

Periodic Review of Network Rail

Guidance on Network Rail's strategic business plans

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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.

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 central functions. Network Rail will need to provide a consolidated 'SBP' for England & Wales, and a consolidated 'SBP' for Scotland, as well as some GB-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 and cost 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. The plans also set out how Network Rail is planning to improve its efficiency.

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.

This document sets out our guidance and expectations regarding the requirements of these plans and the process for preparing them. 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 CP5¹, Network Rail has moved to undertaking business planning on an ongoing basis, with regular updates. 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 guidance forms part of our approach to seek to resolve these differences.

Scope of the guidance

This 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;

¹ See [PR18 glossary](#) for technical terms in this guidance.

- the importance of stakeholders in the process and our expectations regarding engagement 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 intend 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, 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.

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) route², and for the national system operator (NSO). Activities and costs associated with central functions should also be separately identified in a strategic plan. Each route, the NSO and central functions should be clearly defined in the strategic plans in terms of their accountability and, for the geographical routes, their infrastructure boundaries³.
2. We expect Network Rail's SBPs to consist of a suite of tiered documents as follows:
 - Tier 0 (T0)– three published summary documents, for Great Britain as a whole, for England & Wales and for Scotland, written for a non-technical audience;
 - Tier 1 (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;
 - a strategic plan(s) covering all the central functions;
 - inputs to the strategic plans, prepared by central functions, in the form of planning assumptions and short form strategies; and
 - Tier 2 (T2) – detailed strategies that underpin the strategic plans for example the sustainable development strategy.
3. Of the T1 items, we expect the strategic plan for each route and for each central function, and the NSO, to be published. In addition, there are underlying documents that are core reference points for the SBPs, but will not be submitted as part of the SBP. 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 we also have a view beyond CP6, so that the longer term expenditure implications of the CP6 plan, particularly with respect to renewals volumes, are transparent. Aspects of this may be

² In this document we use the terms 'geographic routes' to exclude the FNPO, and 'routes' to include the FNPO.

³ We would expect a high level description to be included in the T1 documents and for this to be supplemented by a more detailed reference document setting out the detail.

prepared using a 'top down' approach, as currently proposed by Network Rail. We expect:

- a bottom-up route level forecast for the remainder of CP5;
 - a bottom-up route level forecast for CP6 and the first year of CP7; and
 - a top-down picture presented at route level for the longer term (our understanding is that Network Rail is preparing projections, based on forecasts of renewals volumes, over 30 years).
5. Similarly, we expect bottom-up forecasts for the NSO and central functions up to the first year of CP7.
6. Table 1 below summarises our expectation regarding the content of the different submissions.
7. In particular we expect:
- 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;
 - a strategic plan from each route, largely prepared 'bottom up' by that route, and that each plan will 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; and
 - annexes

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

	Geographic route	FNPO	NSO	Central functions	Consolidated E&W	Consolidated Scotland	GB
Forecasts of key relevant metrics (outputs etc.)	✓	✓	✓	[1]	[1]	✓	*
Scorecards	✓	✓	✓	[2]	[2]	✓	✓
Enhancement	Subject to HLOSs						
Expenditure	✓	✓	✓	✓	✓	✓	✓
Recharge of associated central functions' expenditure	✓	✓	[3]	x	✓	✓	✓
Income from charges & incentives	✓	✓	[3]	x	✓	✓	✓
Corporation tax projections	x	x	x	x	✓	✓	✓
Net revenue requirement	✓	✓	[3]	x	✓	✓	✓
Strategies	✓	✓	✓	✓	x	x	x
Forecasts of expenditure uncertainty [4]	✓	✓	✓	✓	✓	✓	✓
Evidence of stakeholder input to plans	✓	✓	✓	x	x	x	x
Signed off by appropriate director	✓	✓	✓	✓	✓	✓	✓

Notes: [1] Following our assessment of Network Rail's SBP we may consider it appropriate to set outputs for central functions, or at an England & Wales, Scotland or national level. This will depend on any areas of focus or concern and will reflect Network Rail's position on where accountability for activities sits.

[2] We note that certain central functions also have scorecards, and that others use the Network Rail corporate scorecard. We understand that Network Rail may not produce a E&W scorecard.

