

PR18 consultation

Draft guidance on Network Rail's strategic business plans

Date of publication: 23 November 2016

Purpose of SBPs and this guidance

Our 2018 periodic review (PR18) will determine Network Rail Infrastructure Limited's (Network Rail's) outputs and funding in control period 6 (CP6), which we expect to run from 1 April 2019 to 31 March 2024. This will feed through into the service passengers and freight customers receive and, together with taxpayers, ultimately pay for.

As part of PR18, Network Rail will produce strategic business plans (SBPs) for CP6 and beyond. The SBPs are the main source of evidence that we will use to determine Network Rail's funding and outputs for CP6. This document seeks views on how Network Rail should prepare its SBPs, notably including how its route businesses should engage with customers and other stakeholders.

As confirmed in our recent letter concluding the PR18 [initial consultation](#), we are changing how we regulate Network Rail. We are putting an increasing focus on regulating each of Network Rail's route businesses, building on changes that the company is making to devolve more responsibility to its routes. This move to 'route-level regulation' will encourage closer working between Network Rail and train operators, and increase the role of local funders. It will allow us to make more use of comparison between routes when we assess the company's plans and then hold it to account for delivery.

In addition, we will regulate Network Rail's national system operator activity separately; implementing regulation that is tailored to this important function, so as to support improved timetabling, better use of the existing network and analysis of how the network should be enhanced over time.

Together, this approach will provide for greater focus on the issues that matter to passengers and freight customers, and provide additional support for improved efficiency and cost reduction.

The SBPs will consist of a suite of documents. Each geographical route is preparing its own 'strategic plan', and we also expect a separate strategic plan for the freight and national passenger operator (FNPO) route, for the national system operator (NSO) and for Network Rail's other central functions. Network Rail will need to provide a consolidated 'SBP' for England & Wales, and a consolidated 'SBP' for Scotland, as well as some company-wide data.

In the SBPs, Network Rail should set out its plans for operating, maintaining and renewing the network, and how it intends to improve its capability and efficiency. These plans will affect what the railway can deliver – and so have a significant impact on the service that train operators can offer to passengers and freight customers – and the future condition of the network.

Network Rail's strategic plans should contain forecasts of expenditure and income, the outputs it expects to deliver and its assessment of the revenue it requires. This allows us to assess: whether its plans are consistent with the requirements set out by the UK and Scottish Governments in their high-level output specifications (HLOSs); whether there is sufficient funding available to allow Network Rail to deliver these requirements (set out in the statements of funds available (SoFAs)); and whether the plans are consistent with the safe and sustainable management of the network. More generally, the provision of a five-year settlement provides Network Rail with predictability around its funding position, which allows it to plan work in ways that reduce cost.

To support this process, we will issue guidance to Network Rail in February 2017, to set out our expectations regarding the requirements from these plans and the process for preparing them. This document sets out a draft of this guidance. By issuing guidance we aim to:

- improve transparency, quality and accountability by setting out our expectations upfront;
- facilitate train operators', end users' and other stakeholders' engagement in the SBPs, both during their development and during our subsequent scrutiny; and
- ensure that the strategic plans support comparison between the routes, improving our scrutiny for PR18 and providing a strong basis for monitoring during CP6.

During CP5, Network Rail has moved to 'continuous business planning'. We have had helpful discussions with Network Rail about its processes and about preparing for the strategic plans. Our intention is that to a large extent this guidance is consistent with and supports the processes that Network Rail has already established. Where differences exist, this draft guidance, for consultation, forms part of our approach to seek to resolve these differences.

Responding to this consultation

This consultation provides an opportunity for all stakeholders to influence the content and assessment of SBPs for CP6, including:

- the contents of our guidance, and therefore the contents of the SBPs;
- how we intend to assess the SBPs, including grading of route strategic plans; and

- how stakeholders might add value through their engagement with the process of preparing the SBPs and its subsequent scrutiny.

How to respond

We welcome all responses to this consultation, including less formal responses such as emails, bilateral or multilateral discussions on any aspects covered in our draft guidance or that stakeholders consider to be missing.

To respond, or to get in touch to arrange a discussion, please contact **Emily Bulman** by email at emily.bulman@orr.gsi.gov.uk or by phone on 020 7282 3892.

This consultation closes on **11 January 2017**.

