that train operators’ overall satisfaction with Network Rail has fallen (decreasing 8 percentage points to 58% satisfied) compared with the previous year’s survey. Passenger satisfaction scores have also declined, now standing at around 83% compared with 85% in the autumn 2012 survey.

I am copying this letter to Patrick McLoughlin, Baroness Kramer, Robert Goodwill and Stephen Hammond at the Department for Transport, Keith Brown at the Scottish Government and Edwina Hart at the Welsh Government. I am also copying it to Philip Rutman, and Clare Moriarty (Department for Transport), David Middleton and Aidan Grisewood (Transport Scotland), Bayo Dosunmu (Welsh Government) and Michael O’Higgins at Network Rail. It will be published on our website in mid-June alongside the next Network Rail Monitor.

Yours

A handwritten signature in black ink that reads 'Anna Walker'. The script is cursive and fluid, with the first letters of 'Anna' and 'Walker' being capitalized and prominent.

Anna Walker