

Foreword



Network Rail has now been responsible for Britain's rail network for two and a half years. Our aim is to provide demonstrable value for money to passenger and freight operators and to the ultimate customers of the railway – the fare paying passengers, freight users and the taxpayer. This business plan sets out how we plan to achieve this aim.

Over the last year we have made enormous progress towards the transformation of the business. A new functional structure organised on a national basis has been implemented enabling us to achieve further improvements through one way of doing things. We have doubled the size of the workforce and gained greater control over maintenance by bringing this essential activity in-house. We have also begun to introduce integrated control centres with the train operators which enable us to work more effectively together in controlling day-to-day railway operations.

The changes we have made are beginning to be reflected in improvements to the safety, reliability and efficiency of the railway. There have been a number of tragic incidents involving both passengers and the industry's workforce which underlines the need to continue striving for improvement in how we manage and monitor our safety standards. However, overall safety performance is good with many of the key indicators at historically low levels. The improvement in train performance has been dramatic with 18 consecutive four-week periods in which delays have been reduced compared to the previous year. We are delivering these improvements while reducing costs through more effective cost control, better planning and improved efficiency. As a result, we are on course to meet the challenging targets for improvements in efficiency and performance which were set by the Office of Rail Regulation.

Before Network Rail took control of the network we said that it would take eighteen months to show major improvement and three to five years to achieve a sustainable level of efficiency and performance. We have completed the first phase – we have a stable company with an appropriate organisational structure and financial security. We are now in the second phase which is focusing on standardising processes and delivering efficiently by removing unnecessary costs. The final phase will be to improve our effectiveness through further development of our core processes.

As a result of the Government's Rail Review, we are now being asked to take on more responsibility for railway industry performance, planning and projects. We accept the challenge of these additional responsibilities and we recognise the need to continue working ever closer with the train operators for the benefit of passengers while working more effectively with all our stakeholders in order to achieve overall success. In carrying out these activities we also welcome the opportunity to develop plans for the network based on the overall railway industry business case, taking account of the costs and benefits to passengers and freight users, while seeking to ensure that the future affordability and performance of the network is not compromised.

During the next 12 months and beyond we must therefore continue to improve reliability and efficiency, while managing the business within the available funds. The railway is always vulnerable to accidents but is one of the safest forms of transport. We must continue to ensure safety on the network. We must also take pride in keeping our costs down, responding quickly and helpfully to all those we deal with, cutting bureaucracy and providing an excellent service to our customers and other stakeholders.

We still have a big task ahead of us and we need to continue challenging ourselves to meet the expectations of our stakeholders and to enhance the reputation of the whole industry. In the following pages we summarise our plans to deliver these objectives.

A handwritten signature in blue ink that reads "Ian McAllister". The signature is written in a cursive, flowing style.

Ian McAllister (Chairman)

Contents

| | |
|---|----|
| Introduction..... | 3 |
| Where we are now | 3 |
| The challenges we face..... | 7 |
| Our objectives and responsibilities..... | 8 |
| The ten year plan | 10 |
| Expenditure | 10 |
| Income..... | 15 |
| Financing..... | 15 |
| Outputs..... | 16 |
| 25 year plan | 19 |
| Delivering the plan | 20 |
| Sustainable asset stewardship | 20 |
| Continuing performance improvement..... | 23 |
| Delivering efficiency savings | 25 |
| Safety..... | 28 |
| Transforming the business | 29 |
| Appendices..... | 30 |
| Basis of preparation | 30 |
| Expenditure, income and key performance indicators..... | 31 |
| Financial plan..... | 35 |

Introduction

This document summarises Network Rail's 2005 Business Plan for the ten year period from April 2005 to March 2015. It forms part of the following suite of documents which explain our plans in more detail:

- the Business Plan Summary (this document), which summarises our plans;
- the Management Plan, which explains our expenditure plans at a network level and the improvement plans for each of the main functions within Network Rail; and
- the Route Plans, which outline our plans for each of the 26 Strategic Routes.

Compared to previous years, we have restructured the documents to focus on the activity and outputs that we will deliver and the steps we are taking to transform the business. With this revised structure, the document will more clearly articulate the priorities of the business to our people. We also believe that it will be a more useful document for our stakeholders in explaining the actions we are taking and the outputs which we expect to be able to deliver as a result of these actions. In addition, this suite of documents fulfils the relevant requirements of Condition 7 of our network licence.

In conjunction with this suite of documents, we are publishing an update of our Business Planning Criteria (formerly referred to as our Network Stewardship Criteria). This provides a statement of how we make asset management and other decisions in accordance with Condition 7 of our network licence. In particular, it sets out how we ensure the safe and efficient day-to-day operation of the rail network; how, when and where we carry out maintenance and renewal of the network; and how and when we participate in projects for network enhancement/development to meet the reasonable requirements of relevant stakeholders.

We will also publish the 2005/06 Management Incentive Plan and this will be aligned with the objectives included in this plan.

The remainder of this section provides an overview of where we are now, describes the challenges we face and outlines the objectives underpinning our plans. The following sections set out **what** we are planning to deliver over the next ten years and explain **how** we are planning to achieve the improvements.

Where we are now

During the last year, we have made fundamental changes to the business, which are already delivering benefits. We have achieved significant improvements in train performance which more than recover the previous year's shortfall against the target. Costs are coming down and safety has continued to improve. As a result we have seen a more efficient railway giving a better service to passengers and freight customers. These improvements have been achieved at the same time as we have restructured our business to accommodate bringing maintenance in-house. The result of the Rail Review and refinements to the organisation of the industry should help us build further on these improvements.

Our progress in some of these areas is discussed in more detail below.

Taking maintenance in-house

We have now successfully completed the transfer in-house of all maintenance activities and employees. This comprised the transfer of some 15,000 employees from seven different companies. We have implemented a standard, templated area maintenance management organisation structure and the key posts have been filled. We now have the right people in the right structure to take the team forward, which is helping us to understand what work needs to be done and control how it is delivered. This provides the platform for achieving the stretching efficiency and performance targets set in the 2003 Access Charges Review.

Functional organisation and business process

We have put in place a new functional structure based on the 18 areas that are focused totally on the day-to-day running of the railway through delivery of operations and asset stewardship. The new organisation structure is designed to be high performing, customer focused and efficient. It supports our clear focus on delivery and enables us to define clearly and consistently across the whole network what we do, when we do it and how. It positions us to deliver real improvements for passenger and freight operators and the ultimate customers of the railway – the fare paying passengers, freight users and the taxpayer. Having put in place the new structure, we are now developing tighter and more consistent business processes.

Improving safety

There has been a continued improving trend in many of the main safety indicators. This has been achieved by focusing on key risk areas including signal passed at danger (SPAD) management, crime and trespass, track worker protection and level crossings.

We have initiated a programme to improve the arrangements for obtaining access to the track and for planning delivery of work, including the management of plant and equipment. Having brought maintenance in-house we have started to standardise our approach to maintenance. We have made clear that safety responsibility is owned by line management. Specific training programmes have been introduced to ensure that people understand how work activities are carried out safely. We have more disciplined reporting and monitoring of safety incidents. Despite these improvements, we will not achieve this year's targets for improvements in workforce safety. The number of high risk signals passed at danger (SPAD) incidents has diminished, although the number of Category A SPADS has been above target. During 2005/06 we have substantially completed the implementation of the Train Protection and Warning System Plus (TPWS+), which provides TPWS functionality at higher speed. While we have continued to focus on reducing the level of road vehicle incidents at level crossings, which is the largest single source of train accident risk, we must not forget that there have been some tragic incidents on the railway, including seven passenger fatalities at Ufton Nervet level crossing in Berkshire. We have continued to improve management of trespass and vandalism. We have also opened new signalling training centres, including the introduction of simulation training for signallers. We will continue to work to improve safety in all areas including workforce safety.

