PAC memorandum

Planning and delivery of the 2014–2019 rail investment programme

September 2015

National Audit Office

Index

Key Facts

£38.3 billion
The amount planned to be spent by Network Rail between 2014 and 2019

£12.8 billion
Planned spending on enhancing the network, a 29% increase from the previous planning period

52%
of the total portfolio of enhancement projects, by value, had uncertain costs when the 2014–2019 programme was agreed. This is 60% of projects by volume

£1.3 billion
The estimated cost of electrifying the Great Western Main Line from London to Cardiff in September 2014. Network Rail is currently producing a revised cost estimate, which it expects to be higher

2
Major electrification projects paused in June 2015 (Midland Main Line and TransPennine)

3
Reviews into Network Rail and rail infrastructure investment, announced by government since June 2015

Introduction

In June 2015 the Secretary of State for Transport made public his concerns about Network Rail's ambitious £38 billion programme, Control Period 5 (CP5, 2014–2019).

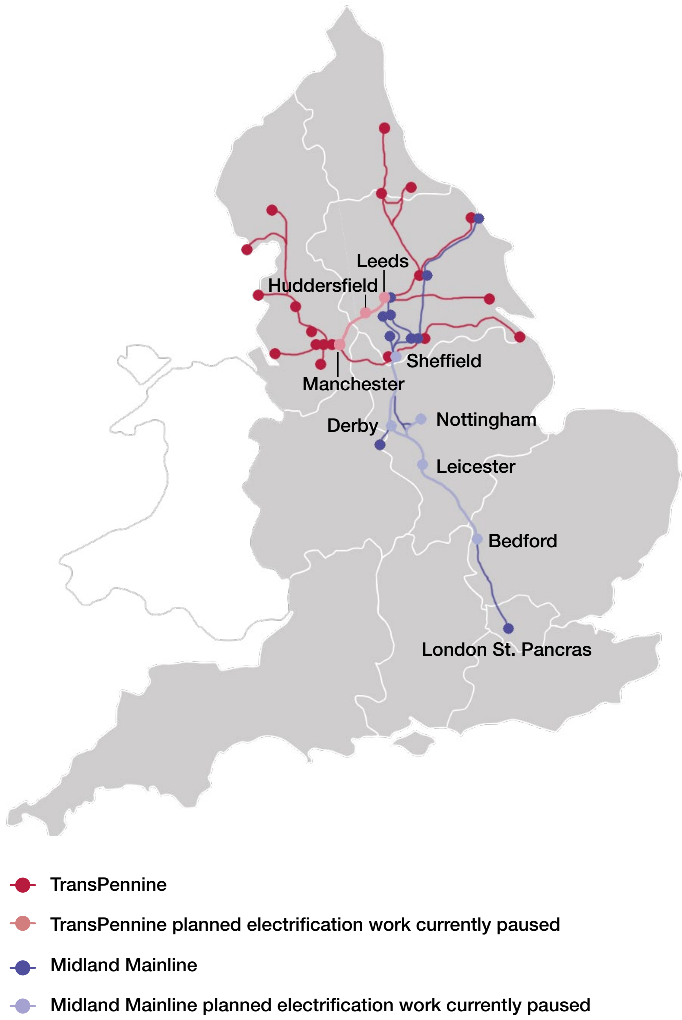
In a statement to the House of Commons on 25 June, the Secretary of State highlighted recent successful Network Rail projects including the re-opening of the storm-damaged Dawlish line, the new Reading station and the modernisation of Birmingham New Street station, as well as improvements in safety and the reliability of railway assets, and the continuing increase in passenger journeys. But the Secretary of State was concerned that important aspects of Network Rail's investment programme were costing more and taking longer. He announced that electrification work on the Midland Main Line and the TransPennine route would be paused. The other major electrification project, Great Western Main Line, is seen as a top priority.

Government has commissioned three reviews, into:
- how the problems with this planning period arose and the lessons that may be learned, to improve future rail infrastructure investment;
- how the current enhancement programme can be delivered; and
- the future structure and financing of Network Rail.

This short briefing is intended to inform the Committee of Public Accounts of the key facts, in advance of the government reviews being published. It describes the process of planning Control Period 5, outlines what has changed from the previous Control Period and details the government's response.

We have prepared this briefing based on facts agreed with the Department for Transport, Network Rail and the Office of Rail and Road. To avoid duplicating the reviews commissioned by the government, we have not attempted to evaluate why Network Rail will not be able to deliver as many improvements as it had planned, and have not attempted to attribute responsibility to any organisation.

Electrification work paused in June 2015



Network Rail's ability to deliver the planned investment programme has been called into question

Cost escalations

In June 2015 the Office of Rail and Road reported that renewals cost 19% more than expected in 2014-15, and that costs have increased significantly on a number of enhancement projects compared with Network Rail's initial estimates.

There have been particularly large increases on electrification programmes, such as the electrification of the Great Western Main Line.

Missed milestones

In June 2015 the Office of Rail and Road reported that:

- 36% of project development outputs and 35% of project completion outputs were missed in the first year (2014-15) of Control Period 5 (2014–2019). It is not yet clear how seriously these missed milestones will affect the delivery of projects, and services for rail users; and

- the electrification of the line between Manchester and Liverpool was completed in March 2015. However, this was later than planned, resulting in the introduction of electric trains being delayed by four months.

Poor project management

The Office of Rail and Road is investigating whether Network Rail is doing everything practicable to deliver its planned programme of enhancements.

Its interim conclusion (6 August 2015) is that Network Rail's weaknesses in project development, delivery and management are systemic, and not confined to individual projects.

These weaknesses include: poor definition of requirements; inadequate project governance; and the absence of a defined framework and techniques for managing complex infrastructure programmes.

The Secretary of State has prioritised electrification of the Great Western Main Line

The Great Western Main Line (GWML) is one of three major routes Network Rail planned to electrify in the 2014–2019 period.

