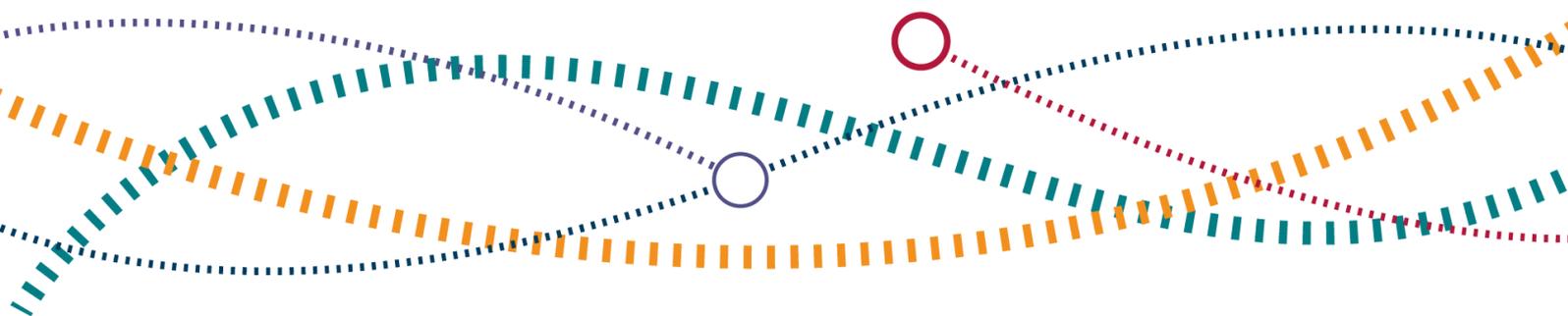




# Periodic review 2023: Guidance to Network Rail on the preparation of its Strategic Business Plan

Guidance document

28 July 2022



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# About this document

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As part of PR23, Network Rail will produce a Strategic Business Plan (SBP) for Control Period 7 (CP7). This will set out, based on governments' decisions about funding and outputs, what Network Rail intends to deliver for CP7. Network Rail's SBP is the main source of evidence that we use to establish the funding allocations across Network Rail's business units/priorities and the outcomes Network Rail will be held to account for in CP7 at a regional and a System Operator (SO) level. We expect to receive the SBP by 24 February 2023.

We have produced this guidance to Network Rail to set out our requirements for its SBP. This relates to both the information we require Network Rail to include in its SBP and the process Network Rail should follow in developing it. We are publishing this document so that stakeholders have sight of what we require from the SBP. We are not formally consulting on this guidance, though if you have any comments, please do provide them to us to our PR23 inbox ([PR23@orr.gov.uk](mailto:PR23@orr.gov.uk)).

We recognise that Network Rail's SBP is likely to be of interest to a wide range of stakeholders. It will need to take account of their needs, as well as our requirements, in developing its approach.

This document does not seek to set prescriptive guidance for the format of Network Rail's SBP. However, we are seeking to be transparent and clear about our expectations to support Network Rail in developing a high quality and coherent SBP. This includes our expectations for Network Rail's engagement with customers and stakeholders, which it should take into consideration while preparing its SBP.

This document is being published alongside two other PR23 documents, namely our policy consultation on outcomes, infrastructure performance and managing change and our supporting technical consultation on the measures in our proposed CP7 outcomes framework.

# 1. Introduction

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## Background and context

- 1.1 PR23 is an ORR-led statutory process that will establish (amongst other things) Network Rail's funding and outputs for five years, starting from 1 April 2024. We refer to this as CP7. Our March 2022 publication on [how Network Rail's CP7 funding and outputs are determined](#) provides more detail on PR23 and our process for establishing CP7 funding and outputs decisions.
- 1.2 Network Rail is currently developing its business plans for CP7. Our role is to assess these plans. Our approach is iterative and will focus on two key stages:
- (a) **our advice to the Secretary of State and Scottish Ministers, which was produced early this summer.** This will help inform their decisions about how much funding they intend to make available to Network Rail in CP7 (as set out in each funder's Statement of Funds Available (SoFA)) and what, in return, they want Network Rail to deliver (as set out in their respective High-Level Output Specification (HLOS)). We are also providing further, targeted advice to both funders over the summer; and
  - (b) **our assessment of the SBP over spring/summer 2023.** This will form the basis of our overall determination for Network Rail, as well as the underlying settlements for the regions and the SO that will set out their assumed funding allocation and specific outputs to be delivered over CP7. The SBP is the main source of evidence that we use to determine Network Rail's funding and outcomes for CP7. We are due to receive Network Rail's SBP by 24 February 2023.
- 1.3 This is a period of significant change for the rail industry. The UK Government has published the Williams-Shapps Plan for wide ranging reforms to the structure and operation of the industry. The UK Government consulted in June 2022 on the legislative changes required to implement these reforms.
- 1.4 We recognise that these reforms, as well as PR23, are taking place during a time when the rail sector, along with the rest of the economy, is recovering from the effect of the pandemic. We aim to design a regulatory framework that provides the infrastructure manager with the right long-term incentives to deliver a safe, sustainable, high-performing and efficient rail network.

- 1.5 The decisions on CP7 outputs and funding are being made as the rail industry prepares to transition to a new and different structure that involves establishing a new body, Great British Railways (GBR), that will both own the railway infrastructure, and let and manage most passenger rail contracts. We expect that GBR will be held accountable for delivery of the commitments made in PR23 when it succeeds Network Rail.

## Purpose of this document

- 1.6 This document sets out our guidance and expectations regarding the requirements of Network Rail's SBP and its process for preparing it.
- 1.7 By issuing this guidance document we aim to:
- (a) provide clarity to Network Rail (including its business units) on our expectations for the SBP and the underlying strategic plans to help improve the quality of the information (e.g. robustness of reasoning/analysis) and accountability of Network Rail's SBP, as well as to help ensure an orderly process in the production of the SBP and our corresponding review;
  - (b) ensure that Network Rail's SBP (including the underlying strategic plans) enables us to compare among the regions, which will help us to improve our scrutiny of the information and provide a strong basis for monitoring and holding to account during CP7; and,
  - (c) ensure that Network Rail's SBP presents a coherent overall submission and, in particular, that there is a clear line of sight between the proposals in the SBP and the analysis presented.
- 1.8 We have also prepared this document to inform funders and wider stakeholders, such as train operators and end users, as they will engage in the development of Network Rail's CP7 plan and will be involved in the development of our PR23 determination.
- 1.9 This document is not a formal consultation. However, if you would like to discuss our approach in this area or share your thoughts, please get in contact with us via our PR23 inbox ([PR23@orr.gov.uk](mailto:PR23@orr.gov.uk)).