Improving asset stewardship

The overall condition of the network has also improved significantly. The Asset Stewardship Incentive Index, which is a measure of the overall status of a number of contributory factors indicators of the network's condition, is expected to be around 13 per cent ahead of the target for 2004/05 and an improvement of 15 per cent compared to last year. The level of asset failures has improved significantly with the number of points and track circuit failures expected to be around nine per cent better than last year and an improvement of around five per cent in signalling failures that cause more than 10 minutes' delay. Traction power supply failures are expected to be around 19 per cent fewer than last year. There has been a significant reduction in the number of structures and earthworks temporary speed restrictions and an improvement in track condition measures. We have also consolidated the reduction in the number of broken rails achieved over the last four years.

These improvements reflect the ongoing focus to improve maintenance and renewals of the network. Developments include, for example, the increasing use of Six Sigma analysis techniques to identify maintenance improvements and the introduction of train-borne measurement systems, which provide a wealth of real time information on the condition of our assets. We have increased the focus on managing asset reliability through, for example, campaign changes along a route to replace specific components. We continue to refine our asset polices and standards. Developments include the increased use of stoneblowing as an alternative to tamping, and making rail grinding a core stewardship

activity. The Engineering Support Centre has been set up to process and manage the condition data collected by infrastructure measurement vehicles and provides us with the ability to collect, store and integrate large volumes of information. This in turn supports improved decision making.

Improving reliability

Reliability has improved significantly during 2004/05 with delay minutes reducing for 18 consecutive periods. We are currently expecting total delays for the year to be around 11.5 million minutes representing a 16 per cent improvement over the previous year and almost seven per cent better than the challenging target which was set by the Office of Rail Regulation (ORR).

These excellent results highlight our success in improving the reliability of our assets, as described above, which is as a result of improved maintenance and the increased renewals activity. We have also continued improving our seasonal preparedness programme – our share of delays attributed to autumn has been reduced by a third compared with last year. We have continued the process for establishing integrated control centres. With the establishment of the Sussex, Kent and Anglia Network Controls, we have brought the total number to six with a further three planned. Although further steps are required to achieve full integration, these changes are already having a marked effect in reducing both primary and secondary delays around serious operational incidents. The creation of co-located, integrated operations centres with single railway controllers is a key business strategy designed to ensure decision-making is streamlined and focused on improving performance and reducing passenger delays. The improvements are the result of good, focused management, a shortened chain of command since taking maintenance in-house, and closer cooperation between Network Rail and train operators.

We have introduced new timetables for several train operators to balance the requirements of additional services with the drive to improve performance. In the case of South West Trains and Midland Mainline, for example, this is already resulting in significant reliability improvements. This is the beginning of a series of improvements in the robustness of timetables across the network to take account of traffic growth and other changes over a period of years.

Accurate timetable information is critical to passengers but we have been in breach of our licence obligation in this area. We have therefore put in place a programme to restore provision of timetable information to train operators 12 weeks in advance from September 2005 (T-12). Key milestones in this programme have been the achievement of T-4 in November 2004 and T-6 in March 2005. As part of this programme we have accelerated the restructuring of the operational planning team to enable us to manage the whole timetabling process more effectively. We will be working closely with train operators as we move towards full compliance with this process.

Controlling costs

The improvements in reliability and asset condition have been achieved at the same time as reducing our annual controllable operating and maintenance costs by around £170 million in real terms. As a result of bringing maintenance in house we have removed over £50 million of contractor profit from our cost base. We have made significant savings through the renegotiation of many of our key supplies. For example, we have new contractual arrangements for the purchase of small plant and new arrangements for welding and other specialist services. We have also reduced our reliance on labour-only subcontractors with more effective planning and recruitment of permanent employees.

Following the introduction of the functional organisation, we have created a Renewals Investment Panel to review all renewal schemes, while all major projects are also reviewed by the Investment Board comprising the Executive Directors. There is much greater focus on ensuring that we get the right specification for renewal projects and that we are able to deliver these efficiently. As we go forward, this will result in additional scope where this offers best value for money and reduced scope in other cases. It has also resulted in some reprofiling of our expenditure plans so that our renewal expenditure for the

first two years of the control period is less than assumed during the 2003 Access Charges Review with additional expenditure in the subsequent three years.

Some good work has been done in identifying and achieving efficiencies during 2004/05. There have also been a number of project deferrals, both planned and unplanned. We have deliberately delayed projects, particularly signalling renewals, where we believe further work is required to determine the required scope to remain within our business plan targets and to enable efficient delivery. Unplanned slippage has resulted primarily from the shortfall of workplan specifications and project management resources and has affected all asset delivery teams except track. This has particularly affected delivery of electrification and plant projects but following the reorganisation and the filling of key vacancies we are beginning to develop more robust delivery plans in this area.

While our enhancement expenditure is also less than we had assumed for this year, this is partly due to external changes and we have made significant progress in delivering key enhancements. We have completed the first phase of West Coast Route Modernisation on time and delivered the required timetable improvements for September 2004. The Southern Power Supply Upgrade programme, which has been upgrading the existing railway infrastructure to support the introduction of 2,025 new vehicles onto the existing network, is on time and more than £160 million better than budget in 2004/05.

We have continued to develop our route-based planning approach through which we apply a differentiated approach to the network on a case-by-case basis. As we make further progress with this approach, we will strengthen our liaison with stakeholders to understand their aspirations for the route. However, it will be necessary to manage the overall network within the funding available and the extent to which these aspirations can be met will need to be prioritised to ensure an appropriate balance between the level of train services, their reliability and the need for engineering access.

Financing the business

Having secured our funding through the 2003 Access Charges Review, we launched our Debt Issuance Programme (DIP) in November 2004. This is a highly flexible financing platform that enables us to raise a wide range of debt finance to provide a sustainable and efficient capital structure. The DIP, which is supported by the Strategic Rail Authority (SRA) in the form of a financial indemnity, enables us to borrow at very low cost. In the last year we have raised more than £4 billion through bond issues.

The Rail Review and industry organisation

The Government published its White Paper on the future of Britain's railway in July 2004. The White Paper proposes a number of significant changes to the structure and organisation of the railway. The implementation of these proposals, including proposed modifications to the Network Code and our network licence, will give Network Rail additional responsibilities for industry performance, planning and projects. This is therefore a real vote of confidence in the progress that the company has made over the last few years and we are determined to rise to the new challenges as the proposed changes are implemented.