[3]The financial treatment of the NSO is discussed in our [November consultation](#) document. We expect to conclude on these aspects of the settlement in the coming months.

[4]We note that the forecasts of expected uncertainty are likely to be a combination of top down (centrally-led) and bottom up approaches.

9. Although the overall structure of the route plans should be consistent, they should be flexible enough to enable routes to highlight the nuances and intricacies within their local environment.

The freight and national passenger operator route (FNPO) plan

10. Network Rail has established a freight and national passenger operator (FNPO) route to protect and enhance the interests of these customers (specifically freight operators, charter operators, and two franchised operators⁴). The FNPO route has the same relationship and accountability with respect to 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.
11. However, unlike the geographical routes, FNPO does not directly 'own' or manage infrastructure assets. Hence there will not be fully analogous expenditure plans.
12. It is important that the FNPO route is clearly defined and its relationships with the geographical routes and the centre (in terms of responsibility and accountability) are transparent.
13. 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 charter (and open access) operators and their customers face the impact of changes to 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 the train operators, customers and their representatives.
14. The FNPO is a GB-wide route, with customers operating in (and between) both England & Wales and Scotland. Its revenue and expenditure are accounted for separately.
15. 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

⁴ XC Trains Ltd (trading as 'CrossCountry') and Serco Caledonian Sleepers Ltd (trading as 'Caledonian Sleeper')

- what revenue the FNPO needs to recover to efficiently meet its activities and outputs.
16. In preparing the strategic plans, it is important that there is open dialogue between the FNPO route and the geographical routes. The FNPO must set out how it has engaged – and will continue to engage – with the geographical routes to champion the needs of the relevant operators and their customers.

The national system operator (NSO) strategic plan

17. There should be a separate strategic plan for the NSO, reflecting our approach of having a separate settlement for the NSO that would sit alongside the separate route settlements.
18. We expect this 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 identified⁵;
 - demonstrate how it has captured and reflected on the NSO's stakeholder priorities, including those of the routes. This should be in line with our guidance on Network Rail's stakeholder engagement (as discussed below). The NSO's stakeholders include the Network Rail routes, operators and funders. They also include passenger transport executives, passengers and freight users given that many of the NSO's activities and outputs are relevant to them. As such, we expect the NSO to take account of their priorities, including through use of existing/new research and engagement; and
 - include expenditure projections and the revenue the NSO needs to recover to efficiently conduct its activities and meet its outputs.
19. We continue to work with Network Rail and with industry to develop the framework for the NSO regulatory settlement, and expect Network Rail to reflect our thinking in this area in the NSO's strategic plan.

⁵ This should reflect those material issues, opportunities and future challenges we identified as part of our work on the NSO settlement, as discussed in our [November NSO consultation](#).

20. As with central functions, the NSO's activities span GB-wide, and its expenditure is charged to each of the routes. The NSO plan should clearly set out this expenditure.

Central functions

21. Network Rail should set out separately information about its central functions. These are functions other than the geographical or FNPO routes or the NSO, and include the technical authority and route services. Their expenditure is recharged to the routes.
22. In the central functions' strategic plan or plans, we expect each central function to clearly set out the roles they will undertake and what these will deliver for the routes. We expect central functions to demonstrate meaningful engagement with routes (and where appropriate directly with operators) in the preparation of their strategic plans. This is particularly important because central functions will to a large extent be held to account through the routes.
23. 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. The plans will, in particular, need to provide sufficient evidence to justify the proposed expenditure.
24. We expect information on strategies and plans for improvement of central and/or strategic (company-wide) capabilities, where these are not covered in other SBP submissions. As part of this, Network Rail should explain progress against commitments given in PR13 for CP5 and beyond, and clearly describe the plans to implement these fully or explain why they have been changed.

Supporting analysis and data

25. 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 prior to the submission being finalised, so that stakeholders are able to use their expertise to scrutinise the plans.

Governance of the SBP

Transparency of roles

26. Each route should have ownership of its 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.

27. We expect the different parts of Network Rail to set out their respective roles in the preparation of the plans transparently.
28. The submissions should also set out how the plans have been collectively reviewed to ensure a joined up plan for GB. The routes should be given sufficient opportunity to challenge any adjustments to their plans suggested by the centre. 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

29. As part of its continuous business planning, Network Rail provides guidance to the routes (including templates for providing data and information), certain policy documents and overarching assumptions. Then, when the routes have submitted the plans, Network Rail centrally conducts assurance of the plans.
30. 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, and conducts assurance activities. We will continue to engage with Network Rail on this issue in the lead up to the SBP submissions.