## Principles used in developing our guidance

- 1.10 This guidance to Network Rail on its SBP should be seen in the context of a wider strategy that focuses on 'progressive assurance' between ORR and Network Rail.

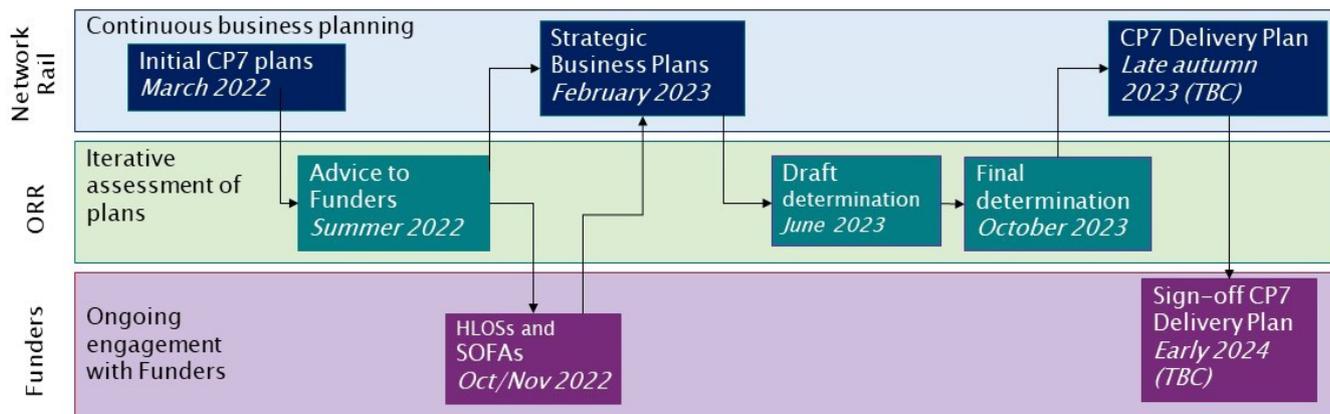
We will review, challenge, and assess the CP7 business plan iteratively throughout the process as Network Rail's SBP develops.

- 1.11 We are not seeking to set highly prescriptive guidance on what Network Rail's SBP should look like. Rather, we expect Network Rail to take account of our guidance when developing its SBP, as well as our wider engagement on its development.
- 1.12 We recognise that our expectations for Network Rail's SBP may change in a small number of circumstances. Where this is the case, we will engage with Network Rail promptly to agree how to address any changes. Where appropriate, we may provide 'supplementary guidance' as we did in PR18.

## **Work following submission of the SBP**

- 1.13 As noted above, we currently expect to receive Network Rail's SBP by 24 February 2023. It will be important that we receive this in a timely manner (and in line with requirements set out in this guidance) to enable us to meet the longer-term timeline set out below. However, we recognise the constraints Network Rail faces in producing the SBP and we will continue to work closely with Network Rail in this respect.
- 1.14 Once we have reviewed Network Rail's SBP, we will issue our draft determination in June 2023 and our final determination in October 2023.
- 1.15 Following our final determination, we will then move to implement it. As part of this, Network Rail will issue its Delivery Plan for CP7 that is consistent with our determination, consulting appropriately. The Secretary of State (having considered the views of the Scottish Ministers) signs off the final version of the Delivery Plan. We will engage with Network Rail further on the structure and timing of the Delivery Plan later in PR23. We may also produce formal and / or public guidance to Network Rail on its Delivery Plan.

**Figure 1.1 Roles, responsibilities and key milestones in determining funding and outputs for CP7**



- 1.16 Alongside this, we will finalise proposed changes to Network Rail’s access contracts with train operators and issue the legal notices to implement these. Network Rail will then have the opportunity to decide whether to accept or reject the determination. If it accepts, PR23 will be implemented, with CP7 beginning on 1 April 2024.
- 1.17 Similarly, Network Rail must update its business plans at least annually during CP7. Any changes to, for example, funding or outputs should be set out transparently and be subject to the Managing Change Policy.

## Stakeholder engagement

- 1.18 Throughout the development of the SBP (and beyond), we expect Network Rail to engage with its stakeholders in a way that improves delivery for passengers and freight end users and enhances value for money.
- 1.19 In addition to reflecting the requirements set out by national funders in their HLOSs, Network Rail’s SBP for CP7 will need to take account of the priorities of passengers, freight customers and train operators (who are Network Rail’s direct customers), and other relevant stakeholders including local authorities, local transport providers and / or local business groups and local funders.
- 1.20 It is essential that Network Rail engages with its full range of stakeholders in a collaborative and meaningful way that provides them with appropriate opportunities to input into and influence the strategic plans. It is the responsibility of each region and the SO, and for Network Rail as a whole, to demonstrate through its SBP that it has listened and taken into account views from all its stakeholders.

## Our assessment and grading of the plans

- 1.21 As noted above, we will review and assess the SBP to help establish CP7 funding and outputs. A key aspect of this will involve comparing the region/SO strategic plans (and national functions' CP7 planning information, where relevant) to help us identify stronger (or weaker) approaches to OSMR activities across the network. We will also compare the region/SO strategic plans to help us recognise higher-quality plans (or aspects of the plan).
- 1.22 As part of this, we may set out, publicly, a 'grade' for each of the regions and SO's strategic plans, based against certain high-level criteria, as we did in PR18. We are considering this further over the coming months, including with Network Rail. As part of this, we will need to consider the extent to which grading the strategic plans is likely to drive an improvement in the production of the plans and how this would interact with Network Rail's own internal assurance (and, for example, the extent to which it compares the regions/SO's approaches). We will also want to consider the resource implications for both ORR and Network Rail in grading the SBP.