Work on the other two, Midland Main Line and the TransPennine route between Leeds and Manchester, has been paused as announced by the Secretary of State in June (see Introduction).

Network Rail has carried out less construction work than planned, and the programme is now expected to cost more than originally forecast.

In January 2013 Network Rail estimated the cost of electrifying the Great Western route between London Paddington and Cardiff[1] to be £874 million between 2014 and 2019 (this excludes costs already incurred before March 2014).

In September 2014, when a single option for delivering the project had been identified, Network Rail estimated that the cost of completing the electrification from Maidenhead to Cardiff between 2014 and 2019 would be £1,529 million. The Office of Rail and Road concluded, based on its review of Network Rail's cost estimates and the cost risks and opportunities for efficiencies, that the efficient cost to complete the project, including an appropriate provision for cost risk, was £1,344 million.

Network Rail now expects the cost estimate to be higher. Network Rail is currently revising the cost estimate alongside a re-plan of the Great Western Electrification Programme. Network Rail intends to produce a revised baseline plan later in autumn 2015.

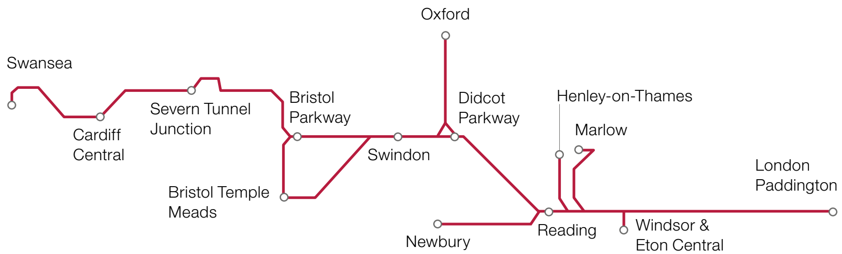
Note

1 Government requirements for the 2014-2019 Network Rail programme also include the electrification of the Great Western Main Line beyond Cardiff, to Swansea. Cost estimates for this work are currently at an earlier stage of maturity.

> *Electrification of the Great Western line is a top priority and I want Network Rail to concentrate its efforts on getting that right*
>
> Secretary of State for Transport,
> Patrick McLoughlin, 25 June 2015

New electric trains are due to enter service on the route from May 2017, as part of the Intercity Express Programme (IEP). The Department could incur train rental costs of up to £400,000 per day if the electrified lines are not available in time.

Extent of planned electrification of the Great Western Main Line



Note: The electrification of the three Thames Valley branch lines, to Marlow, Henley-on-Thames and Windsor, is separately costed in the CP5 programme and is not included in the discussion of total Great Western Electrification Programme costs, above.

Summary

1 How is spending on the rail network determined?

The Department for Transport and Transport Scotland specify the high-level outputs they would like to see over a five-year planning period and the funding available to achieve them (Control Period 5, 2014–2019). Network Rail produce a plan to achieve this. The Office of Rail and Road determines the level of network grant and access charges (paid by train operating companies) which Network Rail will receive. This calculation involves an assumption on efficient levels of expenditure.

2 What is included in the 2014–2019 spending programme, and how does this differ from the previous programme?

The current spending programme has a greater focus (and higher spend) on 'investment' than the previous periods. By investment, we mean renewals (replacing worn-out assets with new ones) and enhancements (improving the network). A greater part of the renewal spending is in more technically challenging areas.

The expected costs and schedules for some projects, such as electrification work, were uncertain from the outset. The Office of Rail and Road introduced a new mechanism (known as the Enhancements Cost Adjustment Mechanism or ECAM) to review project costs. The ECAM reviews were initially expected to be completed by March 2015, but the current expectation (as at September 2015) is 2017. The rail investment planning process assumes that cost estimates will be refined as projects mature, but there was more project uncertainty in Control Period 5 than in the previous planning period (Control Period 4, 2009–2014).

In 2014, Network Rail was reclassified as a public sector body, constraining its ability to borrow. Previously Network Rail could borrow amounts agreed by the Office of Rail and Road from the financial markets, but now it can only borrow from HM Treasury under a loan facility capped at £30.3 billion.

3 How have issues with the programme come to light?

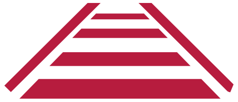
Concerns about Network Rail's performance in carrying out renewals, and about the cost of the Great Western Main Line electrification were initially raised before the start of the current planning period.

These concerns continued to grow, and there was an increasing amount of evidence suggesting that there were issues across the whole portfolio. On 25 June 2015 the Secretary of State announced that it was necessary to pause electrification of the Midland Main Line and TransPennine route, since "important aspects of Network Rail's investment programme are costing more and taking longer". The completion date for TransPennine electrification had already slipped.

4 How is government responding?

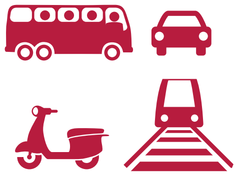
The government has commissioned three reviews that will look at what lessons can be learned from the planning of the current investment programme; Network Rail's delivery of the investment programme; and the future shape and financing of Network Rail.

Between them, the government, Network Rail and the independent regulator determine spending on the rail network and what will be achieved.



Network Rail

owns and operates the majority of Britain's rail infrastructure. It is responsible for maintaining, renewing and enhancing this infrastructure.



