

Paul McMahon  
Deputy Director  
Competition and Regulatory Economics  
Office of Rail Regulation  
1 Kemble Street  
London  
WC2B 4AN

Bob Linnard  
Director  
Rail Strategy and Stakeholder Relations  
Department for Transport  
Room 5/27  
Great Minster House  
76 Marsham Street  
London SW1P 4DR  
Direct Line: 0207 944 4250  
Fax: 0207 944 2158  
GTN No: 3533  
Email: bob.linnard@dft.gsi.gov.uk

Web Site: [www.dft.gov.uk](http://www.dft.gov.uk)

17 December 2007

Dear Paul

## **CONSULTATION ON NETWORK RAIL'S STRATEGIC BUSINESS PLAN**

Thank you for your letter of 1 November, inviting comments on Network Rail's Strategic Business Plan. This letter reflects the Department's initial views on the SBP; the Secretary of State may however wish to consider the document in more detail when she has ORR's initial assessment.

We welcome the publication of the SBP as a helpful step towards delivering our aspirations for the future of the rail network. Nevertheless, as is to be expected at this early stage in a long iterative process, the SBP raises a number of issues that need to be scrutinised carefully.

In particular, we would wish to highlight the following issues:

### **Efficiency Targets**

The SBP challenges the efficiency target set out by the Office of Rail Regulation. As a public funder of the railway, we require assurance that the taxpayer is receiving best value for money. NR's laudable public commitment to becoming a world class organisation should continue to drive improved efficiency. While the CP4 target needs to be achievable, ORR will no doubt wish to seek an element of stretch sufficient to encourage NR management to focus on delivering a significant efficiency gain in CP4.

### **Alignment between proposals for maintenance, renewals and enhancements**

It is not clear whether the SBP's proposals for maintenance, renewals and enhancements represent discrete and complementary investments, or whether there is an element of overlap and/or duplication which may result in double-counting of costs. We would ask ORR to pay particular attention to this issue.

### **Scope**

The scope of the SBP is wider than the railway outputs specified by the Department in the Railways Act 2005 Statement (RA05 Statement). The ORR will need to consider which proposals are necessary to deliver the latter - and therefore should be funded within the Statement of Funding Available (SoFA) - and which are discretionary. It would be interesting to know the extent to which NR considers that some or all of the discretionary elements might be delivered through CP3 or CP4 outperformance.

The SBP also postulates greater levels of demand growth than are specified in the High Level Output Specification capacity metric. Unless the ORR considers that, since the publication of the HLOS, better evidence has become available of forecast demand at the start of CP4, the demand to be met (through the provision of additional rolling stock and necessary related supporting infrastructure) is that specified in the HLOS capacity metrics.

### **Cost of Delivering Reliability Outputs**

The SBP places a cost of £767 million on delivering the HLOS reliability metric, of which £400 million is attributed to unspecified investments to secure the last (aggregate) 1 percentage point improvement.

In the light of the significant level of investment proposed in other schemes which will enhance network capability, and the scope - demonstrated in CP3 - to secure significant reliability improvements through improved management and working practices, we would welcome a thorough exploration by ORR of the infrastructural spend proposed in the SBP to deliver the reliability metric.

### **Safety Metric**

We welcome NR's confirmation that it can deliver the HLOS safety metric without further infrastructure investment.

### **Compatibility with the Rail Technical Strategy**

The ORR may wish to consider whether the SBP is adequately aligned with the Department's Rail Technical Strategy (RTS), published in July 2007. The latter sets out a long term vision, developed in consultation with the industry, on how the railway can benefit from technological change and innovation.

### **Intercity Express Programme**

We have invited tenders for design, finance and construction of the Intercity Express Train, and expect to receive bids in May next year. We would expect the April refresh of the SBP to provide greater detail on infrastructure provision for the proposed Intercity Express Programme, and in particular to identify the works that NR expects to undertake as specific enhancement, and where improvements to track quality are to be achieved through general raising of track standards.

Yours sincerely

Bob Linnard