Plan sign-off

31. 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.
32. 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
 - central functions' strategic plan or plans to be signed off by a board level director.

Stakeholder engagement

33. 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 authorities, and the requirements set out by national funders in the HLOSs. This makes it 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 the route / the NSO, through its strategic plan, to demonstrate it has effectively engaged with stakeholders.

34. Engagement is also important because train operators can inform plans and expenditure projections, using their railway expertise and understanding of operations, access and costs. The plans could include ways in which train operators and Network Rail can collaborate to reduce industry-wide costs, or to identify opportunities to save costs on under-used infrastructure. In addition, the views of passengers (and their representatives) will be important to ensure that possessions are planned efficiently and communicated effectively.
35. 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 allocated to maintaining and renewing the infrastructure to maintain its condition and capability (for the benefit of future passengers, freight customers and taxpayers).
36. The stakeholders should include:
 - passengers;
 - freight customers;
 - relevant passenger and freight operators;
 - local transport providers and / or local business groups; and
 - local funders.
37. It could 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 and deliverable plan. More generally, routes and the NSO may take a more expansive approach to defining their stakeholders, where they see fit.
38. The geographic routes may engage directly with FNPO customers or, if the customers prefer, the FNPO may act on their behalf. In preparing their strategic plans, it is important that there is open dialogue between the FNPO route and the geographical routes. Geographical routes must set out in their strategic plan submissions how they have engaged with the FNPO and how their plans have been informed by the priorities of freight, national passenger operators and operators for

which they are not lead route, and how they will continue to take account of these in CP6.

39. Routes/the NSO should proactively engage with key stakeholders and provide opportunities for others to engage in the process through a range of fora that meet their different needs. This could include formal consultation and face-to-face engagement. Existing analysis from the established Long Term Planning Process studies provides important evidence on stakeholders' priorities
40. Routes/the NSO should also facilitate and incorporate the views of passengers and other end users, given the particular importance of their views. This could be, for example, a mix of direct engagement with larger freight customers and input from representative groups. Routes may also draw on the wealth of evidence on passenger priorities in passenger market research (including that set out in the passenger demand forecasting handbook (PDFH)). Transport Focus suggested that it could provide a role "*sense checking the broad thrust of each SBP against passenger opinion*".
41. 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 and value for money;
 - 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.
42. 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.
43. The routes/the NSO 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 the routes/the NSO 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.

44. We expect, as a minimum, that each route will to set up a meeting with its stakeholders to discuss the emerging plans; these are scheduled for around February and March 2017. We also expect the routes and the NSO to have other meetings with stakeholders as part of their planning for CP6, notably with respect to delivery planning.
45. We do not plan to be directly involved 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 will attend key stakeholder engagement sessions to observe the discussion.
46. We expect the NSO to use a similar process of stakeholder engagement to inform its strategic plan, albeit that it may want to adapt the processes adopted by the routes to reflect the different balance of stakeholder interests, including the interests of the routes. We will assess the NSO's stakeholder engagement alongside that of the routes'.
47. In addition, the routes/the NSO should set out how they propose to engage with stakeholders during CP6.
48. In our assessment and grading of the strategic plans, we seek to place reliance on effective stakeholder engagement; this is discussed in further detail the last section of the guidance.

Route/NSO objectives, scorecards and metrics

49. In this section we set out our expectations for the SBP submissions in the following areas:
 - the roles of scorecards and route/NSO objectives;
 - route/NSO 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/NSO objectives

50. In the route strategic plan 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 and the NSO to prepare their objectives with extensive input from their

stakeholders and to set out how the interests of taxpayers, passengers and freight customers are protected.