The Department for Transport

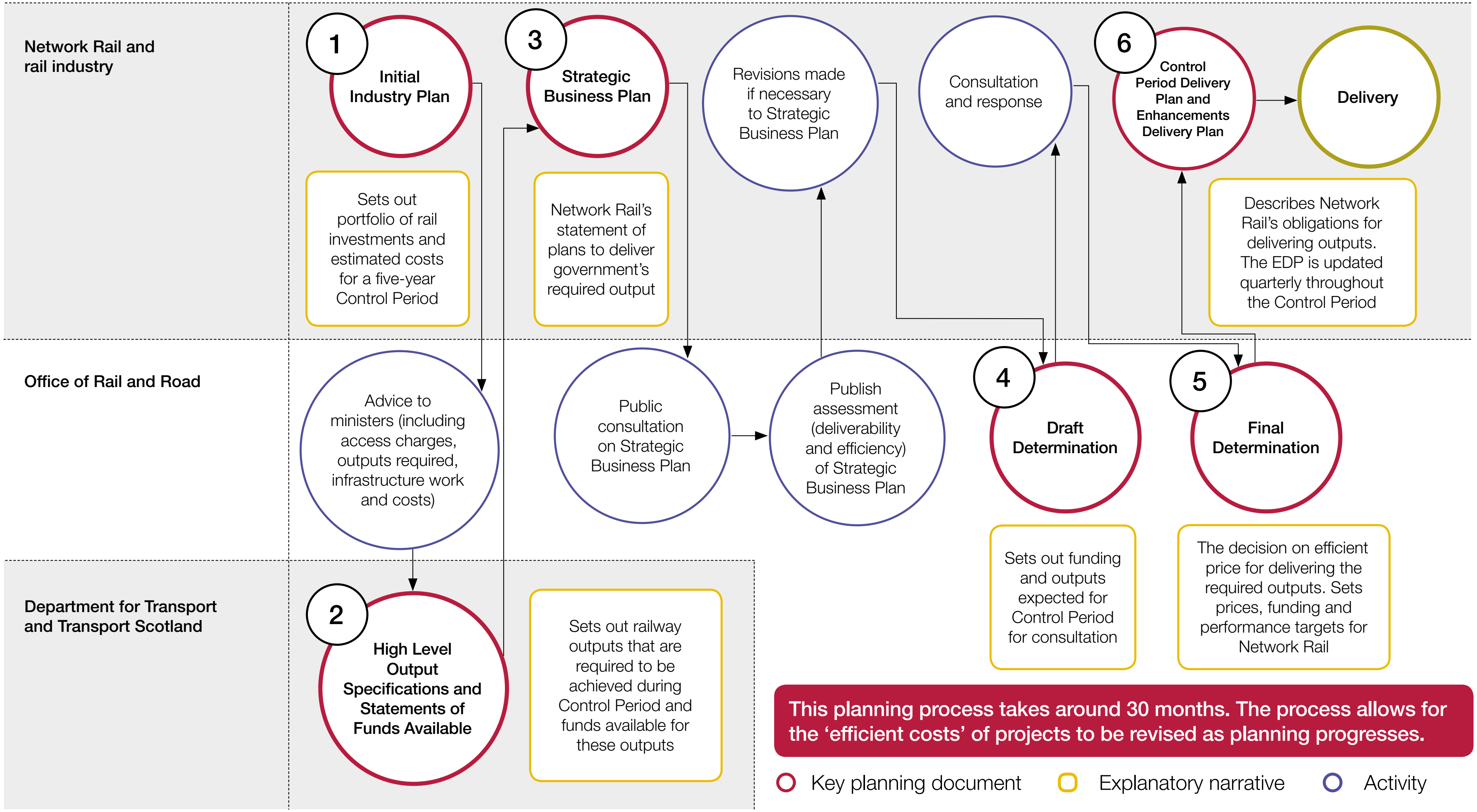
specifies the outputs it wants Network Rail to deliver in England and Wales over a five-year period and sets out the public funds available to deliver them. **Transport Scotland** has the equivalent role for Scotland.

The Office of Rail and Road (ORR)

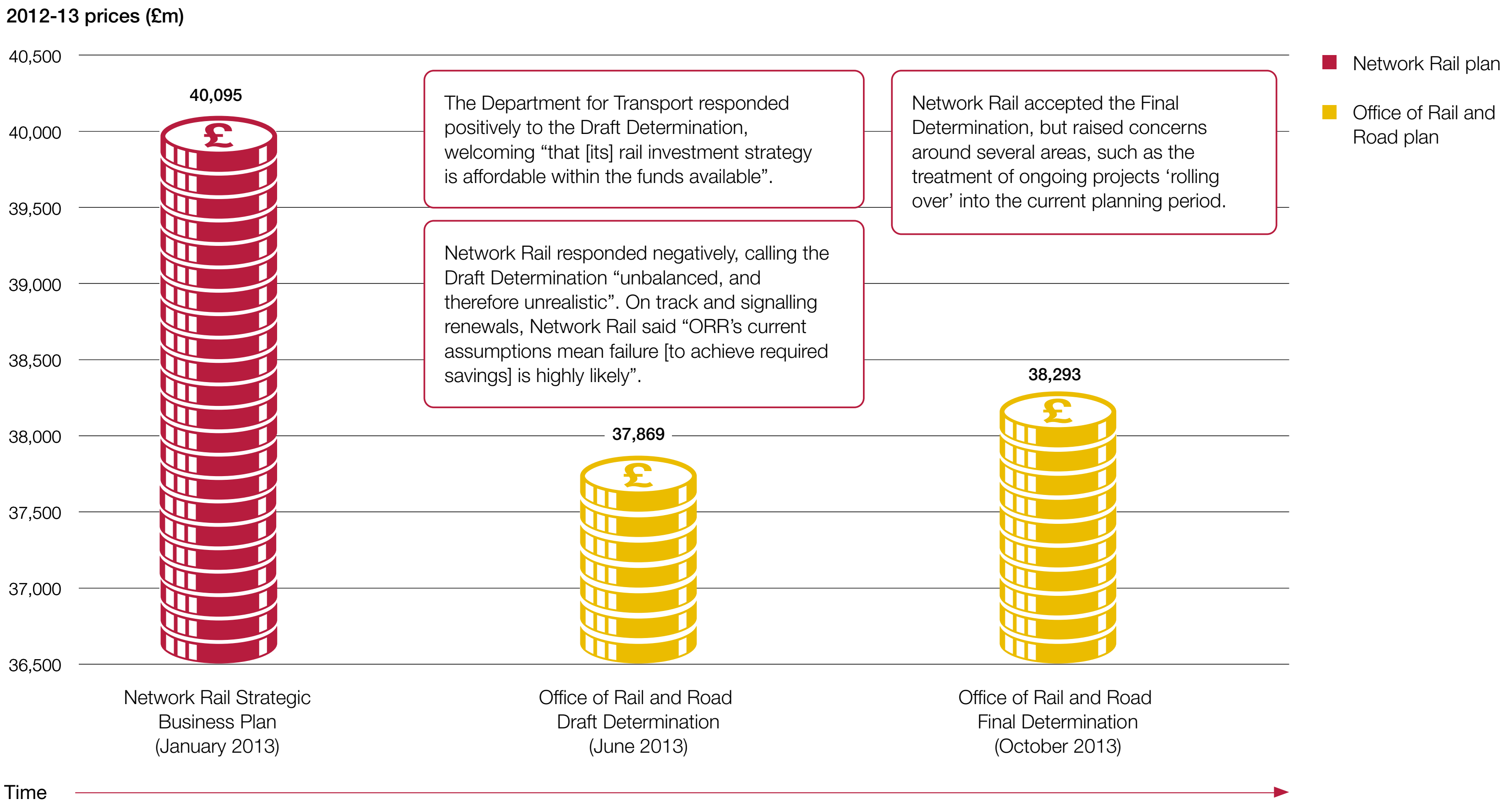
is responsible for regulating Network Rail's plans. It determines what it believes the efficient price for delivering the outputs specified by government should be, monitors Network Rail's progress against this and, as the regulator, holds Network Rail to account.