Where written responses are made to us (particularly more formal responses), we may publish these on our website. If you wish any information that you provide, including personal data, to be treated as confidential, please say so in your response (an automatically generated confidentiality disclaimer by IT systems will not necessarily be sufficient in this respect). However, please be aware that regardless of any such request, we may be obliged to disclose or release any submissions made to us under the access to information regimes, such as the Freedom of Information Act 2000 or Data Protection Act 1998. Further information about how we may treat your response is available in paragraphs 6.40-6.43 of our [initial consultation](#).

After considering responses to this consultation we will issue finalised guidance in February 2017. We may update our guidance following the publications of the Secretary of State's and the Scottish Minister's HLOSs and SoFAs later in 2017.

Scope of the guidance

This draft guidance covers:

- the structure of the SBP submissions including how the new FNPO route and NSO should be treated;
- the governance of the process including the need for transparency and appropriate sign off;
- the importance of stakeholders in the process and our expectations regarding engagements between routes and stakeholders;
- the route objectives including the importance of efficiency, asset sustainability and health and safety;
- the need for detailed activity and expenditure plans; and

- SBP assurance.

In addition, we set out how we plan to assess the plans and our criteria for grading them. We will publish our grading of individual routes' strategic plans.

To allow us to issue our PR18 final determination in October 2018, we need Network Rail to submit its SBPs in line with our agreed timetable. Further, to support orderly scrutiny and stakeholder engagement on the plans, following submission of the SBPs, supplementary information should only be submitted if we specifically request it. It is therefore critical that the SBP submissions are of high quality, robust and evidence-based – there is little opportunity for a second chance.

Draft guidance to Network Rail on the preparation of its strategic business plans

The structure of the submissions

1. There should be a separate 'strategic plan' for each route, including the freight and national passenger operator (FNPO) route, and for the national system operator (NSO). Costs associated with central functions should also be separately identified.
2. We expect Network Rail's SBPs to consist of a suite of documents as follows:
 - T0 – two published summary documents, for England & Wales and for Scotland, written for a non-technical audience;
 - T1 – the strategic plans, consisting of a number of documents; these are:
 - a strategic plan for each route including the FNPO;
 - a strategic plan for the NSO;
 - strategic plans covering all the central function;
 - inputs to the strategic plans, prepared by central functions, in the form of planning assumptions and short form strategies; and
 - of these, we expect the strategic plans for each route and for each central function, including the NSO, to be published; and
 - T2 – detailed strategies.
3. In addition, there are underlying documents that are core reference points for the SBPs. These include, for example, the asset policies and supporting evidence base (which include detailed workings, studies, and process documents).
4. Although PR18 will result in a determination for CP6, it is important that the SBPs contain forecasts of expenditure, outputs and other key parameters beyond CP6 – we expect at least 10 years from the start of CP6 – to provide the longer term context to our determination. It is also important that the SBPs include clear and realistic assumptions for the remainder of CP5.
5. Table 1 below summarises our current expectation regarding the content of the different submissions. This is broadly in line with the guidance that the company-level Network Rail (referred to throughout this document as 'the centre') has issued to the routes.

Table 1: Our expectations regarding contents of strategic plan T1 submissions

	Geographic route	FNPO	NSO	Other central functions	Consolidated E&W	Consolidated Scotland	GB
Forecasts of key relevant metrics (outputs etc.)	✓	✓	✓	[TBC]	✓	✓	[TBC]
Scorecards	✓	✓	✓	x	x	x	✓
Enhancement schemes	✓	✓	x	✓	x	x	x
Expenditure	✓	✓	✓	✓	✓	✓	✓
Recharge of associated central functions' expenditure	✓	[TBC]	[TBC]	x	✓	✓	✓
Income from charges & incentives	✓	✓	[TBC]	x	✓	✓	✓
Corporation tax projections	✓	x	x	x	✓	✓	✓
Net revenue requirement	✓	[TBC]	[TBC]	x	✓	✓	✓
Strategies	✓	✓	✓	✓	x	x	x
Forecasts of expenditure uncertainty	✓	✓	✓	✓	✓	✓	✓
Evidence of stakeholder input to plans	✓	✓	✓	x	x	x	x
Signed off by appropriate director	✓	✓	✓	✓	✓	✓	✓

6. In particular our understanding is that:

- the consolidated submission, for the whole company (GB-wide), will primarily consist of financial data;
- the consolidated England & Wales and consolidated Scotland SBPs will focus on financial data and outputs;
- consistent with Network Rail's preparations, we expect to receive a strategic plan from each route, largely prepared 'bottom up' by each route, and that they will each be set out in a consistent format, which will be broadly as follows:
 - Summary

