



OFFICE OF RAIL REGULATION

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Mike Mitchell
Director General, Rail and National Networks
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Dear Mike,

National Station Improvement Programme – ORR’s final determination on industry plans, in accordance with criteria issued on 24 August 2007

1. The Department for Transport’s (“DfT”) HLOS requires us to determine whether “Network Rail’s...proposals for securing station improvement in its October strategic business plan...are deliverable” before committing the proposed £150m of funding to this programme. This letter sets out our determination.
2. Having reviewed the plans in the SBP, we have worked with the National Station Improvement Programme board, on which Network Rail, TOCs, DfT and ORR are represented, to develop these plans, and devise criteria and protocols, to ensure deliverability. Beneath the Programme board, sits a cross industry working group which feeds into the Programme board and also a network of Local Delivery Groups (the “LDGs”), devising and producing station improvement schemes across a portfolio of stations for each SFO.
3. On 24 August 2007, we wrote to the joint chairs of the Programme board, setting out various criteria, agreed with DfT, to be met in order to demonstrate that industry plans are deliverable. On 20 December 2007, we wrote to you, setting out to what extent we considered those plans to have met our criteria, and what more work needed to be done. We expect the April refresh of Network Rail’s SBP to set out all agreed plans, criteria and protocols in full. We now set out below our conclusions as to how the plans have met each of our criteria. Our conclusions are reflected in the ‘Update on the framework for setting access charges and strategic business plan assessment’ also being published today.

4. We conclude that the industry's plans, procedures and protocols for station improvements at around 150 intermediate stations, set out in Network Rail's SBP and subsequently developed, are deliverable.

To include a draft list of intermediate stations, spread across England and Wales, together with the scope of proposed enhancements at those stations. For at least the first tranche of the programme, we would expect the work plans to be sufficiently detailed in order to:

- (a) enable us to carry out an initial assessment of efficiency;**
- (b) identify whether the works will result in net increases or decreases in operating, maintenance, repair and renewal costs; and**
- (c) include an initial timescale, and a forward development plan, for the works;**

5. The Programme board has produced an initial list of stations and is now working with DfT to refine and prioritise the station schemes to be taken forward first.

6. We agreed with the Programme board that we would sample 19 sets of plans, representative of the programme in terms of volume and nature of the works and in terms of the category of station. These plans were included in the October SBP, together with proposed timescales for all the stations potentially available for improvement scheme funding. We scrutinised these plans and on the basis of that work, developed with the Programme board a way of demonstrating ongoing efficiency, further described in paragraph 12.

7. Following a review of the sample set of station plans, the Programme board agreed that any increases in maintenance, repair and renewal costs should be borne by the party contractually responsible for that asset. The Programme board felt that, as costs were as likely to fall as they were to rise, across a portfolio of stations, net increases were likely to be negligible.

To explain the basis upon which station schemes are selected. The factors to be considered should include the following elements:

- (a) Maintaining a good geographical spread;**
- (b) The availability of additional third party funding (from both public and private sector funders); and**
- (c) Current passenger satisfaction and the potential to increase it;**

8. The starting point for scheme selection was the HLOS requirement for the selected stations to fall within the top 500 stations in terms of numbers of departing passengers. In agreement with DfT, the Programme board devised a method of allocating the first tranche of funding. This included some of the more significant category E stations, to ensure that the DfT priority of a good geographical spread was also achieved.

9. Indicative figures for available third party funding have been identified (see paragraph 14 below).

10. In order to measure success, the Programme board, in discussions with Passenger Focus, is developing a suitable measure for passenger satisfaction, which we will use as part of our monitoring of the Programme.

To establish clear decision-making criteria for deliverability. This should include a further process for establishing efficiency and scope for contestability. Roles must be clearly defined, and risks clearly allocated;

11. The Programme board agreed a process for deciding on the party best placed to deliver on the basis that there is a presumption that the TOC will deliver each scheme, rebuttable by various criteria. We welcome this approach as encouraging flexibility and contestability into delivering improvements at stations.

12. A mechanism for ensuring that all plans, and the Programme as a whole, are efficient has been developed in conjunction with us. The Programme board has agreed a structure of: a cap on overhead costs, including management costs, approvals and contingency allowance; upper limits and benchmark unit cost rates, (some of which we are still working to finalise); and high level risk and project controls. These controls will be within the overarching principle that risk should rest with the party responsible for delivery, clearly stated in the October SBP.

To include a statement to the effect that both Network Rail and the relevant TOC confirm that the plans are incremental to Network Rail's baseline obligations at stations, for which it is separately funded;

13. We have worked together with the NSIP working group to establish principles and guidelines to support this statement. The Programme board endorsed an approach that spans both establishing incrementality at a national level, but also a robust test at individual scheme level.

To set out minimum requirements that will be met, in each case, to show that the planning stage has included full and innovative investigation of opportunities, for

attracting additional funds, both from public and private sector bodies. We would not insist, however, that additional funding be a prerequisite for every scheme;

14. The SBP makes it clear that the LDGs must demonstrate that all avenues for leveraging third party investment have been pursued and that the Programme board will investigate the possibility of obtaining commercial sponsorship on a pan-NSIP basis. Success in attracting additional funding is also a key factor in the selection of second phase schemes. Indications are that the total additional funding currently identified is in the region of £90m, 35% of which is from the private sector.

15. Further, the Programme board has agreed a guidance note for the LDGs, to ensure that all possible opportunities to involve other funders are explored for every single scheme.

It is expected that the funds will be allocated in stages over CP4. Any selection exercise in subsequent phases should include the decision factors set out in paragraph (b) above and include an evaluation of performance to date of the programme;

16. In addition to the allocation criteria used for phase 1, each LDG's second phase allocation will be challenged and evaluated on the basis of its success in delivering phase 1 efficiently and in securing third party money.

17. The second phase allocation is scheduled to start in April 2010.

18. The Programme board approached us very early on with a proposal to begin implementing NSIP within CP3. We agree that starting implementation of NSIP now rather than waiting until 1 April 2009 is appropriate where schemes are ready to go ahead. Assuming that the work undertaken is completed within the framework set out in this letter then we will make a RAB addition for the efficient capital expenditure incurred by 31 March 2009. Where that expenditure is operating expenditure, we will recognise this when making our determination for NSIP expenditure in CP4. We have put a ceiling of £25 million on early start expenditure.

To set out an escalation process for resolving disputes from the local level to the NSIP Board, including a clear statement of the roles of each NSIP group; and

19. The October SBP set out the principles and remits of both the board and the Local Delivery Groups. We are confident that this structure will provide rigorous governance of the programme as well as allowing efficient decision-making and constructive dispute resolution.

In terms of other relevant schemes and funding sources:

- (a) explain how synergies will be achieved with all available funding, including CP4 funding of baseline obligations;**
- (b) set out what other funding is available for schemes at that station (Access for All, franchise commitments etc.) and show how the NSIP funding will achieve incremental outputs; and**
- (c) show how the NSIP processes will be dovetailed with other processes and protocols to avoid duplication of effort (e.g. the work planning mechanism and station change process under the template access contracts, the Network Rail car park protocol, travel plans and Access for All).**

20. The October SBP stressed the importance of identifying synergies with other works. The draft list of stations includes details of other works at the relevant stations.

21. The working group has presented its work on dovetailing the various processes. It is now for the LDGs to ensure that the various processes governing the identified works are coordinated in order streamline approval processes.

22. We commend the way the industry has taken up the challenge presented by the NSIP programme and worked together constructively to deliver plans that will see visible and longlasting improvements at stations across the country.

Yours sincerely



Bill Emery

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