Further information on the relationships between bodies involved in planning rail investments can be found in Appendix 2.

Network Rail, the Department for Transport, Transport Scotland and the Office of Rail and Road work together in planning the five-year rail investment programme



As in previous planning rounds, the Office of Rail and Road challenged Network Rail over the amount it planned to spend between 2014 and 2019

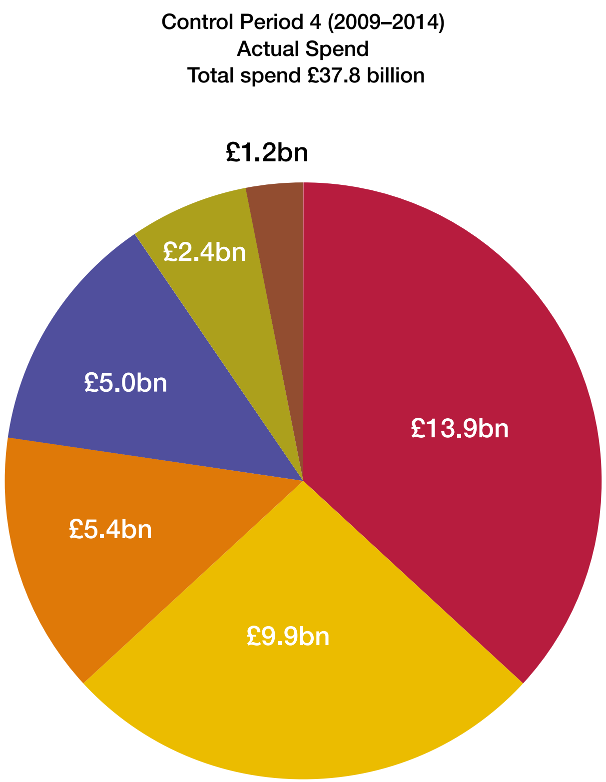


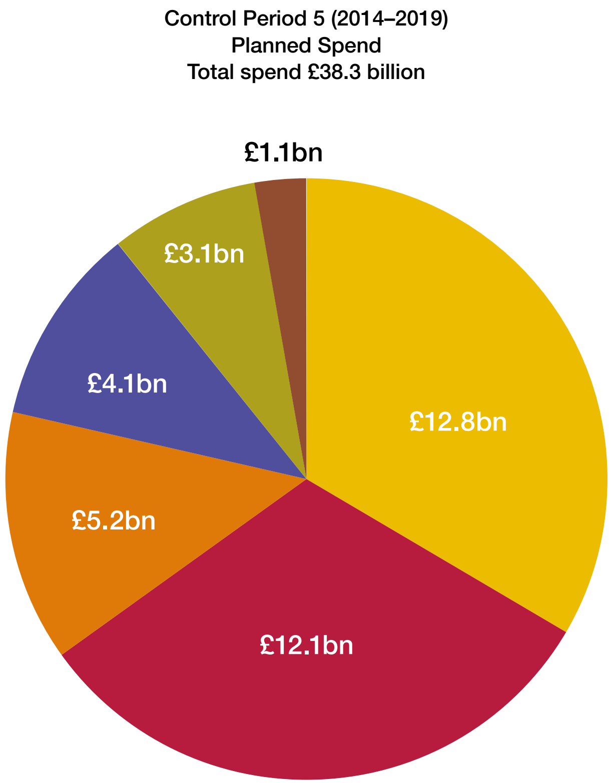
Network Rail's initial estimate of the work needed to fulfil the government's requirements, and the cost of carrying it out. This cost estimate assumed Network Rail would make around £3 billion savings through efficiency schemes.

The Office of Rail and Road reviewed the plans, but felt that Network Rail could achieve further efficiencies and revised amounts of work, so spending should be £1.8 billion less than Network Rail had proposed.

What is included in the 2014–2019 spending programme, and how does this differ from the previous programme?