- Stakeholder priorities
- Route objectives
- Activities and expenditure
- Customer focus and capacity strategy
- Cost competitiveness and delivery strategy
- Culture strategy
- Strategy for commercial focus (3rd party funding)
- Financial information including central function recharges, other single till income, and net revenue requirements
- Annexes

The freight and national passenger operator route (FNPO) plan

7. Network Rail is in the process of establishing a freight and national passenger operator (FNPO) route to protect and enhance the interests of customers. We understand Network Rail's intention is for the FNPO route to have a similar relationship with its customers (train operators) as the geographic routes. We would therefore expect much of the content of the FNPO strategic plan to be comparable with the geographic routes.
8. However, unlike the other routes, FNPO is not expected to directly own or manage infrastructure assets. Hence there may not be analogous expenditure plans.
9. Train operators have a potentially important role in challenging Network Rail's costs and some aspects of its income. This is particularly the case for the FNPO because freight (and open access) operators bear changes to costs directly through their track access charges (whereas franchised passenger train operators are to a large degree protected from such changes at present). Therefore we expect, consistent with the geographical route plans, the FNPO plan to set out information in ways that support appropriate cost scrutiny by customers.
10. The FNPO is a GB-wide route, with customers operating in (and between) both England & Wales and Scotland. Its revenue and expenditure are recharged to the England & Wales and Scotland consolidated accounts.
11. Reflecting this, we expect the FNPO plan to:
 - set out the FNPO's priorities for CP6, including demonstrating how it has identified and reflected on the FNPO's stakeholder priorities;
 - any plans across the GB network of particular relevance to FNPO customers, cross referring to specific route plans where appropriate;

- expenditure projections; and
- what revenue the NSO needs to recover to efficiently meet its activities and outputs.

The national system operator (NSO) strategic plan

12. There should be a separate strategic plan for the NSO, reflecting our approach of having a separate settlement for the NSO that sets out what outputs it should deliver and the revenue it needs to do this. This is discussed in further detail in our November 2016 document on developing the regulatory settlement for the Network Rail national system operator; see [here](#).
13. We expect the NSO strategic plan to:
 - include, at a minimum, those system operator activities we identified in our November 2016 document. These relate to long-term network planning (e.g. managing the long-term planning process); medium-term capacity management (e.g. determining capacity from the network through management of the Train Planning Rules); and short to near term allocation of capacity (e.g. in managing the operational timetable);
 - set out the NSO priorities for CP6, including how Network Rail will address the material issues, opportunities and future challenges we have identified (as discussed in our [supporting document](#) to the November 2016 document on our findings on the system operation issues, opportunities and challenges);
 - demonstrate how it has captured and reflected on the NSO's stakeholder priorities, including those of the routes. We are currently exploring with Network Rail and the NSO stakeholders how it should secure stakeholder input in its strategic plan; and
 - expenditure projections and the revenue the NSO needs to recover to efficiently conduct its activities and meet its outputs.
14. We will work with Network Rail and with industry to develop the framework for the NSO regulatory settlement in the coming months, and expect Network Rail to reflect our thinking in this area in the NSO's strategic plan.
15. As with other central functions, the NSO's activities span GB-wide, and its expenditure is recharged to the England & Wales and Scotland consolidated accounts. The NSO plan should clearly set out this expenditure.

Other central functions

16. Network Rail should set out separately information about its other central functions (i.e. not the geographical or FNPO route or the NSO). This includes the Digital Railway, Infrastructure Projects, Network Operations HQ, Telecoms (which, in

contrast to most assets, is managed centrally), and standard corporate functions such as legal & corporate services and finance.

17. In the central functions' strategic plan or plans, we expect information on strategies, plans for improvement of central and/or strategic (company-wide) capabilities, where these are not covered elsewhere.
18. We expect central functions to demonstrate meaningful engagement with routes in the preparation of their strategic plans. This is particularly important because central functions' expenditure is recharged to the routes, and will to a large extent be held to account through the routes.
19. We expect expenditure projections for each of the central functions to be clearly set out and that the methodology for recharging to routes uses cost-reflective metrics.

Supporting analysis and data

20. We understand that Network Rail intends to publish its high level SBPs (for England & Wales and for Scotland), each of its route strategic plans and the NSO plan. Routes should share with their stakeholders a much wider range of material, so that they are able to use their expertise to scrutinise the plans.

