



27 March 2008

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Our Ref: 600.13/A1525

Dear Bill

CP4 INPUT PRICES

You may recall that in RIA's January review of the Strategic Business Plan we reported widespread concern from members about the input prices assumption for labour in particular. Recognising that the views expressed were in meetings and in part anecdotal, we said that we would undertake a survey to establish the view of individual Managing Directors on projected paybill costs.

Twenty-one companies responded (plus one on the rolling stock side of the industry which on reflection we have excluded). Together they account for some 6,000 employees. Obviously we would have preferred a higher participation, but have to recognise that there is a trade-off between that and the seniority of those surveyed.

The overall mean result for CP4 is 2.4% per annum above RPI with responses weighted by number of employees; unweighted the figure is 2.6%. Nine companies with some 3,300 employees offered year-on-year forecasts, viz:

Unweighted mean 2009-10	3.22%
Unweighted mean 2010-11	3.83%
Unweighted mean 2011-12	3.33%
Unweighted mean 2012-13	2.72%
Unweighted mean 2013-14	2.00%
Compound Average for CP4	3.10%
Weighted mean 2009-10	2.58%
Weighted mean 2010-11	3.51%
Weighted mean 2011-12	3.46%
Weighted mean 2012-13	2.65%
Weighted mean 2013-14	1.67%
Compound Average for CP4	2.84%

These figures are greater than those we have seen from Network Rail's advisors, and substantiate the 2% - 3% real recommended in the RIA review document as a holding assumption. As before, we must recognise that the approach used by NR's advisors is the more scientific. Ours, we think, more closely reflects the experience of companies operating in the labour market for NR's supply chain.

There is one other important factor. While we have not published the figures that came from our working groups, they were substantially higher than those generated by this survey. They came from practitioners exposed on a daily basis to the wages spiral taking place in some parts of the industry, and they too have a valid viewpoint to offer. The interpretation we place on this is that whatever figure is assumed for changes in labour costs is subject to very considerable uncertainty and therefore risk. We accordingly urge that your determination should recognise and allow for this risk in a way that does not impact adversely on the management and delivery of the programme of works required. We are aware that there are potentially a number of ways of achieving this, but the objective is we believe a sound one.

I am copying this to Iain Coucher and to others at Network Rail.

Regards

A handwritten signature in black ink that reads "Jeremy Candfield". The signature is written in a cursive style with a long, sweeping underline for the first name.

JEREMY CANDFEILD
Director General