Renewals and enhancements to the network make up almost two-thirds of 2014-2019 spending plans





Renewals
Maintenance
Industry costs
Enhancements
Operations and support
Performance regime

Spending is in 2012-13 prices

Renewals are works to replace worn-out assets with new ones, while **Enhancements** improve the network. Elsewhere, we refer to both as 'investment'. **Maintenance** works are generally smaller activities which counter wear, degradation or ageing of the infrastructure (including preventative work and inspection costs). **Operations and support** costs are those incurred in operating the infrastructure (including the cost of control staff and signallers). **Industry costs** include the cost of electricity (which is passed on to train operators) and contributions to industry bodies such as British Transport Police). **Performance regime** costs are paid to train operators to compensate them for times when they are unable to run services (either because Network Rail needs to carry out work, or to compensate for disruption).

What the planned enhancements and renewals work included

Major enhancement projects include:

- Completion of the Thameslink and Crossrail projects to increase rail capacity on cross-London routes. Network Rail's infrastructure funding for these in the current planning period totals £3.1 billion.
- Two other major capacity and connectivity schemes: the Northern Hub (to enable faster and more frequent trains in the North West, and new connections across the Pennines), and East-West Rail (the re-opening of the Bedford-Oxford line for passenger and freight trains).
- Electrification of routes including the Great Western Main Line, Midland Main Lane and the TransPennine route, which had been expected to cost £3.0 billion. These projects also contribute to the introduction of Intercity Express Programme (IEP) trains on the Great Western line, to the Northern Hub and to the 'Electric Spine' freight route between the Midlands and the Port of Southampton.

Renewals work includes replacement of worn track, signalling, 'civils' (structures such as bridges, tunnels and cuttings) and other work such as replacement of existing electrification and telecommunications systems and stations. This work takes place across the rail network.

The Rail Delivery Group has published a map showing the rail network in each Parliamentary constituency, with brief information about anticipated enhancements to improve services.

Network Rail planned to carry out more of the most complicated work, while spending £1.8 billion less than it did in the previous five-year period

Although the Final Determination allocated £1.8 billion less for renewals than in the previous planning period, Network Rail planned to carry out:

- nearly **twice as much signalling renewal** as in the previous period; and
- a 'step change' increase in the amount of work to renew 'civils' (structures such as bridges, tunnels and cuttings). This includes **twice as much work on underbridges**, which was already one of the largest areas of 'civils' spend.

In order to carry out this amount of renewal work within budget, **Network Rail need to carry out renewals 20% more efficiently by the end of Control Period 5** than it would otherwise have done.

Network Rail's 'civils' renewal plans for the last three years of the planning period (April 2016–March 2019) have not been approved by the Office of Rail and Road. At the time of the Final Determination, the Office of Rail and Road felt Network Rail had not explained why it was necessary to carry out so much more work. To give Network Rail more time, a new Civils Adjustment Mechanism was designed to allow scrutiny of the amount of work and cost at a later date. The Office of Rail and Road had planned to complete this work by September 2015, but has told Network Rail that the evidence Network Rail provided was not sufficient.

Signalling and civils renewals are expected to make up 46% of renewals spending in this planning period, up from 34%. This work has previously proven to be more complicated.

In 2014-15, Network Rail was not able to carry out all the work planned. The most delayed, **signalling renewal, was 63% behind plan.** The renewals work it did carry out cost 19% more than expected.

Office of Rail and Road Monitor

There was greater uncertainty about the cost of enhancements work at the start of the current programme, compared with the previous five-year plan

In the current planning period (2014–2019), enhancements work worth £12.8 billion (33% of the total spending plans) is planned, compared with £9.9 billion (26%) in the previous period.

The Department for Transport's High Level Output Specification, which sets out outputs to be achieved, proposed enhancements work that had not been set out in Network Rail's Initial Industry Plan. In its Strategic Business Plan, published in January 2013, Network Rail stated that "There were schemes specified in the High Level Output Specification that have not been identified and developed through the industry planning process and we have had limited time to understand these proposals".

At the time of the Strategic Business Plan, 52% of enhancement projects by spend were still at the stage where their feasibility is determined, compared with 35% in the previous period.

Network Rail said that as a result of high uncertainty and immature definitions of some projects at the beginning of the planning period, cost estimates had changed. There had been changes to the agreed outputs and scope for some projects, including capacity increases at Bristol Parkway station which were needed for the introduction of new Intercity Express trains, and improvements at Bolton and Liverpool Lime Street stations.

Costing electrification projects has proved particularly difficult:

- Electrification represents £3.0 billion (24%) of enhancements in the current period, compared with £0.5 billion (5%) in the previous period.
- Network Rail has very limited recent experience in planning, costing and delivering electrification work. Since 1997, some 60 miles of existing track have been electrified, while the plan for this five-year period included the electrification of 850 miles.
- There is a recognised shortage of skilled electrification workers in the rail industry. In 2014, Network Rail identified that the electrification plans would require more than twice as many skilled workers as there were in the industry at that time.

The Office of Rail and Road responded to the uncertainty around enhancement costs by deciding to assess them after more planning had taken place

The Office of Rail and Road developed the Enhancements Cost Adjustment Mechanism (ECAM), a new process, because of the number of enhancement projects that were at an early stage of development, with uncertain scope and costs, during planning for this period.

The five-stage process (shown right) aims to validate Network Rail's costs for delivering enhancement projects, by confirming that all relevant costs are included, and that there is appropriate provision for risk. It is applied individually to each project selected for assessment.

The Office of Rail and Road is applying ECAM to 64 enhancements. The first ECAM review was completed in November 2013 and by July 2015, 27 had been completed with a total estimated value of £5.0 billion.

'Efficient costs' as determined by the Office of Rail and Road may be increases or decreases on previous estimates.

The intention had been to complete all ECAM reviews by March 2015. This was dependent on Network Rail providing suitable cost information. The current plan is to complete assessments by 2017.

The Office of Rail and Road has hired additional consultants to help complete the ECAM reviews.