Governance

Transparency of roles

21. Each route should have a large degree of ownership of their strategic plan. This is fundamental to route-level regulation and supportive of Network Rail's devolution. We do not plan to be prescriptive, however, about the specific role of the centre, the geographical routes, FNPO route and the NSO in preparing individual items within the strategic plans. We do expect the different parts of Network Rail to set out their respective roles transparently.
22. Any adjustments made to the plans subsequent to the routes' final submission to the centre should be transparently set out, together with the reasons why the adjustments were made.

Enabling comparison between routes

23. As part of its continuous business planning, Network Rail provides guidance to the routes (including templates for providing data and information) and certain policy documents and overarching assumptions. Then, when the routes have submitted the plans, Network Rail centrally conducts assurance of the plans.
24. It is important for our assessment of the route strategic plans that we are able to compare data from the plans on a consistent basis. To support this, it is essential that

the centre continues to provide guidance and templates to the routes. We will continue to engage with Network Rail on this issue in the lead up to the SBP submissions.

Plan sign-off

25. We expect Network Rail to sign off its plans, to reflect that it will be held to account, both at a consolidated level and at a route-level, and that the plans have been quality assured.
26. We therefore expect the following sign-off arrangements:
 - the SBP for England & Wales to be signed off by the Network Rail board;
 - the SBP for Scotland to be signed off by the Network Rail board;
 - each route strategic plan, including that for the FNPO, to be signed off by the route managing director (RMD);
 - the NSO plan to be signed off by the director of network strategy and planning; and
 - other central functions' strategic plans to be signed off by a board level director.

Stakeholder engagement

27. Network Rail's strategic plans for CP6 will need to take account of the priorities of passengers, freight customers and train operators (who are Network Rail's direct customers), other relevant stakeholders including local funders, and the requirements set out by national funders in the HLOSs.
28. These priorities may need to be balanced against the cost of meeting those requirements (both now and in future), deliverability and affordability (reflecting the relevant SoFA). It will also be important to ensure sufficient resources are devoted to maintaining and renewing the infrastructure to maintain its condition and capability (for the benefit of future passengers, freight customers and taxpayers).
29. Network Rail should provide opportunities for stakeholders to engage widely in the preparation of the strategic plans. Notably train operators can inform plans and expenditure projections, using their railway expertise and understanding of operations, access and costs. This could include ways in which train operators and Network Rail could collaborate to reduce industry-wide costs, or to identify opportunities to save costs through the better use of under-used infrastructure.
30. Network Rail's September 2016 guidance to its routes on the development of the strategic route plans requires the routes to explain:
 - who the stakeholders are;

- how the stakeholders have been engaged;
 - how stakeholders' views have been prioritised;
 - the results of the prioritisation of needs; and
 - how these priorities link to short and long-term route objectives.
31. We understand that Network Rail is preparing more guidance to its routes but consider this to be a reasonable starting point in helping the routes to develop their strategic plans. We welcome the fact that it provides scope for the routes to undertake their own approach, thereby allowing for more creative and/or bespoke approaches that reflect the needs of the particular route.
32. Reflecting stakeholders' views expressed in response to our working papers, we also provide some initial thoughts about how Network Rail routes might approach stakeholder engagement for CP6.
33. In 'who the stakeholders are', this would include:
- passengers (whom we expect to be engaged through representative groups and their interests understood through existing or new market research);
 - freight customers (with a mix of direct engagement with larger customers and input from representative groups);
 - relevant passenger and freight operators (potentially with the FNPO acting on their behalf);
 - local transport providers and / or local business groups; and
 - local funders.
34. It may also include national funders, consistent with Network Rail's memoranda of understanding with Department for Transport (DfT) and Transport Scotland (on enhancements and reclassification). Supplier engagement is also important for developing a cost-effective plan. More generally, routes may take a more expansive approach to defining their stakeholders, where they see fit.
35. With respect to 'how the stakeholders have been engaged', routes should proactively engage with key stakeholders and provide opportunities for others to engage in the process. This could include formal consultation and face-to-face engagement. We also see a role for existing or new passenger research (including that set out in the passenger demand forecasting handbook (PDFH)) to inform route plans. At a minimum, we expect that:
- each route develops route objectives that balance the needs of stakeholders, but which are ultimately consistent with the priorities of end users;