## 2. Guidance to Network Rail on the high-level process for its Strategic Business Plan

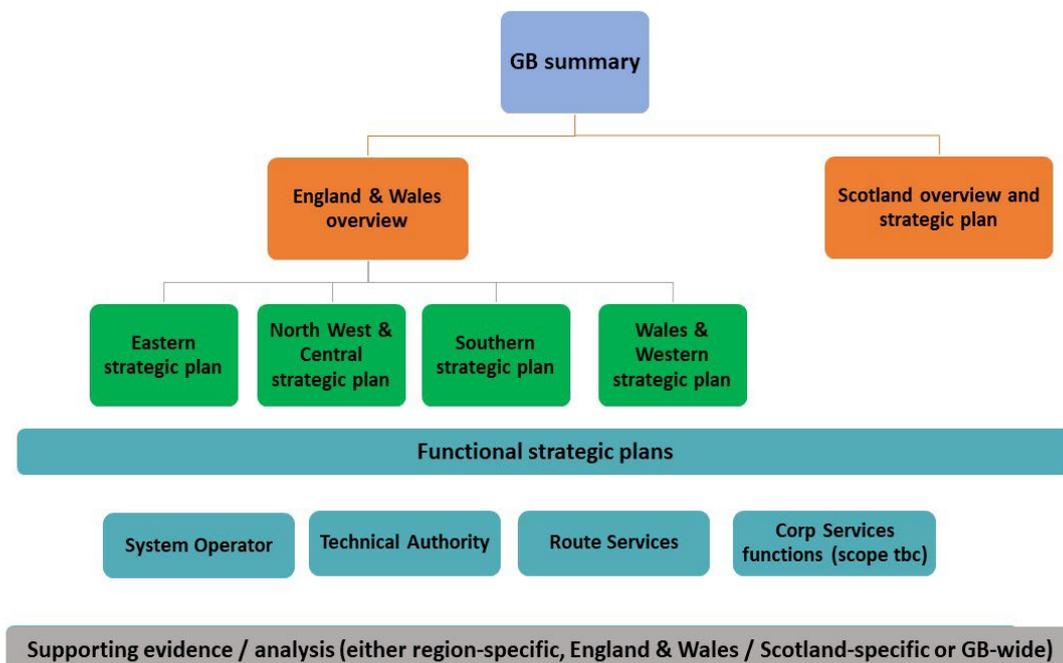
### Introduction

2.1 This chapter sets out our expectations on the structure of the SBP and the governance and assurance to be undertaken by Network Rail.

### Structure of the submissions

2.2 Figure 2.1 sets out Network Rail’s current understanding of what its SBP will include, though we note this is a work-in-progress. The SBP refers to the overall suite of documents, while the ‘strategic plan’ refers to the input from each of the regions, the SO and the core national functions (namely, Route Services and the Technical Authority).

Figure 2.1: Network Rail’s PR23 SBP structure (draft as of July 2022)



2.3 We expect Network Rail’s SBP to consist of the following documents:

- (a) a summary document covering Great Britain as a whole and providing the overarching vision and direction for CP7;
- (b) separate England & Wales and Scotland overview documents for CP7, setting out national priorities, including a line of sight back to each funder's HLOSs and SoFA documents. The Scotland overview will also form the strategic plan for the Scotland region;
- (c) strategic plans for each England & Wales region. Each strategic plan (including Scotland's strategic plan) should set out Network Rail's proposed Operations, Support, Maintenance and Renewals (OSMR) activities over CP7;
- (d) a strategic plan for the SO; and
- (e) strategic plans for each of the core National Functions – namely Route Services and the Technical Authority – and key business plan information from the non-core National Functions, which include corporate services (e.g. Group HR). We set out in chapter 3 our expectations of Network Rail's national functions' SBP information.

2.4 We also expect to receive supporting evidence and analysis. As part of this, we expect Network Rail to agree with us the format of a small number of financial and output templates, in order to avoid issues with data quality and assurance experienced in the past, e.g. in the context of the initial CP7 submission and our corresponding advice to funders.

2.5 Of the items listed above, we would expect the documents listed in paragraph 2.3 to be published. We would expect the supporting analysis and evidence to be published by exception, at Network Rail's discretion. However, we would expect regions, the SO and national functions to share with their stakeholders a wide range of material prior to the submission being finalised, so that stakeholders are able to use their expertise to scrutinise and challenge the SBP. We would expect this to cover the full range of documents detailed above.

2.6 We expect Network Rail to continue to engage with us as it develops the content of its SBP, including the supporting evidence and analysis. In addition, we are working with Network Rail to ensure that the information it provides us with is consistent with the information it provides to governments (including as part of the HLOS and SoFA process).

# Governance of Network Rail's SBP

## Enabling coherency and transparency of the SBP

- 2.7 It is important that we review a coherent overall submission from Network Rail. To facilitate this, it is essential that Network Rail (as a whole) and its regions, the SO and national functions take full ownership over their input to the SBP (i.e. the relevant strategic plan). We expect Network Rail Infrastructure Limited (NRIL's) SBP to present its high-level strategy for CP7, with accountability for this plan sitting with Network Rail's Board. Delivering the wider strategy set by NRIL is the responsibility of Network Rail's regions, the SO and national functions.
- 2.8 We expect Network Rail to take a transparent approach to the preparation of its overall SBP. We expect Network Rail's submission to clearly set out how the SBP has been collectively reviewed and quality assured to ensure it is coherent across the network. If any adjustments to plans are suggested through internal Network Rail assurance (e.g. by the Technical Authority regarding renewals and / or by Network Rail's internal governance (e.g. Network Rail Executive and/or Board)), the relevant business unit should be given the opportunity to challenge this. We expect any adjustments to be transparently set out, together with the reasons for the adjustments. Where a business unit does not agree with the adjustments, we expect this to be transparently set out, alongside its reason(s).
- 2.9 We expect any assumptions underlying the plan (e.g. forecast of future passenger numbers) would be discussed and agreed by the relevant business units, including allowing them to challenge the assumptions made where relevant. Services offered by national functions (e.g. high output machinery) should be reflected in regional plans and national plans reflective of regional needs.

## Enabling comparison between the regions and functions

- 2.10 As part of its CP7 plan development, Network Rail provides guidance to the regions, the SO and national functions. This includes templates for providing data and information, certain policy documents and overarching assumptions.
- 2.11 It is important for our assessment that we can compare data from the plan on a consistent basis. To support this, it is essential that the central team in Network Rail responsible for overseeing and bringing together the SBP provides clear guidance and templates, alongside policy documents, where relevant to the regions, SO and functions. We expect Network Rail to share drafts of templates produced with us to secure our input.

## Plan sign off

- 2.12 We expect the Network Rail Board to sign off its SBP, including in a way that reflects that it will be held to account, both at a consolidated level and at a regional and functional level, and that the plans have been quality assured.
- 2.13 We therefore expect the following sign-off arrangements:
- (a) Network Rail Board to sign off the GB summary, England & Wales and Scotland overview documents;
  - (b) Regional Managing Directors to sign off their region's strategic plans;
  - (c) The SO Managing Director to sign off the SO strategic plan;
  - (d) In the case of Route Services and the Technical Authority, the functional Managing Directors to sign off their relevant strategic plan (or equivalent CP7 planning information in the case of other National Functions); and
  - (e) Evidence and supporting documents to be signed off by the relevant Network Rail subject matter Senior Responsible Officer.

