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Mike Mitchell
Director General, Rail and National Networks
Department for Transport
Great Minster House
76 Marsham Street
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Dear Mike

National Stations Improvement Programme – preparation for ORR’s determination of the deliverability of the programme.

Your decisions last summer included a provisional allocation of £150m¹ for improving passenger perceptions at around 150 intermediate stations. You stated that this allocation was to be subject to our determination that the joint industry plans for the programme are deliverable. We will make this final determination in February.

We agreed it would be helpful if we could give you an early indication in December of our likely determination.

We have worked closely with the National Stations Improvement Programme board and working group. In August, we wrote to the board setting out how, more particularly, we intended to assess the deliverability of the plans.

We see no reason to depart from the criteria we have set out.

1. Scope, efficiency and ongoing costs of proposed works

The industry’s strategic business plan included a draft list of all stations to be included in the initiative. Because of the timescales of the programme, some of the later additions to the list do not include details of the scope of the planned works. **We expect to have a near final list, recognising that this will be subject to change, by February.** We are

¹ In 2005/2006 prices

reviewing the details for the various activities and enhancements, and are working with the board to agree unit costs / rates per activity and also management and overhead costs. Network Rail is doing some work to assess the likely materiality of changes to operating, maintenance and repair costs. Subject to the results of that work, the programme board has agreed that increases, or decreases, in operation, maintenance and repair costs will rest with the party which incurs them, in accordance with existing contracts. We have agreed to consider any large changes in operating costs consequent upon substantial station schemes within the initiative separately. **Passing this criterion will therefore be dependent upon our final views at the completion of this work.**

2. Selection of Stations

We are satisfied that the methodology the programme board has agreed for initially allocating the funding and for selecting the stations is a reasonable way of assuring a good geographical spread, the maximisation of third party funding and of increasing passenger satisfaction. Your colleague on the programme board has also said that the Department for Transport is happy with this mechanism.

3. Deciding on delivery

We are working closely with the programme Board to agree sound criteria for optimising efficiency in delivery of the schemes. **Passing this criterion will be dependent upon the final agreement of the programme board to a mechanism that we have confidence in.**

4. Incrementality of NSIP work

Together with the programme working group, we are working to agree a way for each local delivery group to demonstrate that each scheme is incremental to existing obligations, which are already funded. We have agreed that this exercise can be split into two main categories, (1) establishing at a local level the obligations that already exist to carry out maintenance works for the most significant cost items, as well as assessing the planned inputs for those areas, and (2) creating a mechanism for calculating the incremental value of renewals and enhancements. **Passing this criterion will be dependent upon our final views at the completion of this work.**

5. Securing third party funding

We are satisfied that the guidance provided to the local delivery groups for exploring sources of third party funding should maximise any opportunities which exist, without compromising the efficient delivery of the programme.

6. Phasing

The strategic business plan contained details of the method of allocation and selection of stations for the second phase of the programme. **We would like to understand when the programme board anticipates this stage will begin before we can be sure that this criterion has been passed.**

7. Roles and responsibilities

The strategic business plan sets out clear roles for both the programme board and the local delivery groups, including an escalation process in the event of disputes. The board has agreed a firm principle that risks during design and delivery of works within the initiative should rest with those responsible for delivery in each case. We are satisfied that this criterion has been passed.

8. Synchronicity with other work

The draft list of 196 stations appended to the strategic business plan includes information as to other schemes at the relevant stations, together with an indication of other funds available. We have made clear that all individual sources of funding are to be identified. The programme board has agreed in principle and **we expect to see work on dovetailing processes by February.**

We have discussed with your team the regulatory funding treatment of expenditure on the initiative. We are happy to add the efficient net capital investment to the regulatory asset base. Our initial estimates suggest that around 65% of planned expenditure can be treated as capital investment of one form or another. In discussions with your colleagues at the Department, we understand that you regard this as the lowest acceptable proportion of capital to operating expenditure, and we will work with the programme board within those parameters. As discussed, the other activities (classified as operating expenditure) will be funded on a pay-as-you-go basis. The precise details of how activities are assessed at individual stations should be addressed through the local delivery groups.

We expect to treat the “early start” programme in 2008-09, expected to be up to £25 million, in the same way as the rest of the programme (to be delivered in 2009-14) and are content to log up to the regulatory asset base the efficient assumed costs of the programme in 2008-09, for inclusion in the opening regulatory asset base.

We will monitor delivery of the programme as a CP4 commitment.

We see no reason to believe the outstanding items listed above cannot be resolved satisfactorily, based on the work done so far. We therefore expect to be able to make a

favourable determination of the deliverability of the industry plans for the National Station Improvement Programme, by February.

Yours sincerely

A handwritten signature in blue ink that reads "Bill Emery". The signature is written in a cursive style with a small flourish at the end.

Bill Emery

Copied to; Robin Gisby, Network Rail Infrastructure Limited (Joint Chair)
Tom Smith, The Go-Ahead Group Plc (Joint Chair)

All National Station Improvement Programme board members