- wider stakeholders have opportunities to engage with the routes' strategic plans on an individual route-level basis, including workshops / meetings that are open to all stakeholders; and
 - given anticipated funding constraints, the focus of much of the engagement should be on priorities and trade-offs and identifying cost-effective ways forward.
36. To support this, stakeholders should have access to relevant information regarding the route strategic plans, in an appropriate level of detail, to be able to contribute effectively. Network Rail should, therefore, seek to share sufficient information to support good quality engagement with stakeholders, rather than just relying on the contents of the published plans.
37. In 'how stakeholders' views have been prioritised', Network Rail should record the key points raised (including areas of disagreement) and set out how these have been addressed. We expect there to be points of difference between Network Rail and stakeholders. These might arise due to funding constraints and/or the need for Network Rail to consider longer-term impacts on asset sustainability and efficiency. We would expect Network Rail to do this in a proportionate and transparent way, drawing on research into the value passengers attach to different priorities (notably as set out in the PDFH and funders' appraisal guidance) where relevant to do so.
38. We do not plan to be directly engaged in the process of engagement between Network Rail and its stakeholders. However, so that we hear about key issues first-hand, and in order to inform our assessment of the strategic plans, we expect as a minimum for each route to attend:
- a meeting with stakeholders to discuss the emerging plans, scheduled for around February 2017; and
 - a meeting with stakeholders following submission of the SBP.
39. We expect there to be similar arrangements for the NSO, albeit potentially to a different timeframe.
40. In addition, the routes should set out how they propose to engage with stakeholders during CP6.
41. In our assessment and grading of the strategic plans, we seek to place reliance on effective stakeholder engagement. This will include recognition of where a plan has benefitted from a proactive approach to this engagement: where a Network Rail route (or the NSO) actively seeks input, and where there is clear evidence of genuine dialogue, debate and explanation of the action taken in response. We will work with Network Rail and industry to develop our approach to this assessment in the coming months.

Route objectives, scorecards and metrics

42. In this section we set out our expectations for the SBP submissions, in the following areas:
- the roles of scorecards and route objectives;
 - route forecasts using consistently defined metrics; and
 - route objectives that may not be given sufficient priority by existing customers, namely:
 - efficiency;
 - asset sustainability; and
 - health and safety.

Roles of scorecards and route objectives

43. In the route strategic plans' template, route objectives are similar in presentation and content to route scorecards, but set out for CP6 rather than a single year. We expect the routes to prepare their objectives with extensive input from the route's stakeholders and that they set out how the interests of taxpayers, passengers and freight customers are protected.
44. Each route's objectives need to be consistent with the applicable HLOS and SoFA, but much of the preparation for the route strategic plan will occur prior to their publication.
45. It is already clear, however, that funding is likely to be constrained and hence there will be difficult choices regarding which interventions are funded. Given this, any improvements on the status quo should be costed in some proportionate form to inform funding choices.
46. Subject to funding constraints, we would expect routes to consider the extent to which they can plan to:
- support the delivery of commitments set out within the relevant existing franchises;
 - support the delivery of commitments set out in national funders' published plans for future franchises (such as specifications in ITTs);
 - have regard to national funders' rail freight strategies; and
 - deliver against end user priorities and the reasonable requirements of their customers.

47. We have not yet decided on what, if any, regulatory oversight we would give scorecards, and hence route objectives. However, we want to support Network Rail agreeing route objectives with its stakeholders that could also inform how ORR holds the company to account, including through regulated outputs.
48. We set out in our outputs framework working paper some criteria for the CP6 framework as a whole. In general, we are more likely to adopt metrics for the purposes of formal regulatory oversight if they:
- reflect the relevant funded interests of end users (passengers and/or freight customers) and/or the relevant requirements of national funders;
 - support effective monitoring and enforcement, including by reflecting the principles of clarity, confidence and responsibility as set out in our outputs framework working paper (particularly that the impact of Network Rail's actions on the metric is sufficiently clear to enable us to take regulatory action if required);
 - do not create a double jeopardy situation for Network Rail in terms of existing legislation;
 - support comparison between the geographic routes, or enable appropriate focus on the delivery parts of Network Rail such as the NSO or the FNPO that are responsible for delivering key rail outcomes; and
 - are requirements that are likely to endure for the length of the control period in order to reduce transaction costs associated with change control.
49. We will set out our final decision on our regulatory approach to scorecards / route objectives, and regulated outputs in our final determination.

Route forecasts using consistently defined metrics

50. Consistent with Network Rail's preparations, it is essential that the geographical routes' strategic plans contain consistently defined metrics (which may or may not be included in each route's objectives) covering core areas. This will enable comparison between routes and facilitate stakeholders in holding individual routes to account.
51. As a minimum, the consistently defined metrics would set out realistic, well-evidenced forecasts for CP6, consistent with the strategic plan, in the following areas:
- traffic levels;
 - asset performance and sustainability;
 - efficiency;

- train performance, both passenger and freight (e.g. passenger weighted delay minutes);
 - network availability (e.g. Schedule 4 compensation);
 - health and safety (including measures of workforce safety and train risk); and
 - sustainable development.
52. The FNPO strategic plan would contain forecasts for a different set of metrics, including metrics for freight performance and network availability.