The changes are designed to deliver improvements in reliability and the effectiveness of industry planning, building on the already close and improving local collaboration between Network Rail and train operators. Some of the changes involving Network Rail have already been implemented and significant progress has been made in other areas. However, this process is not expected to be completed until around the end of the year. Key areas of progress include:

- responsibility for reporting of industry performance has been transferred from the SRA to Network Rail;
- we are working with train operators to develop Joint Performance Improvement Plans (JPIPs) which build on the work already done to improve overall industry performance reflected in the planned trajectory for achieving Public Performance Measure (PPM) of 85 per cent;

- we are making good progress with the development of the Railway Operating Code (ROC) which will provide for the integrated control centres and clearer powers to direct network services and restore services to normal after disruption;
- as well as working closely with SRA on its existing Route Utilisation Strategies (RUSs), we have been given responsibility for developing new RUSs. We have now initiated RUSs for the South West Main Line and the Cross-London lines and are working closely with the relevant train operators and other stakeholders to take these forward;
- we have established with the Department for Transport (DfT) the way in which we expect to report to them on progress with our plans as a reasonable requirement under the terms of our network licence and enforceable by the ORR;
- we are working closely with the Scottish Executive on its reporting requirements and to enable it to specify the required outputs for the Scottish part of the rail network following the proposed devolution of powers to the Scottish Parliament. We expect to meet regularly at a senior level in the company with the Scottish Executive;
- work which has been done by SRA on the development projects is being transferred to Network Rail where appropriate; and
- broad consensus has been reached among industry parties on the required changes to the performance regime as an input to the ORR's review of this regime.

In order to accommodate the additional work that will result from our increased responsibilities we have reinforced and reorganised certain areas of the company. These relate mainly to the arrangements for planning, performance and projects and better local engagement with stakeholders including the devolved assemblies.

We have continued to extend the opportunities for our Members to hold the Board to account. In addition to the annual general and half-yearly meetings, 16 meetings are held with Members around the country throughout the year to discuss our progress at length. Various types of site visits are also arranged.

The company provides a wide range of information on a regular basis and this will be supplemented with additional information such as:

- a regular report to Members from the ORR on the performance of Network Rail;
- a regular (quarterly) balanced scorecard from the ORR;
- a meeting between the ORR and Members so that Members can ask questions of the ORR about Network Rail's performance.

Moreover, during the past year, Members have been considering a proposal from a group of Members for a formally structured "Members' Council". In February 2005 a ballot of Members rejected this proposal. Notwithstanding this, the company is discussing with members other possibilities by which Members can come together to discuss issues relating to their corporate governance role.

The challenges we face

While we have made good progress in the last year, we still face significant challenges in delivering a safe, reliable, efficient and affordable railway. It is a tribute to the success of the railways that over the last ten years passenger rail travel has grown to the highest levels since the Second World War. This success is set to continue as we expect further rises in the number of people wanting to travel by train and increasing demand from freight users. This will mean increasing numbers of trains on our already congested network and more people going through our stations. While we have done well in the last year, we are well aware that, even when we reach 85 per cent PPM, three out of every 20 trains still run late and this is not acceptable in the longer term.

The legacy of historic under-investment in the railway is well documented. We are now investing more than ever in the network, but increasing usage will accelerate the process of decline and put increasing demands on our renewals programmes. This pressure is not just on volumes, but also on efficient delivery and gaining access to the railway to do the required work while avoiding undue disruption for passengers and freight users. We face an increasingly difficult challenge to deliver the volume of work required to achieve the level of performance and asset condition required by the 2003 Access Charges Review conclusions.

The West Coast Route Modernisation continues to be a major challenge for the company. We have delivered the first phase on time and budget but the programme of investment on the line north of Crewe will be just as challenging. The welcome increase in the number of passengers wanting to use the railway means that we will need to make best use of the available capacity but the scope for enhancement work on the railway will be constrained by the available funding. As we get delivery of operations, maintenance and renewals under better control, confidence is growing in our ability to deliver small and medium sized enhancements which offer good value for money to our stakeholders.

In taking on greater responsibility for industry planning, performance and projects, we will take a balanced approach to inform difficult trade-offs as we respond to the challenge of assessing how the industry is best able to meet increased demand. In particular, this will involve reliability-service level trade-offs and choices involving different levels of access or disruption to services. Our input to these choices will need to be based on transparent appraisal criteria which take account of the costs and benefits to the industry as a whole. However, it will be a major challenge to the company to demonstrate that it is adopting a balanced approach and we will need to work closely with all our stakeholders to help inform their decisions as well as our own.

These improvements need to be achieved while continuing to manage the business within the available resources. This requires major improvements in the productivity of our maintenance workforce, improved planning of both maintenance and renewals workbanks and continued improvements in procurement efficiency.

If we are to meet these challenges, we must continue to improve and accelerate the progress that we have been making. This is a big task and in the rest of this document we summarise our plans that will help us meet these challenges.

Our objectives and responsibilities

It is essential that we enable everyone to be clear about both where the organisation is going and what their role is in getting there. Our **aim** is to provide demonstrable value for money to passenger and freight operators and to the ultimate customers of the railway – the fare paying passengers, freight users and the taxpayer.

We have seven clear **goals** that underpin this aim and for each goal there is a defined objective with a specific measurable output as shown in the figure below.

| Figure 1 Goals, objectives and measures | | |
|--|--|---|
| Goals | Objectives | Measures |
| Improved safety | Reduced number of accidents | Public safety index |
| Higher service performance | Better punctuality and reliability | Public Performance Measure (PPM) Train delay minutes |
| Increased system capability | Increase passenger and freight usage | Passenger and freight traffic measures |
| Improved relationships with customers and stakeholders | Increased passenger and freight operating company satisfaction | Passenger complaints per 100,000 journeys |
| Better financial control | Improved financial efficiency | Financial Efficiency Index |
| Better asset stewardship | Improved and better value stewardship of the infrastructure | Asset Stewardship Incentive Index |
| Improved business performance | Greater employee engagement | Employee Engagement Measure |

A suite of key performance indicators (KPIs) underpins these objectives. This plan sets targets for these KPIs for each of the next ten years to March 2015. Where applicable, Network Rail targets and KPIs are aligned with delivery of our regulatory targets.

The ORR is currently developing a balanced scorecard comprising a series of key performance indicators to be made publicly available on a regular basis. This also takes into account our wider responsibilities as a result of the Rail Review. If the final proposals do not align exactly to our current KPIs, we would need to consider whether to adapt and develop our internal measures to ensure consistency.

We have identified the set of **values** which supports our vision:

- safety;
- customer-focus;
- integrity;
- excellence;
- self-confidence; and
- dependability.

These values help guide our **behaviours**:

- enthusiasm – an infectious and positive approach to work. Always trying to accentuate the positive in people and situations;
- pride – displaying a sense of ownership. Having real pride in the railway industry and the way in which an improved infrastructure can ease the country's transport problems safely;
- teamwork – acting as one team in an open and honest way, responding positively to others and being adaptable; and
- can do/will do – displaying a positive attitude. Both able and willing to grasp opportunities and implement them effectively.

Our plans for delivering these objectives, and embedding the values and behaviours in our culture, are summarised in the following pages.