## SBP assurance and submission

### Network Rail's own assurance

- 2.14 We expect Network Rail to assure its plans to ensure they are being developed on a consistent basis to enable comparison.
- 2.15 For the PR18 SBP, Network Rail had three levels of assurance for its suite of documents and data books:
- (a) Level 1: primary assurance at route and function level.
  - (b) Level 2: secondary assurance by subject matter experts from the centre with relevant specialist knowledge, evidenced by assurance reports.
  - (c) Level 3: by exception, tertiary assurance by internal or external audit.
- 2.16 Network Rail currently expects to follow a similar approach to PR18. It will need to engage with us further, including by setting out more detail about its approach to assurance so that we are confident it is fit-for-purpose. This is likely to include, for example, information on the processes to assure the quality of the data book, including a copy of the output of the process. We expect to agree Network Rail's

assurance process by the autumn including their plans for analytical assurance. (We are required to provide a return on this as part of the Macpherson reporting requirements under [the AQUA book](#)).

## **Configuration and version control**

- 2.17 The SBP submissions will be based on certain ‘foundation documents’, such as asset policies, as well as planning assumptions and templates. Some foundation documents are ‘live documents’ in the sense that Network Rail updates them on a regular basis.
- 2.18 It is important that Network Rail engages with us in good time if it wishes to make material changes to these documents, so that we are aware of these changes in advance of submission of the SBP and so that any substantive concerns that we have (relating to our ability to assess the SBP) can be addressed.
- 2.19 For Network Rail’s own assurance and our assessment of its SBP, it is important that specific versions of each of the foundation documents are used consistently throughout the submissions. This is a non-trivial requirement because different versions may be used for each business-as-usual update to Network Rail’s plan, and there is a risk that some inputs to the SBP may be calculated based on old versions.
- 2.20 Therefore, it is important that Network Rail sets up a system of configuration control for foundation documents to ensure both that SBP versions of the documents are finalised some time in advance of the SBP – which we may choose to review in advance of the submission of the SBP – and that the submissions are based on the correct versions. We are engaging with Network Rail on what documents we will receive in advance of SBP submission.

## **Form of Network Rail’s SBP submission**

- 2.21 It is important that Network Rail provides the SBP in such a way that makes it easy for us to review and assess the information. Specifically, we expect that Network Rail should:
- (a) submit to us electronic versions of the SBP submission;
  - (b) provide data books in spreadsheet format;
  - (c) ensure there is full clarity on the basis of the proposed cost information e.g. price base for proposed costs and whether it is pre- or post-efficient costs; and

(d) provide the SBP documents in a searchable PDF format.

2.22 Governance arrangements relating to the exchange of information by ORR and Network Rail using the SBP site should be agreed prior to the submission of the SBP. This site should remain available at least until CP7 commences.

## Scope of the SBP

2.23 For the avoidance of doubt, Network Rail should ensure that any activity which is being funded outside of the SoFAs is excluded from the SBP. For instance, we do not expect funding for these types of activity (among others) to be included in the SBP as they are funded elsewhere:

- (a) Rail reform-related activities and implementation related to Great British Railways (which is likely to continue to be funded separately);
- (b) Development of HS2-specific assets and services (which are funded by HS2 company); and
- (c) Network enhancements (which are approved and funded through the Rail Network Enhancements Pipeline (RNEP, which relates to the process for England & Wales) and the Team Scotland Execution Plan (TSEP) for enhancements in Scotland).

# 3. Guidance to Network Rail on the requirements for key areas of focus for its SBP

## Introduction

- 3.1 This chapter sets out our key areas of focus for Network Rail’s SBP. It is separated into areas that should be included in all business units’ CP7 planning information and areas that should be included in the region’s strategic plans, the SO’s strategic plan and the national functions’ strategic plan or business plan information. Our high-level requirements for the SBP and the supporting strategic plans (etc) are set out in Table 3.1.
- 3.2 As noted earlier, Network Rail updates its CP6 plan on a regular basis. For the purposes of the SBP, we expect that Network Rail will base its CP6 exit position on its re-forecast of the CP6 plan in period 9 (‘RF9’), December 2022. Where there are material changes to its baseline between RF9 and its submission of its SBP, Network Rail should clearly set out in its submission where updates have been made, including a view of the implications of any material changes on its SBP.

**Table 3.1: Our expectations regarding the contents of the SBP, including the individual business units’ CP7 information**

	Regions	SO	Core National functions	Non-core National functions	Consolidated England & Wales	Consolidated Scotland	GB
Forecasts of key relevant measures (outcomes etc.)	✓	✓	x [1]	x [1]	✓	✓	✓
Forecasted income and expenditure (including efficiency plans)	✓	✓	✓	✓	✓ [2]	✓[2]	✓[2]

	Regions	SO	Core National functions	Non-core National functions	Consolidated England & Wales	Consolidated Scotland	GB
Recharge of associated national functions' expenditure	✓	✓	✓	✓	✓	✓	✓
Income from charges and incentives	✓	✓	x	x	✓	✓	✓
Net revenue requirement	✓	✓	✓	✓	✓	✓	✓
Strategies (e.g. asset strategies)	✓	✓	✓	✓	x	x	x
Forecasts of income and expenditure uncertainty	✓	✓	✓	✓	✓	✓	✓
Evidence of stakeholder input to plans	✓	✓	x	x	✓	✓	✓
Assurance of costs and outcome forecasts	✓	✓	✓	✓	✓	✓	✓
Signed off by appropriate director	✓	✓	✓	✓	✓	✓	✓

[1] Note that, while we do not intend to set specific measures on national functions, we do expect these business units to be transparent about their activity and delivery.

[2] Note that this includes corporation tax projections.

## Key requirements across all business units' information

3.3 Our assessment of Network Rail's SBP is wide-ranging and take account of its delivery and expenditure across its OSMR activities. How we assess the plans is discussed in detail in our March 2022 publication on [how Network Rail's CP7 funding and outputs are determined](#).

3.4 Across Network Rail's SBP, it should cover: health and safety; stakeholder engagement; outcomes; expenditure; income forecasts; efficiency (including headwinds and tailwinds); the identification and management of risk; deliverability;

and central cost allocation. We address our expectations for each of these key areas below.

## Health and safety

3.5 Our objective in reviewing health and safety is to help ensure that Network Rail's SBP meets its legal obligations, noting that Network Rail is responsible for ensuring it is meeting its legal obligations.

3.6 We expect, at a minimum, that the SBP will:

- (a) **clearly articulate Network Rail's health and safety priorities** at regional, SO and functional levels, including how those priorities were agreed upon and how the business units can demonstrate that their strategic plans align with them. This should include the activities that Network Rail's regions and other business units will undertake to achieve its priorities and how success will be measured;
- (b) show how it will **ensure compliance** with all its relevant legal obligations under health and safety legislation over CP7; and
- (c) where full legal compliance is difficult due to legacy infrastructure characteristics, describe the **trajectory to improved compliance** and explain how risk will be managed in the interim.