Efficiency and financial performance

53. It is important to all those who fund the railway (including present and future passengers and freight customers, national and local funders, and present and future taxpayers) that Network Rail achieves greater efficiency and makes decisions that are cost effective and consistent with end users' priorities.
54. During CP5, renewals delivery has become less efficient. In preparing its plans for CP6 it will be important that Network Rail sets out its assessment of what have been the drivers of greater and reduced efficiency during CP5, particularly in respect of known areas of weaker than expected performance, and to explain how the plans for CP6 build on successes and address identified weaknesses.
55. The routes' strategic plans should set out strategies and interventions to manage and improve their financial performance, for example their supply chain strategy and investment in research and development. Where funding is sought, this should be supported by a proportionate business case.

Asset sustainability

56. Network Rail's plans for maintenance and renewals during CP6 should achieve the following outcomes:
- safe asset performance consistent with achieving the network performance required; and
 - the condition and capability of the network as a whole is sustained in the short, medium and long term.
57. Any departure from these outcomes due to deliverability constraints should be identified and their implications set out.
58. Any departure from these outcomes due to affordability should be clearly set out (at route and / or network level, according to what is most relevant), along with the implications of this (potentially with respect to future financial performance and / or

future network availability and operational performance). The following should also be set out:

- with respect to the position at the start of CP6, as a result of the deferral of planned CP5 renewals that occurred due to funding constraints (in particular, the renewals expenditure deferred relative to previously agreed CP5 plan baselines);
- with respect to the ex-ante position during and beyond CP6, as a result of funding constraints where Network Rail considers the funding in either/both SoFAs to be insufficient; and
- we also expect Network Rail to set out how it proposes to update this information during CP6, for monitoring purposes, as a result of outturn activities and expenditure.

Health and safety

59. It is important that the SBPs enable Network Rail to ensure the continued safety of the railway and to exploit all reasonably practicable opportunities for improvement. In its SBP submissions, Network Rail needs to explain how it will:

- implement its Health and Safety Strategy, “Transforming Safety and Wellbeing”, finding more effective ways to achieve commitments given around culture, rules and competence, innovation and assurance;
- focus on ensuring it can achieve its maintenance, renewals and operational output to support a safe infrastructure; and
- ensure compliance with all its relevant legal obligations under health and safety legislation over CP6.

60. We expect the SBP submissions to set out proportionate business cases and rationale for health and safety projects for which Network Rail is seeking funding. The SBP submissions should also:

- explain progress against commitments given in PR13 for two control periods and clearly describe the plan to implement these fully;
- be consistent with the recently published industry Health and Safety Strategy;
- outline how Network Rail proposes to achieve an appropriate balance between allowing for the devolved management of risk at route level whilst maintaining the overall health and safety responsibilities and accountability of the company;
- explain how its infrastructure project management arrangements are consistent with health and safety by design (SBD);

- demonstrate how its approach has the capability to deliver a shift towards the higher 'predictable' and 'excellent' RM3 ratings across all elements of the safety management system;
- demonstrate that it is consistent with its risk control framework, and set out or cross-refer to its arrangements for monitoring, auditing and reviewing the effectiveness of its systems;
- be consistent with Network Rail's recently published level crossing strategy and demonstrate how the associated milestones will be delivered by routes and Infrastructure Projects;
- the approach used for prioritising and assessing system risk, taking account of the interfaces across the different asset policies – the impact of any changes in asset policy should be clearly explained;
- set out how it intends to manage the risk arising from its asset renewal work banks and any associated increase in maintenance activity to sustain required performance levels;
- describe lessons learned from CP5 incidents involving adverse weather conditions and improved means of control for risks arising from extreme weather events;
- be consistent with (or improve on) its existing commitments with respect to track worker safety and occupational health; and
- set out how it will work to ensure that infrastructure working practices for AC and DC electrified lines will be made safer.

Activities, expenditure, and net revenue requirement

Expenditure plans

61. Network Rail should provide a robust demonstration that its plans of activities deliver the outputs / objectives it forecasts, and that the funding sought for the work reflects a realistic but challenging level of efficiency.
62. The following expected expenditure inputs will be needed for each route for the PR18 financial modelling process:
 - maintenance expenditure;
 - capital expenditure:
 - renewals expenditure; and
 - enhancements expenditure;
 - network operating expenditure;
 - NSO expenditure;

- other central functions expenditure;
- industry costs expenditure¹; and
- Schedule 4 and 8 expenditure.

