



Department  
for Transport

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14 December 2016

Dear Joanna

**RE: TREATMENT OF DfT FUNDED ENHANCEMENT PROJECTS IN ENGLAND AND WALES IN CP5**

Thank you for letter dated 12 December 2016. I can confirm that it reflects the approach we have agreed trilaterally for the regulatory treatment of DfT funded enhancement projects in England and Wales in Control Period 5.

The Department has accepted the Hendy Re-plan as the baseline for CP5. We believe the current cost of the enhancements portfolio is a justifiable amount to pay for the outcomes we have prescribed. We would ask that the ORR use this to calculate the amount to be added to the RAB.

I understand that this approach aligns to the regulator's use of the cost of the Hendy Re-plan as the baseline for other regulatory purposes (as clarified in the Annual Efficiency and Finance Assessment of Network Rail 2015-2016). As your letter states, this approach is also supported by process improvements and new governance arrangements jointly introduced by the Department and Network Rail:

- The Hendy baseline is managed via the joint enhancements Portfolio Board with change control in place to manage any changes necessary to remain within the current £15.3bn baseline.
- For any significant changes to programmes within the enhancements portfolio (agreed via change control), the Department will confirm that the scheme remains value for money through a review/refresh of the business case.

In the attached annex, I have addressed some specific points raised in a letter sent by Paul Marshall to the ORR on 16 April 2016 (which I attach for reference).

I am copying this letter to Mark Carne and Paul Marshall.

Yours sincerely,

Bernadette Kelly  
Director General - Rail

## Annex A

Extract from Paul Marshall letter dated 16 April:

Recommendations requiring DfT agreement:

1. There is value in Network Rail and DfT establishing a post GRIP 3 baseline cost (including appropriate provisions for risk and efficiency) to monitor future project performance against.
2. Changes in scope agreed through a formal change control process by the DfT should be reflected in an updated baseline.
3. This updated Hendy baseline should be used for the purpose of RAB addition and assessment of financial performance.
4. Establishing post GRIP 3 baselines and the impact of change control should be agreed by Network Rail and DfT and do not require an independent ORR assessment.
5. ECAM (Enhancement Cost Adjustment Mechanism) reviews should be discontinued for DfT funded projects in England and Wales. However, ORR will continue to monitor the achievement of project milestones by Network Rail in England and Wales.

Taking each of Paul's points in turn:

1. The Department agrees that there is value in Network Rail and DfT establishing a baseline cost. We believe that this should align to the shared lifecycle for enhancements set out in the MoU between NR and DfT, which focuses on joint decisions, rather than the NR GRIP process. Baselines will be established at the 'commit to deliver' decision point as part of the joint decision process being developed by Network Rail with the Department. Prior to the joint decision process being formally implemented the baseline will be set at GRIP 3.
2. The Department agrees with the statement that only scope changes agreed through the formal change control process should be reflected in the baseline.

This includes:

- New scope required to deliver a new or changed output
- Change in scope required to deliver an output to a higher specifications than assumed previously

Exclusions include additional cost for unchanged scope and other factors attributable to Network Rail as recommended by the DfT/NR Enhancements Portfolio Board and agreed by the Department.

As part of the ongoing work on the joint decision process, the Department will work with Network Rail to ensure a shared understanding of the above.

3. The Department agrees with this statement.
4. The Department believes that independent ORR assessments of baselines could still be commissioned on a case by case basis.
5. The Department agrees with this statement.