3.7 There may be instances where additional expenditure is proposed, including on the Lord Mair and Dame Slingo recommendations on managing rail infrastructure in more frequent extreme weather. Where this is the case, we expect to see a clear rationale for the additional expenditure (including how it will implement the recommendations of those reports) set out in the regions' strategic plans (or elsewhere, as necessary).

3.8 As part of its submission, we expect to see evidence of Network Rail's Technical Authority scrutiny, assurance and challenge of the regions' plans. This could include assurance reports from the Technical Authority and scrutiny of their alignment with asset policies.

## Stakeholder engagement

3.9 Our objective in reviewing stakeholder engagement is to consider the scale and effectiveness of engagement undertaken by Network Rail, the regions, the SO and national functions.

3.10 We expect, at a minimum, that:

- (a) each region, the SO and national functions will provide evidence of having undertaken analysis to map their stakeholders;
- (b) each region, the SO and national functions will provide evidence of having considered stakeholder views in their respective strategic plans, including the governance process in place to reflect customer and stakeholder needs in their decision-making;
- (c) each region, the SO and national functions has developed objectives that balance the needs of all stakeholders, but which are ultimately consistent with the priorities of end users and value for money. Given the anticipated funding constraints, we expect to see evidence of discussions about priorities and trade-offs and identifying cost-effective ways forward;
- (d) all stakeholders have opportunities to engage with the regions', the SO's and national functions' strategic plans on an individual basis, including in an inclusive manner through, for example, workshops or meetings that are open and accessible to all stakeholders; and
- (e) each region, the SO and national functions has provided feedback to its stakeholders on the outcome of their engagement and how their views have contributed to decision-making.

3.11 Our expectations in this area reflect Network Rail's wider obligations with respect to stakeholder engagement, which we discuss in our policy consultation on outcomes, infrastructure performance and managing change.

## Outcomes

3.12 We expect Network Rail's SBP to include performance measures and associated forecasts that:

- (a) are in line with the requirements from the England & Wales and Scotland HLOSs and SoFAs;
- (b) address key customer and stakeholder needs, subject to available funding; and
- (c) reflect forecasted levels of performance for CP7.

3.13 **We expect Network Rail to report in its SBP how it will deliver against each of the success measures and supporting measures set out in our [technical consultation on measures in our proposed CP7 outcomes framework](#). We will**

inform Network Rail of any changes to these measures following the conclusion of our consultation.

- 3.14 The SBP should include a clear summary (separately for England & Wales and for Scotland) of how each requirement specified in each funder's HLOS is addressed in Network Rail's SBP. If there are any areas where Network Rail's SBP does not meet a funder's requirements, these should be clearly highlighted together with the reasons why the requirements cannot be delivered. In addition, for success or supporting measures monitored by Network Rail's regions, we expect Network Rail to forecast each HLOS requirement, success and supporting measure for each of Great Britain, England & Wales and Scotland.
- 3.15 For each business unit (where applicable), its information should set out (where relevant):
- (a) an explanation of how its strategic plan aligns to the relevant funder's HLOS, noting that this is dependent on funding delivered by the SoFA.
  - (b) forecasts for each of the proposed success and supporting measures for each year of CP7, consistent with the requirements in each funder's HLOS. All forecasts should be made on a consistent confidence level (e.g. P50 or P80, which is a measure of confidence in the plan based on probability). This should be in line with funders' preferences in this respect.
  - (c) the process or methodology used to forecast the performance of each measure, including:
    - (i) describing any forecasting calculations and/or models used;
    - (ii) setting out the inputs to the above calculations, including:
      - (1) how the business unit's bottom-up activities (operations, support, maintenance, renewals) are aligned with performance; and
      - (2) the key assumptions, both central and at a business unit level, used to derive the forecasts (e.g. train service and passenger levels). Where there are regional assumptions, it is important that the regions set out why they have deviated from the central assumptions.
  - (d) An explanation of how risk and uncertainty have been considered when forecasting each measure. In particular, this should include how ranges for

estimates are calculated and a confirmation of key risks and assumptions that Network Rail considers are within or outside of its control.

- (e) Evidence of how forecasts are realistic. This should include evidence of the assurance process to review forecasts (in areas such as deliverability, for example), both by the business unit and other Network Rail teams (such as by Network Rail's Technical Authority and National Performance Team).
- (f) Evidence of how it has considered feedback from engagement with customers and stakeholders including how well its forecasts align with the requirements of its customers. If certain stakeholder and customer requirements cannot be fulfilled, then a rationale for why should be provided.
- (g) Evidence that the forecasts for each measure are deliverable considering the CP6 exit position, including setting out what the exit position is and the risks that could impact delivery in CP7 including any mitigations, as necessary.

## Expenditure

3.16 Our objectives in reviewing expenditure is to consider whether Network Rail's SBP:

- (a) is consistent with funders' priorities;
- (b) is aligned with the four core objectives of PR23 (safety, asset sustainability, train performance, and efficiency).
- (c) is deliverable (i.e. its assumptions for levels of expenditure for each asset are realistic);
- (d) is consistent with the current view of enhancements through the RNEP; and
- (e) does not create delivery risks or issues in subsequent control periods which cannot be recovered in future (or, where that is the case, that this has been set out clearly and with appropriate evidence).

3.17 As such, we expect, at a minimum, that the SBP will set out, across each year of CP7, for Network Rail as a whole, England & Wales, Scotland, and each of its business units:

- (a) operations expenditure, which is the cost associated with enabling train services to operate;

- (b) support expenditure, which refers to activities such as human resources or information technology;
- (c) maintenance expenditure, which is the cost of maintaining railway infrastructure assets; and
- (d) renewals, which is the cost associated with replacing parts of the railway infrastructure.

3.18 This should include:

- (a) a clear explanation of the transition from CP6 to CP7 (e.g. that the pre-efficient forecasts are consistent with the forecast exit from CP6), as well as a clear comparison of the variances with CP6;
- (b) analysis of unit rates and how they have been used in the SBP;
- (c) an explanation of its expectations about the performance of the different procurement processes and contractual frameworks in place; and
- (d) the impact of the expenditure proposals on subsequent control periods, including funding and renewals assumptions (this is discussed in more detail later in this chapter).

3.19 In addition, OMSR expenditure forecasts should be consistent with the current view of enhancements, with only schemes past the Final Investment Decision (FID) being included.

3.20 We will agree the templates with Network Rail in advance of its submission. We expect these to be prepared on a consistent basis by each region and national function (where relevant) to help facilitate our review (including to help draw comparisons among the regions).