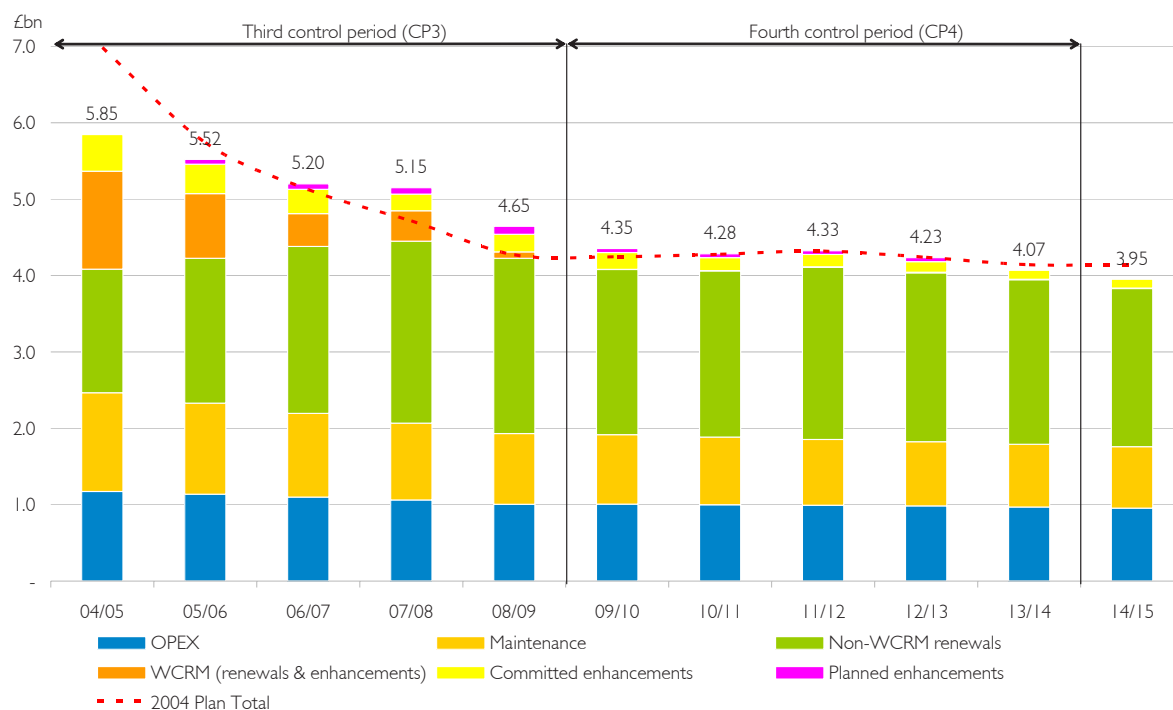
The ten year plan

In this section we outline what we are planning to deliver over the next ten years, summarising our expenditure and income projections and the outputs that we are planning to achieve. A more detailed summary of our projections is included in the appendices.

Expenditure

The projected cost of operating, maintaining, renewing and enhancing the network is broadly consistent with our 2004 plan. The principal changes reflect the reprofiling of renewals expenditure and revised signalling projections for the current control period (to March 2009). The track renewals projections in the next control period have also been reduced by around 20 per cent reflecting our latest assessment of the required activity levels. The expenditure projections are summarised below.

Figure 2 Expenditure forecasts 2004/05 - 2014/15



Note: (1) All figures are in 2004/05 prices. (2) The plan was finalised before the end of 2004/05 and therefore the figures for that year have not yet been audited and will be subject to change. (3) Total expenditure in Control Period 4 is only marginally less than our previous projections, although no enhancement expenditure for that control period was included in the 2004 Business Plan.

Operating costs

In 2004/05 our controllable operating costs are expected to be around £100 million less than the previous year, offset by uncontrollable operating costs (comprising electricity for traction costs, cumulo rates, and charges for British Transport Police and the ORR) being around £2 million greater than planned.

In 2005/06 we expect to make further savings of £60 million in controllable operating costs. This is based on, for example, reductions in the templated headcount, reduced reliance on consultants and reductions in specific items such as insurance and a new contracting strategy for telecommunications services and takes into account small additional costs resulting from the Rail Review. For the remainder of Control Period 3, we are planning further savings of five per cent per annum which is consistent with the improvements assumed in the 2003 Access Charges Review conclusions. Meeting this challenge will require more

fundamental changes in our business processes and we are developing our plans to achieve this. For the remainder of the ten year plan, we have assumed that further annual savings of two per cent will be achieved.

Uncontrollable operating costs are expected to increase by £22 million in 2005/06 principally due to an increase of £30 million in the cost of electricity for traction, with a further increase of around £6 million in the following year. This is largely offset by a forecast increase in electricity for traction revenue. We have assumed that electricity for traction costs do not increase further in the next control period.

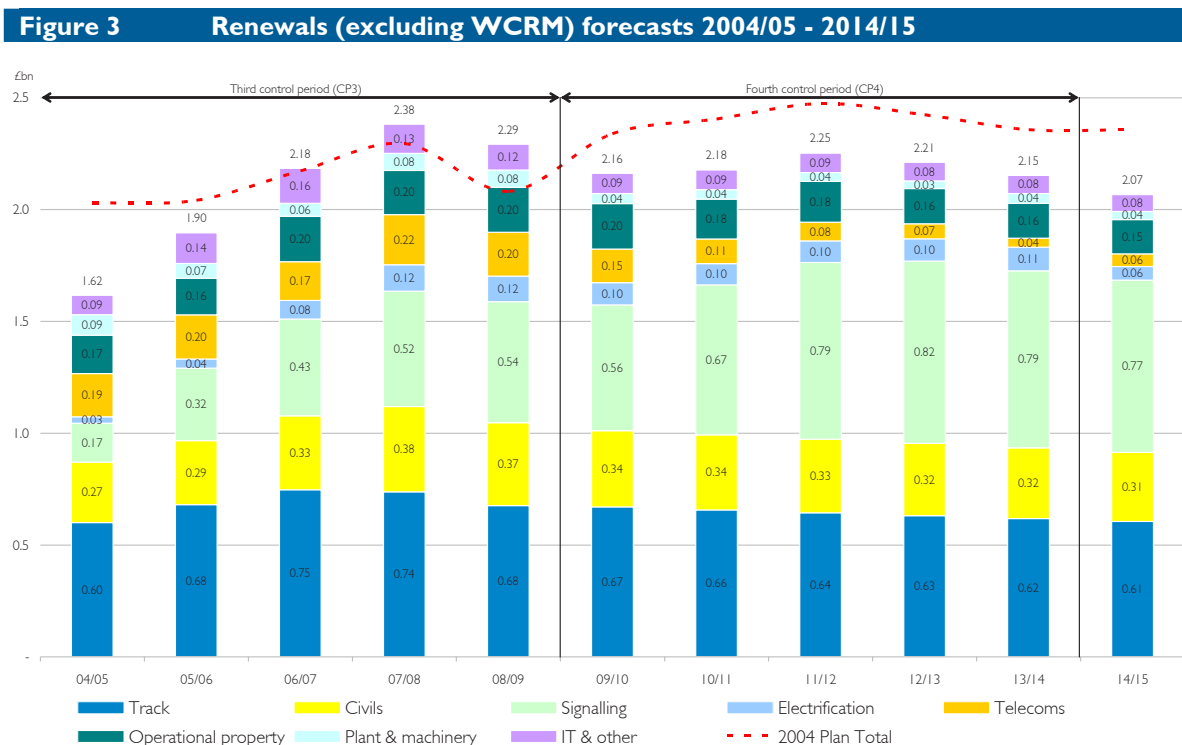
Maintenance

In 2004/05 our maintenance costs are expected to be around £70 million less than the previous year. We plan to continue reducing maintenance expenditure by a further eight per cent per annum for the remainder of the control period, which is consistent with the ORR's assumptions in the 2003 Access Charges Review conclusions. Following maintenance being brought in-house, we have established an organisational structure, which allows us to develop both tactical and strategic efficiency plans. Where appropriate this maintenance resource will undertake small-scale renewals work and other work which improves the visual impression of the railway. Identification of actions to achieve the 2005/06 efficiencies is mainly focused on specific initiatives developed by the local maintenance teams together with centrally planned savings in the unit rates for plant and vehicle costs. Delivery of further savings in the next three years will require greater reliance on centrally driven initiatives. Our plans for delivering these savings are described in "Delivering the Plan".