51. Each of the route/NSO's objectives need to be consistent with the applicable HLOS and SoFA, albeit that much of the preparation for the strategic plan will occur prior to their publication.
52. 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.
53. Subject to funding constraints, we would expect routes/the NSO to consider the extent to which they can plan to:
 - support the delivery of commitments set out within the relevant existing TOC franchises from the DfT or Transport Scotland or passenger commitments from other bodies ;
 - support the delivery of commitments set out in national governments' published plans for future franchises (such as specifications in Invitations to Tender);
 - support the delivery of national funders' rail freight strategies; and
 - deliver against end user priorities and the expectations of their customers.
54. We have not yet decided on what, if any, regulatory oversight we would give to scorecards, and hence the route/NSO objectives. However, we want to support Network Rail agreeing the route/NSO objectives with its stakeholders that could also inform how ORR holds the company to account, including through any regulated outputs which may be set.
55. We are working with the industry, governments and Network Rail to clarify the relationship between scorecards and outputs in CP6 and this work is on-going. We expect a core set of consistent measures to be required on each scorecard to enable route level comparison. 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;
 - enable Network Rail to demonstrate that it is doing everything reasonably practicable to deliver the metric in question, including by reflecting the principles of clarity, confidence and responsibility as set out in our July 2016 [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 (such as in the areas of safety and environment in particular);
 - support comparison between the geographic routes, or enable appropriate focus on the parts of Network Rail responsible for delivery 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.
56. Network Rail is developing a NSO scorecard for CP6. While the measures included on the NSO scorecard (and indeed the FNPO scorecard) may differ considerably from those of routes, we expect the overall approach to setting them to be similar.
57. 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 measures

58. Consistent with Network Rail's preparations, it is essential that the geographical routes' strategic plans contain consistently defined measures (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.
59. As a minimum, the consistently defined measures 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 and financial performance;
 - train performance, both passenger and freight ;
 - network availability;
 - customer (i.e. operator) satisfaction;
 - health and safety (including measures of workforce safety and train risk); and
 - sustainable development.
60. One or more of these measures could constitute regulated outputs in our final determination.
61. The FNPO strategic plan will contain forecasts that cover measures for freight performance and national passenger operator performance. The NSO strategic plan will also contain forecasts that cover measures of its operational performance.

Efficiency and financial performance

62. 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 is efficient, and makes decisions that are cost effective and consistent with end users' priorities.
63. 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.
64. The 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

65. Network Rail's plans for maintenance and renewals during CP6 should achieve the following outcomes:
 - safe asset performance consistent with achieving the network performance; and
 - the condition and capability of the network as a whole is sustained in the short, medium and long term.
66. Any departure from these outcomes due to deliverability constraints should be identified and its implications set out.
67. 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).
68. With respect to the position at the start of CP6, the renewals that formed part of the previously agreed CP5 plan baseline but that were deferred due to funding constraints should be clearly set out. The implications of the deferral (potentially with respect to future financial performance and / or future network availability and operational performance) should be set out.
69. 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

70. 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;
 - ensure compliance with all its relevant legal obligations under health and safety legislation over CP6; and
 - where full legal compliance is difficult due to legacy infrastructure characteristics, describe the trajectory to improved compliance and explain how risk is managed in the interim.
71. We expect the SBP submissions to set out proportionate business cases and rationale for any discrete health and safety projects for which Network Rail is seeking funding. These may include accelerating reasonably practicable expenditure to improve legal compliance (in electrical safety, and control of risk from falls from height, for example) or areas of priority concern where control measures can be vulnerable, such as track worker protection or safety at passive level crossings.
72. The SBP submissions should also:
- explain progress against commitments given in PR13 for both CP5 and CP6 and clearly describe the plan to implement these fully or explain why they have been changed;
 - be consistent with the recently published industry Health and Safety Strategy and other relevant industry initiatives;
 - 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 Network Rail’s 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;
- set out 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 and income plans

73. 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.
74. As part of this, Network Rail should distinguish in its plans those activities and associated expenditure and outputs that were commitments given in PR13,⁶ and formed part of the agreed expenditure baseline for CP5, but are not expected to have been delivered by the end of CP5. It should clearly describe the plan to implement these CP5 requirements fully or explain why they have been changed.
75. The following expected expenditure inputs will be needed for each route for the PR18 financial modelling process:
- maintenance expenditure;

⁶ We exclude enhancements specified by national funders in this, which are subject to separate scrutiny.

- capital expenditure:
 - (a) renewals expenditure; and
 - (b) (subject to HLOSs) enhancements expenditure;
- other single till income
- network operating expenditure;
- NSO expenditure;
- central functions expenditure;
- industry costs expenditure⁷; and
- Schedule 4 and 8 expenditure.