## **Income forecasts**

3.21 Our objective in reviewing Network Rail's forecast income is to consider whether the SBP assumptions are appropriate. This reflects that, all other things being equal, Network Rail's income reduces the amount of funding it requires from the UK and Scottish Governments.

3.22 We expect, at a minimum, that the SBP (and the regions' strategic plans, as necessary) will:

- (a) set out the income, for Network Rail as a whole, England & Wales, Scotland, and the individual business units (as relevant). This should include each source of other single till income (i.e. commercial income not received from track access charges) that it expects to receive over each year of CP7;
- (b) set out what it expects to receive from its property income from sales and rentals at a regional level over each year of CP7. The forecasts should be fully explained by way of supporting commentary and evidence. We note that responsibility for managing property sales and rental largely sits with the regions (and that the central Group Property Unit acts as a 'professional head' in advising the regions). As such, we would expect each of the regions' strategic plans to set out their own proposals in this area, with assurance from the central Property Unit as necessary;
- (c) include any other sources of income. These should be set out to reflect any long-term impacts of the pandemic and its potential for ongoing recovery;
- (d) set out what it expects to receive from access charges, including clearly setting out the assumptions it is using about traffic volumes; and
- (e) set out a clear comparison of the variances with CP6.

3.23 We will agree the templates with Network Rail in advance of its submission. We expect these to be prepared on a consistent basis by each business unit to facilitate our review.

### **Efficiency (including headwinds and tailwinds)**

3.24 Our objective in reviewing Network Rail's efficiency plans is to assess whether the SBP includes a realistic and efficient level and mix of OSMR expenditure, including a level of efficiency improvements that are sufficiently challenging and achievable.

3.25 We expect, at a minimum, that the SBP will provide us with information on its pre-efficient cost plan, including:

- (a) the guidance it provided to the business units to develop their 'pre-efficient' cost plans, and an explanation of how it has assured that this has been applied consistently across the regions and national functions;
- (b) an explanation of the process applied, and evidence of Network Rail having challenged the regions and national functions' proposed costs;

- (c) a clear demonstration that the plans are at the level of confidence required by the funders, e.g. as set out in the HLOS and SoFAs;
- (d) information on its assumptions for input price inflation, headwinds and tailwinds;
- (e) efficiency studies and benchmarking; and
- (f) its bottom-up efficiency plans, and top-down efficiency calculations.

3.26 We also expect that Network Rail will provide us with its post efficient cost plan based on the information outlined above.

### **Identification and management of financial risk**

3.27 Our objective in reviewing financial risk is to assess:

- (a) Network Rail's approach to the management of financial risk;
- (b) whether the SBP has included appropriate funding (noting its risk portfolio) to efficiently manage delivery (as well as a process for delivering this); and
- (c) whether the SBP contains sufficient funding to manage the impact of risks (such as cost shocks) and uncertainty (such as the impact of inflation). We will do our assessment at an England & Wales, Scotland and business unit level (including regional).

3.28 We expect, at a minimum, that the SBP will:

- (a) provide its general policy on risk, including how risk will be managed in the England & Wales regions, in Scotland and by national functions. This should include the rationale for the policy adopted and set out if and how this differs from CP6, and why it has changed;
- (b) set out the risks that Network Rail will face and its understanding of the impact of the risks it will face in CP7, and how they can be mitigated or managed (e.g. what it has done to manage risk impacts and probabilities); and
- (c) include information and analysis on the risk exposure in England & Wales (including the individual regions), in Scotland and in the national functions. This should include how the risk funds have been allocated to the business units and how any centrally-held risk funding will be used.

## Deliverability

- 3.29 Our objective for reviewing deliverability is to consider whether Network Rail can realistically deliver against its SBP commitments.
- 3.30 Network Rail is currently experiencing certain external challenges (e.g. inflation pressures, material shortages, supply chain constraints) that are impacting on its current delivery and could potentially have knock on impacts on its CP7 planning and beyond. We expect Network Rail's SBP to pay particular attention to these issues.
- 3.31 In addition, and where there is a significant change in the volume of work (e.g. renewals) in CP7 compared with CP6, we require explicit assurance (e.g. copies of assurance and analytical reports) to ensure that it is deliverable. We require this assurance from Network Rail's:
- (i) Regional asset managers;
  - (ii) Regional Capital Delivery teams (including their engagement with the supply chain); and
  - (iii) Centre of Excellence (which provides assurance of capital delivery).
- 3.32 Finally, we expect Network Rail to provide information on its assessment of its CP7 plans and its assurance that these do not create unacceptable deliverability issues in future control periods. We require assurance on both supply chain deliverability and internal deliverability.

## Central cost allocation

- 3.33 Reflecting the nature of the service they provide to regions, the costs incurred by the SO and national functions are allocated to regions. Our objectives in reviewing cost allocation are:
- (a) to ensure that the business unit allocations are appropriate and each business unit has risk funding commensurate with its exposure; and
  - (b) to consider whether the SBP has apportioned the National Functions' costs to the regions and the SO in an appropriate way and that, in turn, the costs of the SO are apportioned to the regions in an appropriate way.
- 3.34 We expect, at a minimum, that Network Rail will provide us with:

- (a) the detailed methodology of the allocation and how it has changed since CP6 (where applicable);
- (b) the key allocation metrics used and the justification for using them;
- (c) information on the costs of the national functions, and how these costs have been assured; and
- (d) a clear comparison of the variances with CP6.

3.35 We expect Network Rail will engage with us on the potential use of templates to set out this information to us.

## Key requirements for the regions' strategic plans

3.36 Our assessment of the region's strategic plans will focus on the following areas: longer-term forecasts; asset management; innovation and technology adaptation; environment; signalling; freight and national passenger operators; and accessibility. We will also consider how these aspects of the strategic plans relate to each other and what they may mean for Network Rail's overall delivery. We note that some of these areas may also be relevant to the SO and certain national functions (e.g. deliverability).

### Longer-term forecasts

3.37 As part of PR18, Network Rail provided information in SBP on their long-term plans for spending on, and management of, the network assets up to CP12. We expect Network Rail to provide similar information in their SBP for PR23, which can be assessed and compared with the position during PR18.

3.38 The information should cover, at a minimum;

- (a) expected future spending requirement for assets, broken down by Control Period, asset type and region or function
- (b) remaining asset lives, broken down by Control Period, asset type and region or function, and
- (c) projected Composite Sustainability Index (CSI, which is a measure of asset condition), broken down by Control Period and asset type.

3.39 The data should be accompanied by narrative information relating to the forecasts at PR18 and PR23, explaining any material differences between the two and any

other key comparisons. A view from the Technical Authority on the forecasts should also be included.