We are introducing more cyclical maintenance policies as part of the efficient engineering access project. To the extent that this was not reflected in earlier plans as it depends on refranchising, this may result in further savings and the scope for this will be examined in the forthcoming regulatory review of possessions. At this stage, however, we have not included any further savings in our projections. Beyond the end of the current control period, we have assumed that further annual savings of two per cent will be achieved.

Renewals (excluding West Coast Route Modernisation)

Our planned renewals expenditure excluding the West Coast Route Modernisation (WCRM) is illustrated in the graph below, together with a comparison to the total renewals included in the 2004 Business Plan.



For each asset category, we have developed an efficiency cost model in which we identify the planned savings from specific initiatives. As we improve our assessment of the required scope for individual projects, together with continued reductions in unit costs and more effective work planning, we are planning to increase significantly the overall level of renewals activity in each of the next three years while continuing to deliver further efficiency savings. Taking into account the level of activity in 2004/05, we have reprofiled renewals expenditure for the period to 2008/09 for each asset category based on our current expectations of the achievable rates of increase. If additional works can be delivered at efficient cost, we will, however, accelerate work from future years.

Our planned overall renewals expenditure for Control Period 3 continues to be consistent with the 2003 Access Charges Review, except for telecom and signalling renewals. We have updated our projections for the Global System for Mobile Communication for Railways and Fixed Telecom Network (GSM-R/FTN) programme to reflect a more efficient delivery profile, which has resulted in deferring expenditure of £42 million into the next control period. For signalling, our projections for this control period continue to be higher level than the 2003 Access Charges Review, although at a lower level than our last two business plans. The ORR previously concluded that there should be no increase in signalling renewals from 2005/06 levels until a more robust signalling plan was developed. We have developed a much more robust signalling strategy and the ORR is currently carrying out a further review of our expenditure requirements in this area. The plan is based on the medium term submission we will make to the ORR in April although we will continue to ensure that works only proceed when they can be delivered efficiently. This submission will reflect the renewal of signal interlockings based on their condition and optimisation of delivery to facilitate consistent and achievable renewal volumes at an efficient whole-life cost. However, we are also assessing the impact of expenditure remaining in line with the 2003 Access Charges Review, for example, through deferral of expenditure into the next control period, and examining the impact on short-term outputs as well as whole-life costs.

We are also seeking more efficient engineering access patterns for renewals where there is a positive industry business case. However, this is clearly dependent on agreeing access with the relevant operators and may require changes in the possessions regime. We will work with train operators to achieve an appropriate balance between cost, reliability and service levels. We have not included any further savings in our projections beyond those which are consistent with existing practice.

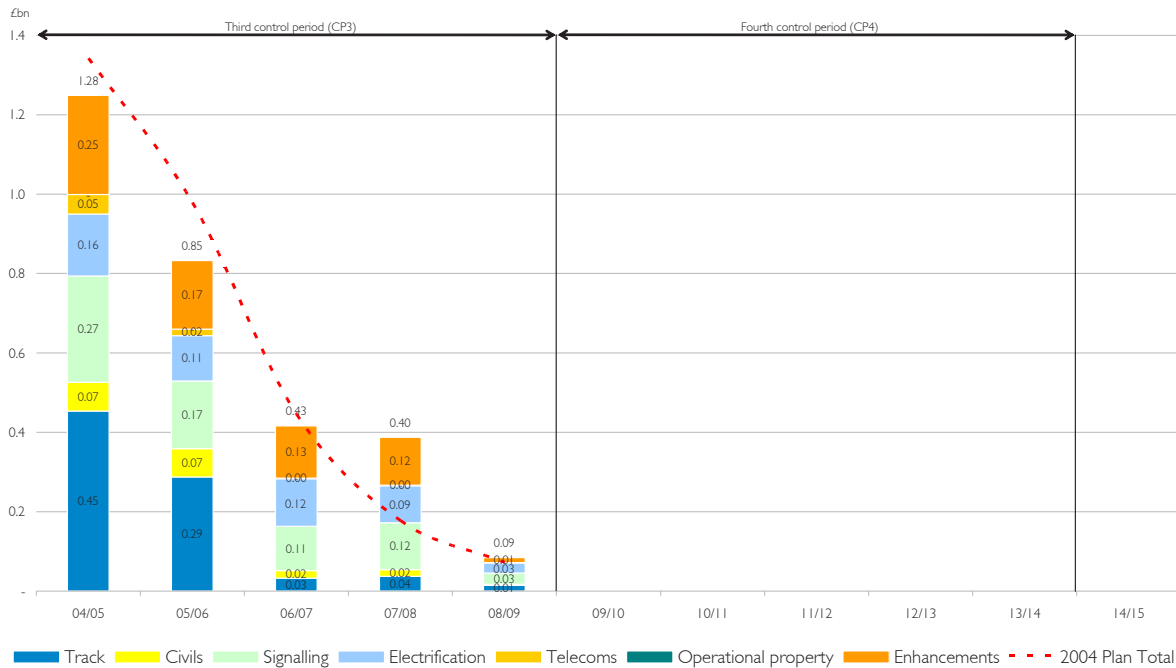
Beyond 2008/09, we have updated our projections to reflect the latest assessment of the level of renewals required to sustain the network (although the required outputs and hence costs will be a matter for the next access charges review). The principal changes to the 2004 plan include a 20 per cent reduction in the required level of track renewals due to improvements in the quality of maintenance, more effective rail grinding, the adoption of a partial renewal strategy for switches and crossings, and improved knowledge of track service lives. For telecoms, our projections are based on total GSM-R/FTN programme cost of £1.3 billion although further savings in the next control period need to be identified to achieve this. We are currently developing a series of options as part of the signalling interim review and have not updated the signalling renewal projections beyond 2008/09.

When combined with the renewals delivered by the West Coast Route Modernisation programme, the projected level of aggregate renewals expenditure is expected to be broadly flat over the control period. Given the substantial efficiency savings built into these projections, however, this still implies some increase in the volume of work.

West Coast Route Modernisation

The total level of renewals and enhancement expenditure for WCRM is shown below. Beyond Control Period 3, we have included all expenditure on the West Coast Main Line within the general renewals projections discussed in the previous section.

Figure 4 WCRM renewals and enhancements forecasts 2004/05 - 2014/15



The 2004 Business Plan for WCRM included extremely challenging targets to achieve the ORR efficiency improvements and provide for an element of contingency. Considerable progress has been made to achieve savings and the result is that the original programme was broadly on target but with no contingency. However, the scale of the challenge has been increased further as a result of modifications to the engineering scope of works and pressure to reduce the disruptive access required to deliver these works. This has increased the projected cost of the currently proposed works to above the amount provided for in the 2003 Access Charges Review.

A further review of programme scope has therefore been undertaken and this has identified further savings in the current control period as well as potential additional grant funding from the European Union. The main savings are achieved by continuing to drive efficiency savings and by focusing in this control period on those schemes required to deliver and sustain strategy outputs. Those components which are not critical and where renewals dates are later will be deferred into Control Period 4. The resulting programme will achieve the indicative journey time reductions and the capacity beyond 2008 to which we committed in our previous business plan, as well as enabling an attractive weekend offer after December 2008. Although we will continue to seek further efficiency improvements the latest projections include no allowance for contingency to remain within the funding provided by the ORR for the remainder of this control period.

Further investment would be required in the next control period in order to complete certain schemes including at Stafford, while sustaining the previous improvements. However, the additional investment and disruption in the next control period would be offset by longer term reductions in the volume of track renewals as track is being renewed to a higher quality standard which has a longer life and requires less frequent intervention than had previously been assumed.