76. 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. The plans should be set out by year in 2017-18 prices except where agreed with ORR.
77. 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.
78. In the SBPs, the expenditure on enhancement projects, and the expenditure implications of those enhancement projects should be consistent with the enhancement assumptions set out in the two governments' HLOSs. If, for example, the two HLOSs did not contain any specifications regarding enhancements (including those enhancements that are currently under construction) then the SBPs would not include expenditure associated with delivery of enhancements (though would include expenditure associated with long term planning).
79. The 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. Figures should be provided showing both the before and after positions.
80. Each of the routes' plans and the NSO plan, as well as the consolidated plans for Scotland and for England & Wales, should include information on real price effects and risk ranges of possible income and expenditure outcomes; this is to include a central forecast of these effects for each year. We note that the forecasts of expected uncertainty are likely to be a combination of top down and bottom up approaches.

⁷ 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.

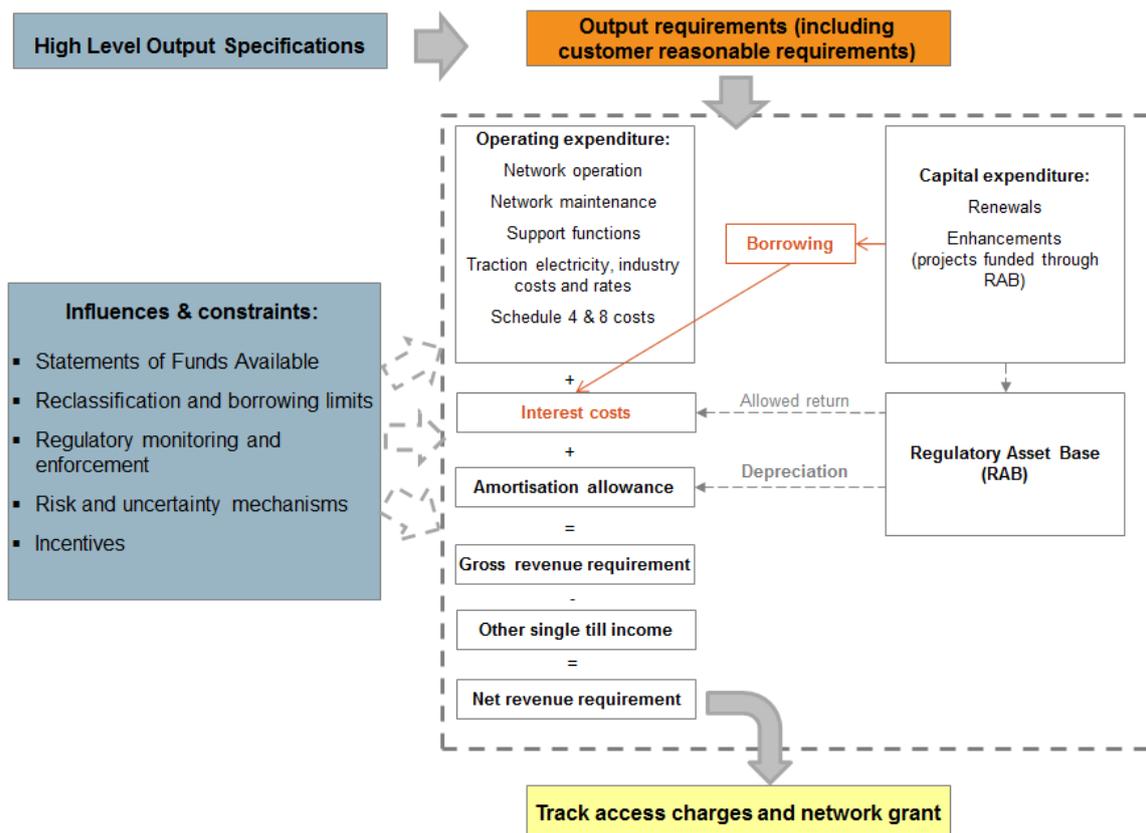
Third party funding

81. Existing third party funding streams should be clearly set out in the plan along with assumptions on how these will change during CP6.
82. In preparing its plans for CP6, we expect Network Rail to explore new sources of funding, working with existing stakeholders and potentially other parties where appropriate. 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

83. The strategic plan for each route should set out its net revenue requirement. This is also required for the consolidated England & Wales SBP and the Scotland SBP.
84. Net revenue requirements should be calculated using the building block approach. Calculations using data from the templates will need to be consistent with our financial model which we will have shared ahead of the SBPs. We set this out in our January 2017 consultation on the financial framework. Figure 1 below summarises this.