## Asset management

3.40 Our objectives in reviewing the approach to asset management are:

- (a) to challenge Network Rail's SBP (including the regions' strategic plans) to maintain and renew the infrastructure network.
- (b) to ensure that the SBP and the strategic plans are based on whole-life cycle cost considerations and that they have considered asset life, asset performance and required safety levels for CP7 and beyond in a way that reflects the funding available.

3.41 We expect;

- (a) the SBP to provide us with regional asset management plans that reflect local asset and resource knowledge, relevant asset management policies, safety requirements and specific funders' requirements;
- (b) the regional strategic plans to have a strong line of sight to the Route Services' strategic plan, and other national function's plans, where relevant; and.
- (c) the regions' strategic plans to reflect a 'system approach' to their development (i.e. that the interactions between asset groups have been taken into consideration).

3.42 We expect, in the context of available funding and at a minimum, that the strategic plans will:

- (a) include information and analysis on how the regions plan to balance activities and prioritise maintenance and renewals activities across CP7. This includes the extent to which the regions are adopting a 'systems engineering' approach to balance maintenance and renewal activities according to whole-life cycle cost considerations. We will also consider the extent to which the balance between activities reflects sufficient focus on long-term asset sustainability beyond a short-term focus. This will consider how the strategic plans demonstrate adequate levels of maintenance capability, reflecting that the maintenance and renewals expenditure proposals should be deliverable;

- (b) address specific areas of concern raised in our review of the initial CP7 submission from March 2022, such as metallic structures (e.g. bridges), earthworks, ageing of the infrastructure and complexity of the system. We will also review how the SBP and the strategic plans address the challenge of weather resilience and climate change adaption in CP7 and beyond;
- (c) clearly set out what work is to be delivered, for when, and how success will be measured;
- (d) clearly set out deferred renewals from CP6 (where applicable) and the implications of the deferral (including with respect to future financial performance and / or future network availability and operational performance);
- (e) include a demonstration of asset management competence in accordance with best practice asset management (such as the Institute of Asset Management Competence Framework);
- (f) consider the transition from forecast cost and volumes for CP6 into CP7;
- (g) clearly identify the volume of activities to be delivered for both maintenance and renewals activities, along with renewals being clearly set out in terms of total volumes and the added asset life they impart (effective volumes) by year and totals for the control period;
- (h) discuss the approach to asset information and its use in optimising whole life costs; and
- (i) include a clear demonstration of expected asset management performance outcomes through measurements such as CSI (along with its constituent parts) and other measures, including Service Affecting Failures (SAF), Wrong Side Failures (WSF) rates, and Composite Reliability Index (CRI) which provides a shorter-term assessment of asset condition and performance.

## **Innovation and technology adoption**

3.43 Our objectives in reviewing innovation and technology adoption are to ensure that the regions' strategic plans (and the SBP and R&D programme overall):

- (a) support delivery of PR23 objectives and funder priorities, as well as reflecting whole-system challenges and opportunities;

- (b) reflect engagement with local stakeholders and operational staff in a way that identifies the needs and opportunities for innovation; and
- (c) are consistent with the overall cost efficiency assumptions
- (d) support delivery of longer-term plans and projects in CP8 and beyond.

3.44 We expect, at a minimum, that the SBP and strategic plans will:

- (a) set out the R&D activities proposed for CP7. As part of this each Network Rail region should consistently set out the:
  - (i) proposed R&D activities and the level of funding required to deliver each activity; and
  - (ii) benefits that will be delivered and when they will be delivered (e.g. CP7 or 8 or beyond).
- (b) set out how the proposed R&D activities support the delivery of funders' priorities for CP7, as well as customer and other stakeholders' needs, including showing how Network Rail has considered feedback from engagement with customers and stakeholders in its plans;
- (c) include the methodology used to estimate the likely benefits of the proposed R&D activities, and how this accounts for different success rates of projects at different levels of maturity;
- (d) demonstrate robust governance arrangements along with the national context for managing R&D, and its integration as a single portfolio of work;
- (e) demonstrate how it promotes innovation and use of technology, and progresses thinking to deliver efficiency and safety commitments;
- (f) explain how Network Rail will work with third-party organisations to deliver the best value for funders;
- (g) demonstrate that research undertaken is offered on the widest possible basis to GB institutions; and
- (h) demonstrate how R&D governance activities will ensure the transfer of successful R&D projects into BAU and linkages with other programmes such as Intelligent Infrastructure.

3.45 We recently conducted [a targeted assurance review to understand Network Rail's performance in ensuring that the new technology it develops is adopted](#). The review found that technology adoption is slow and low at Network Rail and made a range of recommendations that we are considering. As a result, we are commissioning consultants to map out the different areas of Network Rail's R&D spend. We expect to use this analysis in our review of Network Rail's SBP.

## Environmental sustainability

- 3.46 Our objective in reviewing environmental sustainability is to ensure that, in line with the funding available, the SBP (as well as regions' strategic plans) include proposed outputs and activity with respect to environmental sustainability that are in line with the HLOSs, relevant legal requirements and industry best practice. They should also reflect what is required for customers and wider stakeholders.
- 3.47 In reviewing Network Rail's proposed outputs, we will expect it to adhere to legislative requirements, industry best practice and Network Rail's own standards. The SBP should also set out how Network Rail aims to deliver the requirements in its Environmental Sustainability Strategy in line with the funding available.
- 3.48 We will verify that the proposed environmental sustainability outputs (where applicable) are in line with funders' requirements, as set out in the HLOSs.
- 3.49 Linked to the above, we will expect the SBP to set out the amount and origin of the funding attached to the proposed outputs. Environmental initiatives cross over a range of activities (e.g. renewals, R&D) and regions. A key issue will therefore be to avoid 'double-counting' environmental initiatives in the SBP. Network Rail should set out consistently across each region's strategic plan:
- (a) what projects it is including. This should include clear definitions of what the money will be spent on;
  - (b) how much they are going to cost;
  - (c) what they will deliver; and
  - (d) when the money will be spent e.g. CP7, CP8 or beyond.
- 3.50 We will expect the SBP to demonstrate that the environmental principles are built into the early stages of its processes to efficiently achieve the required output in these areas.

3.51 In the area of weather resilience and adaptation, we will expect each region to be able to demonstrate alignment between its strategic plan and the Weather Resilience and Climate Change Adaptation (WRCCA) plan.

## Signalling

3.52 Our objective in reviewing the signalling strategy is to ensure that it (including the strategy for digital signalling) supports the delivery of funders' priorities and customers' and other stakeholders' needs and that it represents an efficient level of spend.

