

**John Larkinson**  
**Director, Railway markets and economics**

20 July 2017

Nick Joyce  
Acting Director General Rail Group  
Department for Transport

By email

Dear Nick

### **Next steps on the HLOS and SoFA process**

You have today published your HLOS and initial SoFA. We have noted that you have provided your HLOS and we have published revised notices under the Railways Act 1993 extending the deadline for receipt of the final SoFA to 13 October 2017 to allow more time for work on funding to conclude. We are pleased that you continue to be committed to a five year funding settlement and that your HLOS has recognised the need for a greater volume of renewals during CP6.

We all agree it is essential that Network Rail has enough information to develop its route based strategic business plans over the summer and autumn. You recognise that at this stage the HLOS and initial SoFA together do not provide the necessary detail and you supported our suggestion of providing Network Rail with supplementary guidance to the previous guidance we provided<sup>1</sup>. Accordingly, in due course we will provide Network Rail with a set of planning assumptions that it can draw upon. These will be our assumptions and we will make it clear that these do not represent government decisions.

We recognise the Secretary of State's desire for further assurance on the process by which the volumes and cost of operations and maintenance are established, as set out in your HLOS. In response we have commissioned the independent reporter to carry out a new piece of work. It is important that maintenance is not seen in isolation from renewals and other costs so the study will have a broad scope. It will cover operations, maintenance and renewals and the associated financial risks and will look at:

- whether Network Rail is developing robust efficient expenditure plans for its strategic business plans;
- whether these plans are on track;
- whether there is sufficient challenge on efficiency; and

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<sup>1</sup> Our previous guidance was published on 23 February 2017 and is available [here](#).

- deep dives into specific cost categories; including staff costs.

We will work closely with the DfT, Transport Scotland and the Welsh government on this. The terms of reference for this work and the conclusions will be published.

This work will complement the [consultation](#) on Network Rail's renewals efficiency which we also launched today. The work will come together at an industry workshop in September 2017 and we will draw on this work to update our advice to you. We have published that original advice<sup>2</sup> today.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'John Larkinson', is positioned above the printed name.

**John Larkinson**

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<sup>2</sup> [ORR's advice on the development of the England & Wales High-level Outputs Specification \(HLOS\) and Statement of Funds Available \(SoFA\)](#), 15 February 2017.