63. We will agree the templates for the information with Network Rail well in advance of submission of the strategic plans. They will be prepared on a consistent basis by each route, to facilitate comparison between routes. We expect the renewals plans will adopt the hierarchy developed by the Activity Based Planning project (ABP); and that maintenance plans will adopt the structure developed by ABP.
64. The expenditure plans should be adjusted for changes to efficiency, both due to external factors, sometimes referred to as headwinds and tailwinds, and due to improvements made by Network Rail. This should include information on real price effects and risk ranges of possible expenditure outcomes.

Third party funding

65. Existing third party funding streams should be clearly set out in the plan along with assumptions on how these will change during CP6.
66. In preparing its plans for CP6, we expect Network Rail to explore new sources of funding. Each route strategic plan should explain what new funding avenues are being developed by the route, the processes they will establish to react to new opportunities, and how this fits in with the route's objectives.

The net revenue requirement

67. The strategic plan for each route should set out its net revenue requirement. This is also required for the consolidated England and Wales SBP and the Scotland SBP.
68. The net revenue requirement should be calculated using the building block approach. We will set this out in our December 2016 consultation on the financial framework. Key components are:
- expenditure items classified as operating expenditure, for example maintenance expenditure;
 - amortisation allowance, based on a forecast of Network Rail's long run annual renewals costs;
 - funding requirements for enhancements;

¹ The term 'industry costs' refers to a set of costs which Network Rail has to incur in order to operate the network, but over which it has limited control, for example business rates and the ORR licence.

- other single till income and asset disposal proceeds; and
- cost of capital and other financial values.

69. We expect all central functions' expenditure to be recharged to the routes (including FNPO) and NSO using cost-reflective metrics. Similarly, track access charges income and incentives income should be distributed to the routes (and potentially the NSO), both for the purposes of the strategic plans and during CP6, in a way that is cost reflective.

Network Rail's approach beyond the SBP and during CP6

70. In the SBPs, Network Rail should set out how it proposes to:

- update its business plans (including its delivery plan) in response to new information; and
- more generally, respond to cost and funding shocks.

71. This includes information on how it proposes that any financial reserves should be allocated between routes, a regime for allocating its central reserve to routes and how it will reallocate the route reserves to optimise overall performance.

72. The SBPs should include information on Network Rail's plans to improve its capability, where needed, for example with respect to capacity planning (for the NSO); project, programme and portfolio management; and further improving its asset data, decision support tools and their adoption by the routes.

Delivery plan and subsequent business planning

73. Following our PR18 final determination, and before the start of CP6, Network Rail must issue its delivery plan for CP6, consistent with our determination. We will engage further on the structure and timing of the delivery plan later in PR18.

74. It is important that ORR and Network Rail work together to understand and explain any changes between the SBP, our final determination and the delivery plan (including at a route level). This will help make the process transparent and help ensure that all parties have a clear understanding of the baseline that comparisons are being made against.

75. Similarly, Network Rail must update its plans at least annually. Any changes to, for example, funding or outputs should be set out transparently and be subject to the change control process that we will establish through our final determination. Such updates should be in a format that will enable ORR, train operators and funders to compare like-for-like over time.

SBP assurance and submission

Network Rail's own assurance

76. Network Rail is setting up three levels of assurance for the SBP suite of documents and 'data books' (which set out the actual and forecast financial and operational data). It describes these levels as follows:
- Level 1: primary assurance at route / function level, typically evidenced by RMD sign-off;
 - Level 2: secondary assurance by independent teams from the centre with relevant specialist knowledge, typically evidenced by assurance reports; and
 - Level 3: by exception, tertiary assurance by internal or external audit.
77. We are engaging with Network Rail on these processes.

Configuration and version control

78. The SBP submissions will be based on certain 'foundation documents', such as asset policies, as well as planning assumptions, route templates and templates for the consolidated SBPs. Some foundation documents are live in the sense that Network Rail updates them on an ongoing basis.
79. 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 SBPs and any substantive concerns that we have (in particular relating to our ability to assess the SBPs) are addressed.
80. A key foundation document is the regulatory accounting guidelines (RAGs). Network Rail will prepare its SBP submissions in accordance with the current RAGs; where Network Rail wants to adopt a different treatment, this needs to be agreed with us before being implemented.
81. For Network Rail's 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 business plans, and there is a risk that some inputs to the SBPs may be calculated on the basis of old versions.
82. Therefore, it is important that Network Rail set 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 SBPs – and that the submissions are based on the correct versions.