Further details of our plans for the West Coast are provided under Route 18 in the Route Plans document.

Enhancements

In addition to WCRM, we were also funded by the 2003 Access Charges Review for the Southern New Trains programme, the further development of the Thameslink programme, installation of equipment into train cabs as part of the GSM-R/FTN programme and health and safety schemes, including fitment of TPWS+, European Rail Traffic Management System (ERTMS) development and delivery of safety and environment enhancements. The projected 2005/06 expenditure included in our plan for these schemes has increased by around £80 million as a result of the deferral of work from 2004/05 to enable more efficient planning of the work. The total Control Period 3 cost for these schemes is projected to be around £310 million less than the 2003 Access Charges Review. This is principally as a result of savings achieved in the total costs of the Southern Region New Trains programme through strong control on this project of the required scope of works.

We are continuing to work closely with the national ERTMS project team to develop a strategy for the implementation of ERTMS on the Cambrian line. We are developing a strategy for ERTMS on the rest of the network that is aligned, where possible, with both the life expiry replacement of signalling assets and changes to rolling stock. This will minimise the economic impacts of advanced renewals and retrofitting rolling stock, and the impact on the operational railway. We are also developing an ERTMS-ready specification that can be applied to conventional signalling schemes for specific routes to facilitate a cost effective upgrade.

The 2003 Access Charges Review did not, however, provide funding for a number of potential projects. This includes delivery of the Thameslink programme (or the renewals which would be required if this does not proceed), the King's Cross western concourse, the fitment of the new St Pancras Midland Road station, Birmingham New Street station, and costs arising from the Disability and Discrimination Act (DDA). We have since reached agreement with the DfT and the ORR that DDA and King's Cross will be funded mainly through the Regulatory Asset Base (RAB) and will continue to develop the other schemes.

We have only included our own operating costs to support specific potential future projects that will interface with our network, including Crossrail, the Stratford City development and the East London Line development. We have also included costs relating to the Evergreen enhancement project on the Chiltern line. We have been working with the SRA to identify opportunities for small incremental enhancements on the back of existing renewal schemes. A fund of £200 million over the next four years is expected to be included in the RAB to enable us to deliver a number of small (up to £5 million) enhancements, although the details are still being finalised with the ORR and the Government. These will generally be linked to renewal projects since this offers significant synergies which maximise value for money. We have identified a number of potential schemes and will be developing these with industry stakeholders through the route planning process. Specific proposals include signalling improvements at Basingstoke and the introduction of bi-directional signalling at Peterborough.

We are funding a number of property related schemes, with a total cost of £125 million in Control Period 3, where there is a sound business case to support these self-funded schemes.

We have included the projected costs for a number of potential schemes for which funding is not committed, including schemes to be funded by third parties. These include schemes relating to the development of airport links for Heathrow, Glasgow and Edinburgh, the development of Edinburgh Waverley station and Glasgow Crossrail.

Income

Fixed track access charges and network grants are consistent with the 2003 Access Charges Review and the subsequent reprofiling of revenue which was agreed with the ORR (which resulted in a deferral of income in the first two years of the control period). Variable track access charges are higher than our 2004 projections as a result of projected traffic increases, including the introduction of the new West Coast timetable and the rolling stock replacement through Southern New Trains Programme. We will need to assess whether these changes will also drive additional maintenance and renewal costs which are not yet reflected in our plan or whether this additional income should be available for reinvestment.

As a result of improving train performance we are projecting to receive Schedule 8 payments from train operators for the rest of the control period. Depending on the achievement of efficiencies in other areas, this additional income may be made available for reinvestment in the railway. We have assumed that Schedule 8 will be cost neutral for the following control period as a result of rebenchmarking in the next review. Our projections for Schedule 4 payments to passenger train operators for possession costs continue to be consistent with the 2003 Access Charges Review.

Electricity for traction income from franchised operators is separately identified in our income projections. Together with electricity for traction income within open access and freight income, we are forecasting to recover almost all our electricity for traction costs.

Single till income is forecast to be broadly in line with the 2004 Business Plan. We are projecting a small increase in property sales income offset by a reduction in ring-fenced income. We are no longer receiving supplemental income from Virgin Trains in connection with the West Coast Main Line, although we have now included income arising from the Evergreen project to upgrade the Chiltern line.

We are discussing with the ORR proposals to adjust the regulatory asset base by around £700 million due to expenditure in 2003/04 which was lower than assumed during the 2003 Access Charges Review. We will be considering whether part of the income associated with this element of the RAB should be rebated to relevant operators (and passed on to the Government).

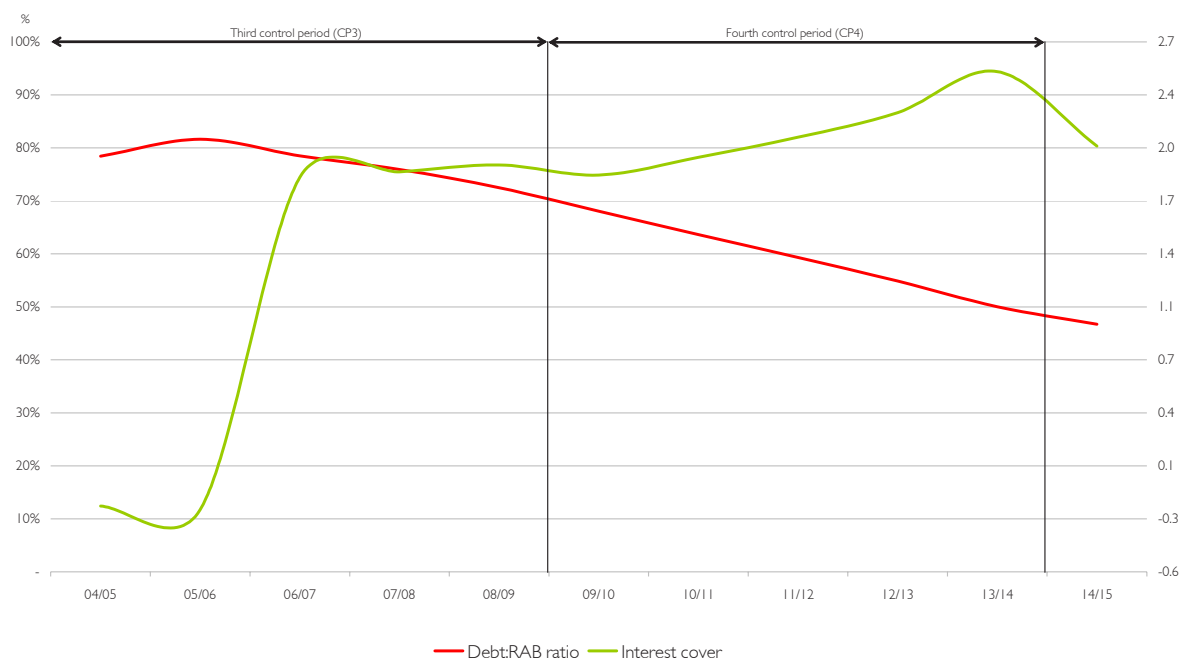
We agreed with the DfT and the ORR that the network grant in 2004/05 could be increased with a compensating reduction in fixed track access charges. This agreement does not have an impact on our total income and does not affect future years of the plan.

Beyond Control Period 3, for the purposes of this plan the income projections are based on our assumed revenue requirements and our financial model does not include separate grant payments from 2009/10. However, this is subject to the 2008 Access Charges Review.