Figure 1: Building block approach



85. We expect all central functions' expenditure to be recharged to the routes (including FNPO) and NSO using cost-reflective metrics agreed with ORR. Revenue from track access charges, network grants and other sources should be allocated to routes, including the FNPO, both for the purposes of the strategic plans and during CP6, in a way that is consistent with the revenue requirement calculations. Revenue should not be allocated to the NSO (even if an indicative revenue requirement is shown in our financial model) because its costs are recharged to the routes.

Network Rail's approach beyond the SBP and during CP6

86. 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.

87. 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.

88. 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

89. 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.
90. 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.
91. Similarly, Network Rail must update its business 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

92. 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.
93. We are engaging with Network Rail on these processes.

Configuration and version control

94. 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.
95. 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 so that any substantive concerns that we have (in particular relating to our ability to assess the SBPs) can be addressed.

96. 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, (notably, in order to achieve consistency with our approach to PR18 for the NSO and the FNPO route) this needs to be agreed with us before being implemented.
97. 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.
98. 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 SBPs – and that the submissions are based on the correct versions.

Form of submission of documentation

99. Network Rail should submit to us electronic versions of the SBP submissions. In addition, building on the approach it took in PR13, we expect Network Rail to consider establishing an online forum ('data room') to host the documentation, providing for access by named ORR staff. Data books should be provided in spreadsheet format.
100. 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.
101. 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 CP6 commences.

Our assessment and grading of the plans

102. Our PR18 aim is "A safer, more efficient and better used railway, delivering value for passengers, freight customers and taxpayers in control period 6 and beyond". We will assess the SBPs with respect to this aim, including with a strong focus on the credibility of the plans. 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.

103. Although the route strategic plans should be produced 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 some of those issues, 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
Set out plans for spending?	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 taking account of stakeholders' priorities
Set out a plan to use the funding effectively?	Expenditure plans; proposed interventions	Consistency with minimising whole life cost Plan for improving efficiency Proportionate business cases
Have the capability to use the funding effectively, including responding to cost shocks?	Strategies; capabilities; policies	Network Rail's capability to respond to cost shocks

Grading of route strategic plans

88. Route devolution presents an opportunity for us to focus our regulation to a greater extent at route level. With respect to the assessment of the route 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 our initial assessment 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 finalise or 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 route strategic 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, with information presented clearly and concisely.
 2. Proactive, appropriate and effective stakeholder engagement, taking account of passengers' and freight customers' priorities and key industry strategies.
 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 Network Rail and industry 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.

Assessment of Network Rail's stakeholder engagement

95. We will assess the routes'/the NSO's strategic plans with respect to stakeholder engagement as part of our overall assessment. Box 1 sets out some initial thinking on the principles of good stakeholder engagement that we could use as the basis of criteria to assess the strategic plans.
96. We expect to gather evidence from the plans themselves and from other sources, including seeking stakeholders' views.

Box 1: Some principles for good Network Rail stakeholder engagement in the development of the strategic plans

- The route's/the NSO's engagement has been with the full range of relevant stakeholders;
- The route's/the NSO's processes have encouraged meaningful engagement and have provided for reasonable mechanisms for challenge and escalation;
- The route/the NSO has provided for appropriate and relevant information and data to enable its stakeholders to engage in an effective and timely way;
- The route/the NSO has used evidence to trade-off competing priorities. This reflects the priorities of passengers and freight users (derived from new or existing passenger research and engagement with them (and/or their representatives)) and value for money; and
- The route/the NSO has documented the key points made by each of different stakeholders and how it has reflected on them (or, if not, why not).

The outcome/result of grading

97. 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.
98. However we also recognise that any assessment of a plan ahead of its implementation can only go so far. The real test of how good a plan is will be whether it delivers what is promised and is flexible enough to deal with changing circumstances. We will be putting in place monitoring procedures as part of CP6 which will help with the continuous assessment of routes performance against plans.



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