3.53 We expect, at a minimum, that the SBP (and supporting strategic plans) will:

- (a) explain how the proposed approach to signalling is consistent with each funder's strategy for signalling, including digital signalling;
- (b) demonstrate the most appropriate balance of conventional and digital signalling renewals, including life extension strategies and digital compatible renewals, reflecting the funding available;
- (c) set out signalling renewal activities it is proposing for CP7. As part of this each region (and national function, where applicable) should consistently set out:
  - (i) what the renewal is;
  - (ii) what it is going to cost, including the signalling equivalent unit (SEU) rate; and
  - (iii) when the money will be spent (e.g. split across years 1-5 of CP7 or spread into CP8 or beyond).
- (d) set out the national enabling activities it is proposing for CP7. As part of this we expect the strategic plan for Route Services, the Technical Authority and Industry Partnership Digital (IPD) which sits in Eastern Region (which is accountable for delivering the national enabling projects and supporting regions to deliver their own digital signalling renewals) to explain what these activities are and what the money is being spent on;
- (e) include information on the governance and assurance processes included for fleet fitment. This should include what work Network Rail is proposing in CP7 for fitment in current and future periods, i.e. CP7, CP8 and CP9;

- (f) include reference to conventional and digital SEU Strategies, including how and when Network Rail intends to reduce the SEU rate in CP7 and beyond; and
- (g) demonstrate the proposed signalling workbank is deliverable.

3.54 We acknowledge that this area, particularly cab fitment, is contingent on the level of funding that Network Rail will receive in the SoFAs, which will affect the approach to CP7 and beyond.

## **Freight and national passenger operators**

3.55 Reflecting that each region has a role in delivering for freight and national passenger operators, each region's strategic plan should set out what they will deliver for these customers and stakeholders (and how). As part of this, they should demonstrate how they have engaged with the freight community (including freight operators and freight customers) and how these priorities will be addressed (and, if not, why not). Freight growth was highlighted in the Williams-Shapps plan for rail and the Scottish Government included a target in its HLOS for CP6 and we would expect to see how any growth target would be implemented.

3.56 The region's strategic plan should also reflect the SO's role over freight and national passenger operators.

## **Accessibility**

3.57 Our objectives for reviewing accessibility are to consider whether the SBP and strategic plans:

- (a) are in line with Network Rail's legal requirements and the HLOSs (where relevant), and are aligned with accessibility requirements of relevant public bodies (e.g. Department for Transport); and
- (b) are meeting the accessibility needs of customers where appropriate.

3.58 We expect, at a minimum, that the SBP and strategic plans will:

- (a) clearly articulate Network Rail's accessibility priorities at regional and SO/functional level, (where applicable) including how its priorities were agreed upon and how its strategic plans align with them. This should include the activities Network Rail's regions will undertake to achieve its priorities and how success will be measured; and

- (b) provide evidence of how it has considered accessibility in its planning for, and delivery of, relevant renewals, including a commitment to compliance with the overall national standards on accessibility (e.g. National Technical Specification Notices – Persons of Reduced Mobility, Code of Practice on Design Standards for Accessible Railway Stations) and the use of Disability Impact Assessments at the planning stages of projects.

## Key requirements for the SO's strategic plans

- 3.59 Our objective for reviewing the SO's strategic plan is to consider whether it is appropriate for securing delivery of strategic planning, managing change to what the network delivers, producing the timetable, selling access to the network, and facilitating freight services.
- 3.60 There should be a separate strategic plan for the SO, reflecting our approach of having a separate settlement for the SO that sits alongside separate regional settlements.
- 3.61 We expect the SO's strategic plan to set out the activities, outputs and outcomes it intends to deliver over the course of CP7, including how they will measure success.
- 3.62 We expect, at a minimum, that the SO's strategic plan will:
  - (a) demonstrate how its approach to strategic planning will deliver on funders' requirements, including the key activities that will be undertaken over the course of CP7, and how success will be measured;
  - (b) provide evidence of building on CP6 experiences relating to the Sale of Access Rights (SOAR) process and to deliver improvements to efficiency and service in CP7;
  - (c) include plans for delivering industry timetabling processes in CP7 to ensure that they are suitable and effective for stakeholders;
  - (d) demonstrate how it will ensure projects over the course of CP7 will deliver benefits, including synergies between live operations and timetables; better data for decision making and safety projects;
  - (e) provide evidence of how it plans to lead and co-ordinate work with the regions, national functions (where applicable) and other infrastructure owners to deliver effective operations;

- (f) set out what activities it plans in order to deliver freight performance (including coordinating activities across Network Rail), as well as addressing freight requirements for access to the network. It should also set out how it has ensured freight requirements are integrated across all SO activities and consider how to achieve any freight growth target;
- (g) provide evidence of having considered the views of national operators, open access operators and charters where the SO owns the relationship. We will require evidence of how it has considered their priorities in its planning and decision making; and
- (h) provide evidence of having considered stakeholder views in its plan, including the governance process in place to reflect its customer and stakeholders' needs in its decision making. This should include it has engaged the Scotland region in its CP7 planning.

## Key requirements for National Functions

3.63 By way of background, 'national functions' refers to Network Rail's non-region and non-SO business units and includes:

- (a) **Route services**, which provides services to regions in support of the delivery of renewals services that are not readily divisible or devolved to the regions;
- (b) The **Technical Authority**, which provides specialist expertise and leadership for the organisation in safety, engineering, asset management, security, environment and sustainability;
- (c) The **Chief Financial Office**, which includes the Group Property Unit and the Group Finance unit, amongst others; and
- (d) Other **corporate functions** (e.g. HR and communications).

3.64 We review the national functions CP7 planning information to ensure their spending proposals are appropriate and efficient and to ensure that they are contributing effectively to Network Rail's overall delivery. Reflecting the nature of each of the different national functions, we propose to require different information for different national functions.

3.65 Specifically, we will require that there is a separate strategic plan for each of the 'core' national functions, namely Route Service and the Technical Authority. It should include, at a minimum:

- (a) proposed income and expenditure for CP7, and across each year of CP7;
- (b) key delivery activities, benefits and how success will be measured;
- (c) a clear explanation of any material increases in cost or income;
- (d) an explanation of how it will help to deliver funder requirements,
- (e) evidence of engagement with regions and other stakeholders; and
- (f) the allocation of costs to the regions, including an explanation of these costs.

3.66 Other national functions should provide information to us, but in a form to be agreed to be determined by Network Rail (but agreed with us in advance). However, it should include:

- (a) proposed income and expenditure across each year of CP7, and for CP7 as a whole;
- (b) high-level information on its key delivery activities;
- (c) Network Rail assurance work (e.g. Hackett), where applicable and an explanation of material cost increases; and
- (d) the allocation of costs to the regions, including an explanation of these costs.



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