Enhancements Cost Adjustment Mechanism stages

1. Network Rail submits project cost estimate and associated documents to the Office of Rail and Road for review
2. The Office of Rail and Road undertakes initial assessment of documents and formulates questions challenging cost estimate
3. Review workshop is held (the Office of Rail and Road and Network Rail project team) and Network Rail provides answers to the Office of Rail and Road's questions
4. Following the review, the Office of Rail and Road undertakes further analysis (eg risks, consistency with High Level Output Specification, value for money) to establish whether the costs of the project are justified and efficient
5. The Office of Rail and Road determines the efficient cost of the project

The Office of Rail and Road then continues to hold Network Rail to account over project cost and deliverability

Network Rail's reclassification as a public body means that its ability to borrow is now more constrained than in previous periods

The planning process and Enhancement Costs Adjustment Mechanism (ECAM) were designed to complement the financing arrangements that existed prior to Network Rail's reclassification as a public sector body from September 2014.

Previously, Network Rail borrowed from the financial markets, supported by government guarantee. At the time of reclassification, some of these private borrowings remained but any new borrowings will now be directly from the government. The Department for Transport and HM Treasury capped the loan facility for the current planning period at £30.3 billion, to allow for expected spending and refinancing of some existing debt as it becomes due, plus a 'risk buffer'. Network Rail noted that the risk associated with the ECAM process could potentially absorb a large proportion of the buffer, leaving little or no buffer for managing further business risks.

This change in borrowing arrangements means that Network Rail has less flexibility to absorb cost increases, which have occurred since 2013 as enhancement plans became more certain. Previously, Network Rail had been allowed to manage the risk of cost increases through a 'balance sheet buffer' – the difference between what Network Rail was expected to borrow and 75% of the network's value (the amount the Office of Rail and Road permitted them to borrow).

September 2013–April 2014: Concerns about Network Rail's performance on renewals and the Great Western Main Line electrification project were raised before the start of Control Period 5

Date	Body	Description
September 2013	Office of Rail and Road	Published the Network Rail Monitor covering April–June 2013, the first quarter of the final year of Control Period 4, commenting that: • Network Rail was unlikely to deliver the 23.5% efficiencies required of it for renewals, maintenance and asset management by the end of Control Period 4; • concerns remained over the design and development of the Great Western Main Line electrification project, which had slipped 18 months against the original plan; and • Network Rail had asked to defer £40 million of planned works to improve freight capacity, which had been targeted for completion by March 2014, into Control Period 5.
November 2013	Office of Rail and Road	The Network Rail Monitor for July–September 2013 expressed concern that the Great Western Main Line project "is not sufficiently defined and integrated to achieve the major timetable changes planned for the next control period".
December 2013	Network Rail	The Office for National Statistics announces that Network Rail will be reclassified as a public sector body from September 2014, due to changes in European statistical rules.
March 2014	Office of Rail and Road	Published the Network Rail Monitor for October–December 2013, concluding that: • Network Rail "remains on course to deliver Control Period 4 enhancements and all key milestones were met"; and • concerns remained over delays to the early development and design of Great Western Main Line electrification, and noted that they were meeting Network Rail every six weeks to check progress.
March 2014	Network Rail	Published Enhancement Delivery Plan for the planning period, noting there was disagreement between Network Rail and the Department for Transport over plans for the 'Electric Spine' network of electrification work between the Port of Southampton, northern and central English cities, and a container terminal in the Midlands. Electrification of the Midland Main Line is a key component of the Electric Spine. Network Rail planned to deliver some of the Electric Spine work in Control Period 6 (2019–2024), but the Department for Transport had reiterated its requirement for full delivery in Control Period 5.
March 2014	Office of Rail and Road	The Office of Rail and Road accepted Network Rail's Delivery Plan as the baseline for Control Period 5, but noted "the Department for Transport had unresolved concerns over the scope and timing of some projects… a tripartite process will work to resolve these issues".
March 2014	Network Rail	Control Period 4 ends
April 2014	Network Rail	Control Period 5 begins

May 2014–November 2014: Concerns are raised over the cost of individual electrification projects

Date	Body	Description
May 2014	Network Rail	Mark Carne (Chief Executive of Network Rail) announced that costs for the Great Western Main Line electrification project will exceed the anticipated £1 billion.
June 2014	Network Rail	Transport Select Committee Mark Carne confirmed continuing uncertainty for Great Western Main Line electrification costs and that the new Enhancements Cost Adjustment Mechanism process will address this.
July 2014	Network Rail	Network Rail and the Department for Transport agreed the terms of the loan facility for the planning period, capped at £30.3 billion. Network Rail noted that the risk around cost increases arising through the Enhancements Cost Adjustment Mechanism reviews could mean Network Rail had little buffer to manage further business risks.
July 2014	Office of Rail and Road	Released Network Rail Monitor for the final quarter of Control Period 4, noting that: • there were still concerns about whether the Great Western Main Line electrification project would be completed in time for the December 2016 timetable; • cost estimates for some electrification projects are now significantly greater than early stage estimates used for business planning and government funding decisions; and • Network Rail's internal accounts showed that the company was behind the efficiency target agreed for Control Period 4.
September 2014	Network Rail	Network Rail reclassified as a public sector body by the Office for National Statistics. From this point, it was no longer allowed to borrow from private lenders.
September 2014	Office of Rail and Road	Enhancements Cost Adjustment Mechanism review into electrification of the Great Western Main Line between London and Cardiff published: • This determines efficient level of funding for Control Period 5 to be £1,344 million, up from £874 million estimated in the Strategic Business Plan. • At this time, the anticipated final cost was £1,833 million (including sunk costs).
October 2014	Office of Rail and Road	Published letter explaining the Enhancements Cost Adjustment Mechanism process. This noted that costs are expected to rise for some projects and fall for others, and any overall increase above costs specified in the Final Determination would need to be discussed with the government.
November 2014	Network Rail	The Network Rail board discusses an internal review of Network Rail's capability to deliver investment projects. This concluded "project management capability was robust, however programme and portfolio management was less so", and that "there were concerns around affordability of the enhancements portfolio and its deliverability".
November 2014	Network Rail	The Enhancements Cost Adjustment Mechanism review for Midland Main Line electrification costs is published: • The Office of Rail and Road determined the efficient level of funding for Midland Main Line electrification was £833.4 million in Control Period 5, up from £500.8 million assumed in the Final Determination (October 2013).
November 2014	Office of Rail and Road	The first Network Rail Monitor for Control Period 5 (covering April–September 2014) found that: • delivery of the enhancement portfolio had worsened and therefore questions existed on how Network Rail would deliver the ambitious programme expected in Control Period 5, particularly the electrification projects; and • an overspend of £112 million for 2014-15 is forecast.