Financing

Our net debt is expected to be approximately £16 billion at 31 March 2005. It is forecast to increase to nearly £19 billion by March 2006 and over £20 billion in 2008/09. This is less than was assumed at the 2003 Access Charges Review mainly because of reduced opening debt, lower interest rates, reduced enhancement expenditure and reprofiled renewals within the control period.

We will need to refinance £1 billion of existing facilities in 2005/06 and a further £10 billion over the next four years. During 2005/06 and beyond, it is expected that this incremental debt requirement will be financed from a combination of public and private bonds and commercial paper issued under the Debt Issuance Programme. It is currently expected that this will be the cheapest form of finance available to Network Rail and that there will be sufficient market capacity. Our projections of the key debt to RAB and interest cover ratios are shown below.

Figure 5 Net debt : RAB and interest cover ratios

We are expecting to make an operating profit in 2004/05 and 2005/06 although we will continue to make a loss before tax. We are projecting that we will achieve a profit before tax in 2006/07 as a result of the increase in fixed access charges and network grants. We are also projecting a positive interest cover ratio of around 1.9x in that year.

Outputs

Our projected operations, maintenance and renewals activity underpins our projections of the outputs we plan to deliver. Our forecasts for the key outputs are summarised in the following sections.

Safety

While we have not achieved our 2004/05 target for the projected public safety index, we are maintaining our projections at the levels included in our 2004 plan. However, the Railway Strategic Safety Plan 2005, recently published by the Rail Safety and Standards Board (RSSB), did not include targets for this measure. The Department for Transport is currently proposing to use the RSSB's train accident precursor measure as part of the Government's high-level output specification for the railway. If this is confirmed, we would expect it to become our key safety measure. As this measure is still being developed, the RSSB have not yet developed numerical targets. As a result, we are not yet able to include targets within our plan.

While our safety performance is good with many of the key safety indicators at historically low levels, we must continue to make improvements. In particular, we must focus in the coming months on workforce safety. In the last year there have been workforce fatalities, which is unacceptable. We must work hard for the railways to continue to be one of the safest forms of transport. Our plans for improving the management of safety risk are set out in Delivering the Plan below.

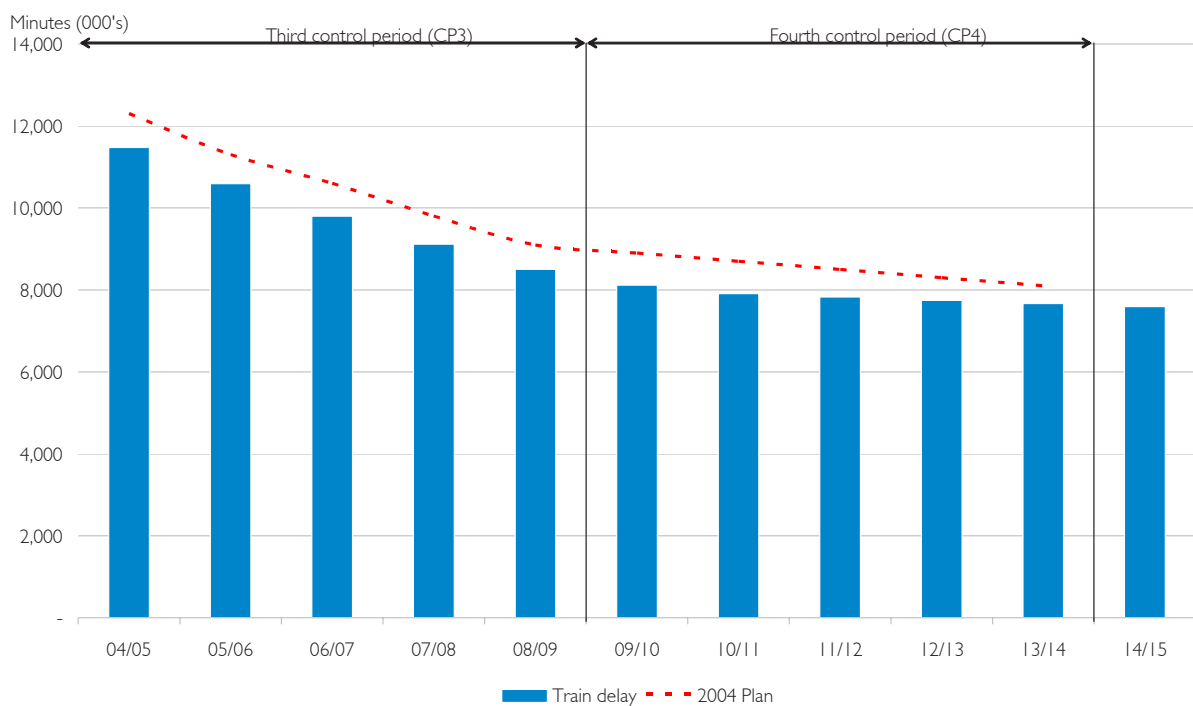
Performance

In the 2003 Access Charges Review we were set a target to improve the reliability of the network by more than 30 per cent by 2008/09. In 2004/05 reliability has improved significantly and we are currently expecting total delays for the year to be around 11.5 million minutes. This is 16 per cent better than last year and almost seven per cent better than the target of 12.3 million minutes set by the ORR.

Our performance forecast for the next three years is based on 2004/05 actual results as a baseline together with an assessment of the impact of detailed improvement plans developed by our route-based teams and nationally sponsored initiatives. The analysis also takes into account the effect of expected traffic changes, the potential impact of major events such as severe weather and other specific improvement plans. This forecast is supported by our statistical forecasting process in which an assessment is made of underlying trends. As a result we have set ourselves a target of 10.6 million minutes in 2005/06 which is better than the ORR's target by 700,000 minutes and achieves the ORR target for 2006/07 a year early. As a result of this accelerated improvement in performance, we have assumed that we will exceed the ORR's target by 600,000 minutes by the end of the control period. Beyond 2008/09 we have continued to assume that total delay minutes (including growth) will improve to around 7.6 million minutes in ten years time.

The planned improvement in Network Rail train delays is shown below.

Figure 6 Projected train delays caused by Network Rail



Our performance projections are combined with our current growth assumptions, together with an assumption for train operator performance provided by the SRA for 2005/06. On this basis the industry would reach 85 per cent PPM by March 2006. Beyond this, we assume for illustrative purposes that the train operators' performance improves at a similar rate to our performance. This implies that PPM punctuality would reach around 90 per cent by March 2009. Our ability to provide accurate forecasts of PPM will improve as we develop the Joint Planning Industry Performance process and there will therefore be greater focus on overall industry performance in future business plans.

The 2005 contractual Local Output Commitments have been based on the target included in the 2003 Access Charges Review reflecting our regulatory commitment. However, we are determined to deliver greater improvements for our customers and have reflected this in more challenging targets for each operator. There will inevitably be some uncertainty about the level of improvement we achieve given the complexity of train performance as a dynamic system, which the experience of recent years has highlighted.

Asset stewardship

For 2004/05 we are currently expecting to achieve better than the budgeted Asset Stewardship Incentive Index by more than 13 per cent. We are achieving the asset measure targets set by the ORR for 2008/09 more quickly than planned as a result of improvements in each component of the index, including broken rails, the number of level 2 exceedences (a discrete track geometry measure), temporary speed restrictions due to structures and earthworks, and electrification failures as well as improvements in track geometry. We are forecasting that this improvement will continue throughout the remainder of the control period and that the Asset Stewardship Incentive Index will be around 0.86 by 2008/09 which is significantly better than the ORR's target of 1.00. We have assumed that it remains at that level during the following control period.