Form of submission of documentation

83. Network Rail should submit to us electronic versions of the SBP submissions. In addition, building on the approach it took in PR13, we ask that Network Rail to establish an online forum ('data room') to host the documentation, providing for access by named ORR staff. Databooks should be provided in spreadsheet format.
84. The data room should also provide for the exchange of information between ORR and Network Rail in respect of ORR's review (such as question logs) and the ability to download/back-up the information in the forum.
85. 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 PR18 is formally implemented and CP6 commences.

Our assessment and grading of the plans

86. For the SBPs to be fit for purpose they need to: plan to deliver the right things (its objectives and hence its outputs); show that Network Rail is well placed to deliver them (in terms of its plans, its capability and its approach – for example responding to cost shocks); and have revenue requirements that are calculated accurately.
87. Although the plans should be led by the routes, it is also important that the consolidated plans are internally consistent and robust. We expect Network Rail to ensure the plans focus on the key issues and challenges it faces. The table below sets out our initial thinking on what those key issues might be, and where they should be reflected in the SBP. This is not intended to be an exhaustive list – it is for Network Rail to ensure that it follows a robust process to identify key issues and reflect them appropriately in the SBPs.

Table 2: Table of key issues for SBP

Does the SBP do this?	Relevant sections of the plan	Examples of potential key issues
Spend on the right things?	Route objectives; outputs; planning assumptions; asset policies	Asset sustainability, particularly in context of CP5 renewals deferrals Clear link with passengers and freight customer priorities Consistency with franchise commitments and stakeholder reasonable requirements
Set out a plan to use the funding well?	Expenditure plans; proposed interventions	Consistency with minimising whole life cost Plan for improving efficiency Proportionate business cases
Have the capability to use the funding well, including responding to cost shocks?	Strategies; capabilities; policies	Network Rail's capability to respond to cost shocks Enhancements / renewals split

Grading of route SBPs

88. Route devolution presents an opportunity for us to focus our regulation to a greater extent at route level. With respect to the strategic plans, it means that we can:

- compare routes to get better information;
- use these comparisons to help focus our resources effectively (through proportionate assessment of strategic plans); and
- formally recognise high quality plans, for example by publishing our grading of each route plan with respect to different criteria.

89. We are proposing two stages to the grading process:

Stage 1: Initial assessment: prioritising what we scrutinise

90. We will start conducting our initial assessment of routes' strategic plans (along with the consolidated plans) before formal submission of the SBPs (through progressive assurance and Network Rail's own assurance of route plans), and we will complete this fairly quickly after receiving the SBPs.

91. From this we will be able to reach an initial view on the robustness of the overall plan and suggest indicative grades for elements of route plans with respect to a number of criteria (set out below). We will not publicise the results of our assessment until after the second stage is complete.

92. Our assessment will be an important element that determines how we focus our resources in scrutinising the SBP submissions and any gaps or areas where we require further evidence in order to better assess the plan. We will recognise submissions that are high quality by subjecting them to proportionately less scrutiny.

Stage 2: Final assessment against criteria

93. As part of our continued wider assessment of the SBPs, in order to inform our decision on funding and outputs, we will refine our grading of the plans. As with stage 1, this will partly be through our own assessment, but also through consultation with stakeholders, particularly with respect to how well different routes have engaged their customers and other stakeholders in preparing the route strategic plans.

Overarching criteria

94. In addition to addressing the issues set out in table 2, we expect a good route strategic plan to be consistent with the following overarching criteria.
1. A robust business planning process, including a comprehensive set of submissions.
 2. Proactive, appropriate and effective stakeholder engagement, taking account of passengers' and freight customers' priorities.
 3. Route objectives and interventions that transparently relate to stakeholder priorities, supported by proportionate business cases.
 4. Expenditure plans that deliver the route objectives at efficient cost.
 5. Realistic and innovative strategies, including strategies to improve capability.
 6. High quality assurance of data and appropriate treatment of foundation documents and evidence (both centrally and locally held).
 7. Appropriate identification and treatment of uncertainty and risk.

The outcome/result of grading

95. We will publish the results of our grading in (or shortly after) our draft determination. We think that it is important that high quality plans, or components of plans, are recognised. We are considering whether there should be scope for recognising managers who prepare good plans. In addition, we welcome views on how good elements of plans that may not be high quality overall might best be recognised and / or rewarded.



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