December 2014–September 2015: There is an increasing awareness that the whole portfolio is affected. The Secretary of State announces a pause in the electrification programme

Date	Body	Description
December 2014	Department for Transport	At a Select Committee hearing, the Secretary of State and Permanent Secretary acknowledged that there had been cost increases and were risks to schedule but stated that Network Rail was committed to delivering to the announced schedule.
February 2015	Department for Transport	Department for Transport published an Invitation to Tender for the Northern TransPennine franchise, acknowledging uncertainty about the timing and outputs relating to infrastructure enhancements and electrification.
March 2015	Network Rail	Network Rail's 2014–2019 Enhancement Delivery Plan revised with milestone dates for TransPennine electrification changed to 'TBC'.
March 2015	Department for Transport	The Secretary of State informed the Transport Select Committee that: • there had been an overall cost increase and that some schemes are taking longer than expected; and • the TransPennine electrification completion date had been moved from 2019 to the early 2020s (Control Period 6).
March 2015	Office of Rail and Road	Initiated a formal investigation into whether Network Rail is doing everything reasonably practicable to plan and deliver its Control Period 5 enhancements obligations. The preliminary findings were published in August.
June 2015	Office of Rail and Road	The Office of Rail and Road released the Network Rail Monitor for October 2014–March 2015. Key conclusions include: • punctuality and reliability of train services were below targets; • renewals and signalling were significantly behind schedule; • a large number of planned milestones in the Enhancements Delivery Plan were missed; and • Network Rail overspent its budget by around £230 million.
June 2015	Department for Transport	The Secretary of State made a statement to Parliament about concerns over Network Rail's plans to deliver the Control Period 5 investment programme, which was "costing more and taking longer". He announced that electrification on the Midland Main Line and TransPennine routes will be paused pending Sir Peter Hendy's review, that there would be governance changes at Network Rail and that there would be an independent review of investment planning.
August 2015	Office of Rail and Road	Published preliminary findings of its investigation into Network Rail's delivery of enhancements, concluding that: "the wide range of identified weaknesses indicates that Network Rail's project development and delivery weaknesses are systemic, rather than the result of individual project failings or adverse circumstances". The final determination of whether Network Rail has breached its Network Licence (and what regulatory action is appropriate) is expected in September 2015.
August 2015	Office of Rail and Road	Announced Network Rail will be fined £2 million for the "significant impact on performance and passengers" of work at London Bridge and in Scotland.
September 2015	Network Rail	Network Rail responded to the Office of Rail and Road's preliminary findings, accepting its view that Network Rail may not have done everything reasonably practicable to comply with the Network Licence in the past, but arguing that they were now "doing everything reasonably practicable to address these issues".

The Government has commissioned three pieces of work looking into Network Rail:

Review and author	Scope	Publication date
Bowe Review (Dame Colette Bowe, Non-Executive Director, Department for Transport)	What lessons the Department for Transport, Network Rail and Office of Rail and Road can learn from the planning of the current investment programme in order to improve future rail infrastructure investment.	Autumn 2015
Hendy Review (Sir Peter Hendy, the newly appointed Chairman of Network Rail)	Review into Network Rail's investment programme in England and Wales. Recommendations on how the current investment programme can be put back on a sustainable footing.	Autumn 2015
Shaw Review (Nicola Shaw, Chief Executive Officer, High Speed 1 Ltd)	To develop recommendations for the longer term, future shape and financing of Network Rail. This work will be presented to the Secretary of State for Transport and the Chancellor of the Exchequer.	Before the Spring 2016 budget

Additionally, the Office of Rail and Road has been investigating whether Network Rail is doing everything "reasonably practicable" to meet its obligations relating to delivery of enhancement projects. This investigation started in March 2015.

Its preliminary finding (announced August 2015) is that Network Rail may not have done everything "reasonably practicable to meet its licence obligations… in particular the planning, management and delivery of the enhancements projects". The final conclusion is expected in September 2015.

Changes for Network Rail

Management and governance changes

As part of his 25 June 2015 announcement, the Secretary of State for Transport appointed the Commissioner of Transport for London, Sir Peter Hendy, as Chairman of Network Rail, replacing Richard Parry-Jones.

Richard Brown was appointed as a new Special Director of Network Rail, responsible for reporting progress on work directly to the Secretary of State.

The Public Members of Network Rail were abolished, simplifying the governance structure.

Future changes to rail funding

In the summer budget 2015, government announced it will change the way it channels public money through the industry, directing it through the train operating companies. The change is intended to facilitate further changes that could encourage Network Rail to focus on the needs of train operators and, through them, passengers. It is likely to take some time to put into effect since it has a number of implications, including changes to the terms of rail franchise agreements.

The government has also asked Sir Peter Hendy and Mark Carne, Chief Executive of Network Rail, to continue with work to devolve more power to "route managers closer to the front line", so that the railways are more focused on delivering what passengers need and to improve performance across the network.

The government will introduce a new approach to station redevelopment and commercial land sales on the rail network, building on the experience of regenerating land around Kings Cross station and Stratford in East London. A new organisation will be set up to "focus on pursuing opportunities to realise value from public land and property assets in the rail network, to both maximise the benefit to local communities and reduce the burden of public debt".

Further changes?

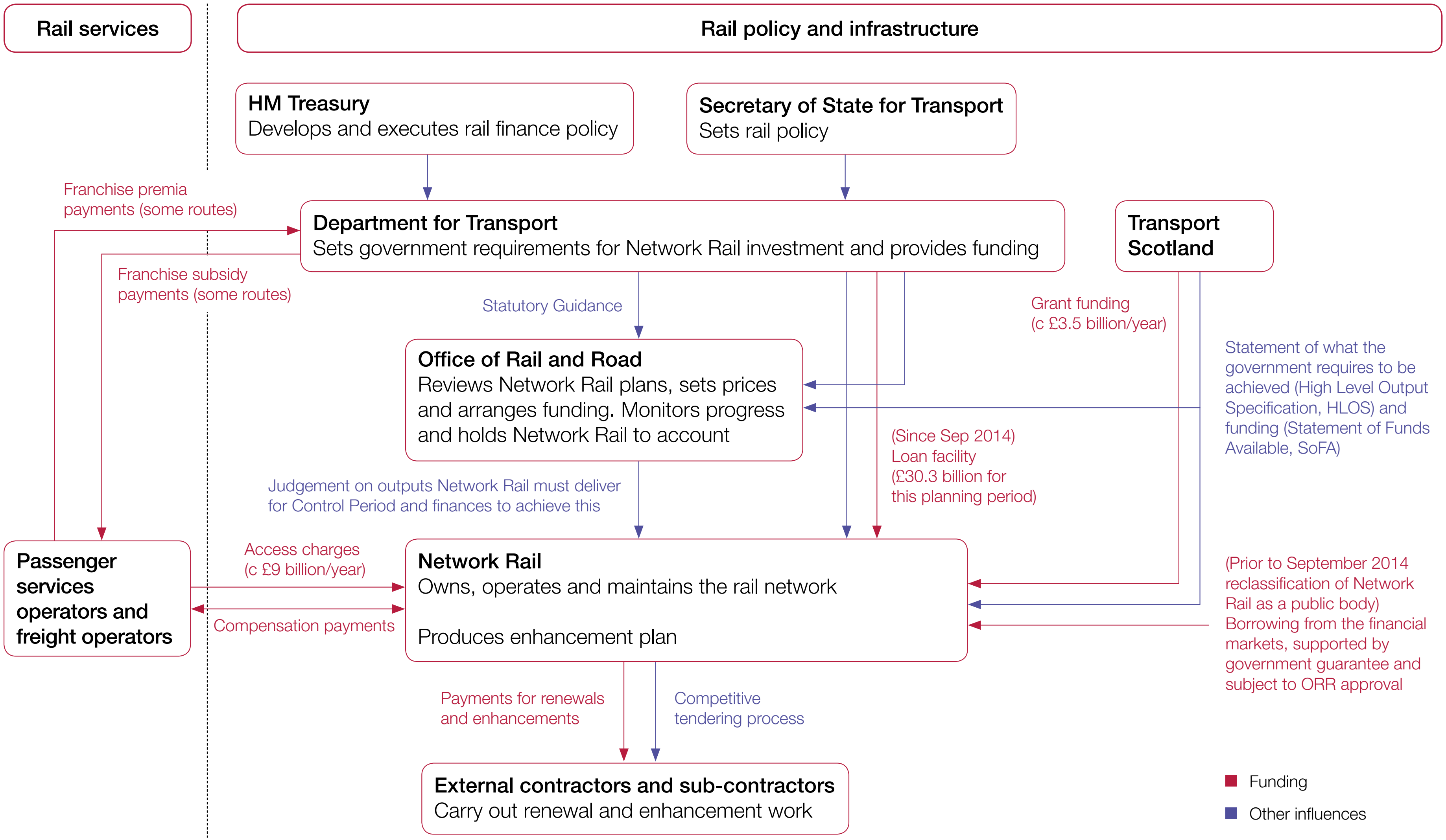
The previous slide shows the ongoing reviews of lessons learned, investment, long-term planning on financing, and future possibilities for structural and financial changes.

Depending on the conclusions of these reviews, there may be a need to review the role of the Office of Rail and Road alongside any changes proposed for Network Rail.

Appendix One – Related findings from previous NAO work

Report	NAO findings	PAC recommendations
Lessons from major rail infrastructure programmes October 2014	Highlighted that Network Rail has delivered work on the Thameslink and Crossrail programmes under direct protocol agreements with sponsors, outside its usual regulatory arrangements.	The Department for Transport should set out a long-term strategy for transport infrastructure to inform decisions about investment portfolios. The Department should develop plans to manage gaps in industry capacity to ensure programmes are delivered on schedule and within budget.
Procuring new trains July 2014	Highlighted the interdependencies between the new Intercity Express Programme trains and the Great Western Main Line electrification, including the risk to the Department for Transport if electrification was delayed.	A long-term integrated strategy should be developed by the Department and key partners such as Network Rail so major decisions can be taken in a logical order.
Progress in the Thameslink programme June 2013	Reported on the Department for Transport's sponsorship of the programme. We found that the budget was approved while plans were immature and significant effort has been needed by the Department and Network Rail to keep within it.	The Department should focus on integrated planning and aligning decision-making across the different elements of complex programmes from the very start.
Regulating Network Rail's efficiency April 2011	Reviewed incentives and information available to the regulator to drive efficiency. We highlighted that Network Rail's unusual company structure and monopoly position meant that incentives are weaker than in other regulated industries.	The regulator should put in place a more robust performance management system and the Department should review the regulator's powers. The Department should provide the Comptroller and Auditor General with full access to Network Rail.

Appendix Two – Relationships between bodies involved in planning



Note: Further information about Network Rail and the Department for Transport can be found in the NAO Short Guides.