Financial control

The financial efficiency index is forecast to improve throughout the plan period as we reduce the costs of running the railway. The financial efficiency index (FEI) is a measure of how efficiently we spend on operations, maintenance and track renewals (normalised to take account of the volume of renewals). As efficiency improves, we should be spending less to deliver the same outputs and therefore our FEI score which reflects total expenditure should reduce. We recognise the limitations of this measure and it will be improved as more reliable data to support this is generated. As a result of the functional reorganisation, the FEI calculation has been simplified which has resulted in changes to the level of the index since the 2004 plan. In particular, the transfer of responsibility for managing costs from the former regions to the central functions (such as Projects and Engineering for track renewals), means that the index no longer needs to include regional normalisation factors. The index is also now expressed in 2002/03 prices to enable year-on-year comparisons.

Traffic levels

For system capability, we are replacing the projected RAB adjustments resulting from the volume incentive with our projections of growth in passenger and freight traffic as these are simpler, more transparent measures. The underlying measures are the same but they are now shown directly rather than indirectly. We are currently assuming that in the period to 2008/09 there will be growth in the number of passenger train miles of around two per cent and freight tonne miles of around 14 per cent. The actual level of growth will clearly depend on market conditions and other factors.

Stakeholder relationships

The number of passenger complaints in 2004/05 is forecast to be over 30 per cent better than target, which reflects both greater cross-industry collaboration and the improvements in train performance. We have therefore revised our projections of this industry measure accordingly. It should be recognised, however, that the relationship between the number of complaints and how well the industry is performing is not necessarily straightforward and will be affected by a variety of factors and expectations.

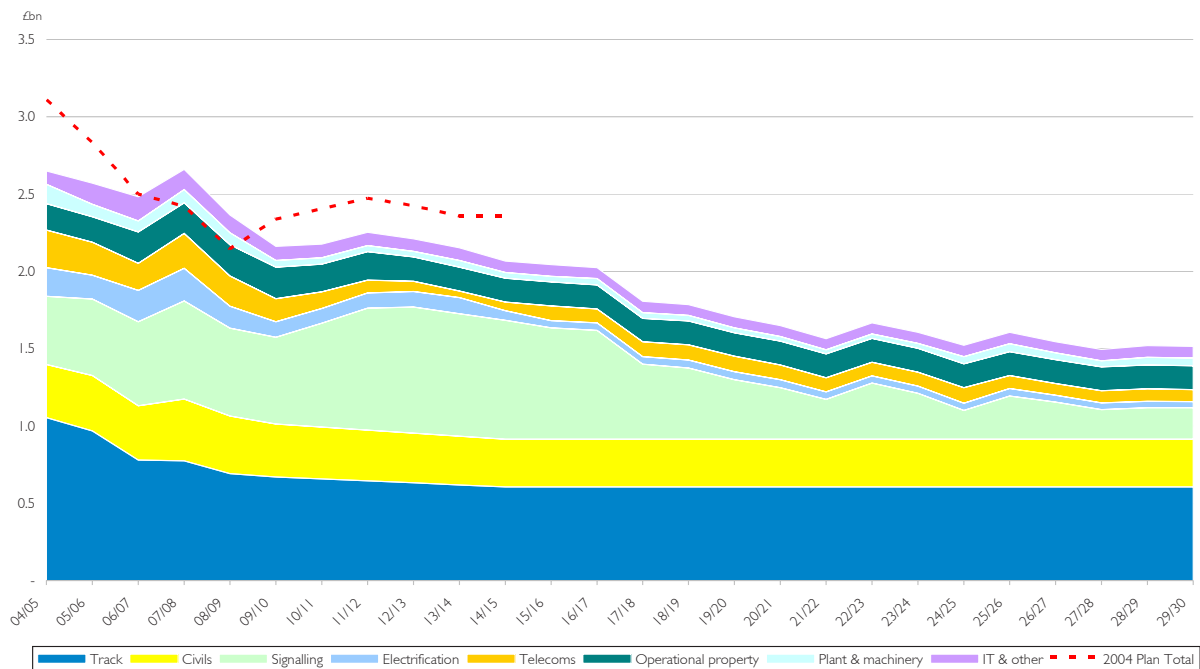
Employee engagement

Despite the massive organisational changes that have taken place, the level of engagement as measured by our Q12 survey has improved significantly on a like-for-like basis. The number of best practice teams has increased from just 16 teams in 2003 to 132 teams in 2005. Maintenance was participating in the survey for the first time and its result was in line with expectations based on the first survey carried out two years ago. As expected, however, when added to the rest of the business the overall figure was lower. We must continue to improve and become a world-class organisation consistently reaching the levels achieved by high performing companies. We have marginally lowered our projections for employee engagement reflecting the impact of doubling the size of our workforce through bringing maintenance in-house.

25 year plan

We have also prepared indicative 25 year projections for renewals expenditure (based on traffic levels at the end of the current ten year plan) using our existing decision support tools. The projections are based upon expected renewal costs with no further efficiencies assumed beyond 2014/15. This shows that the level of renewals expenditure will continue to decline beyond the next ten years. By 2016/17 much of the renewals backlog is projected to have been cleared and we will be receiving the full benefit of the efficiency savings. As a result long-term annual renewal expenditure is projected to have fallen to around £1.6 billion within the next 25 years. However, we note that the current high activity volumes may be expected to result in an increase in renewals as these assets reach the end of their useful lives beyond the timescale shown below.

Figure 7 25 year renewal projections



Delivering the plan

In this section we outline how we are planning to achieve the improvements required to deliver our key objectives. Although the emphasis is on the actions we are taking over the next few years, these changes are fundamental to the delivery of our long-term plans and the key outputs described in the previous section. Each function within Network Rail has developed its own programme for delivering the improvements that we need to achieve and these are set out in the Management Plan. The focus of these plans is on delivering the required improvements in efficiency and performance together with changing the culture to become ever more safety and customer focused.

For some of the critical improvements, we have developed corporate action plans with progress being monitored by a programme management team reporting to the Deputy Chief Executive. We have broadly concluded the initial phase of 33 Action Plans which were set out in our last two business plans. These action plans have enabled us to bring the business back under control. We have now developed a second phase of 22 Action Plans of which three have already been completed. The current Actions Plans, which are each sponsored by a relevant director, are summarised below.

Figure 8 Action Plans

| Improving customer service | Improving safety | Framework for managing the business | Establishing a high performance culture | Improving asset management | Better planning |
|---|---|---|--|--|---|
| Operational improvement programme (OPI) | Standards framework (SAF3) | Organisation design improvements (ORG1) | Culture change framework (ORG2) | Asset reporting (AS7) | Integrated, end-to-end planning process (PL5) |
| Community relations management (COM8) | Health and safety change programme (SAF5) | Process framework (BP4) | Maintenance competence framework (ORG5) | Asset information requirements (AS8) | Business planning (PL6) |
| | | Risk management framework (FR4) | Management competence framework (ORG6) | Asset information systems (IM1) | Operational planning improvements (OP2) |
| | | Enterprise resource planning (BP3) | Job description enhancements (ORG7) | Maintenance of franchised stations (RE1) | |
| | | Purchase to pay process (FIN1) | Internal communications programme (COM7) | | |

In addition to these Action Plans, we are closely managing the transfer of responsibilities arising from the Rail Review with separate workstreams to develop our approach to performance, planning and projects and devolution to the Scottish Executive.

We summarise below our plans for delivering improvements for the key objectives of the business.

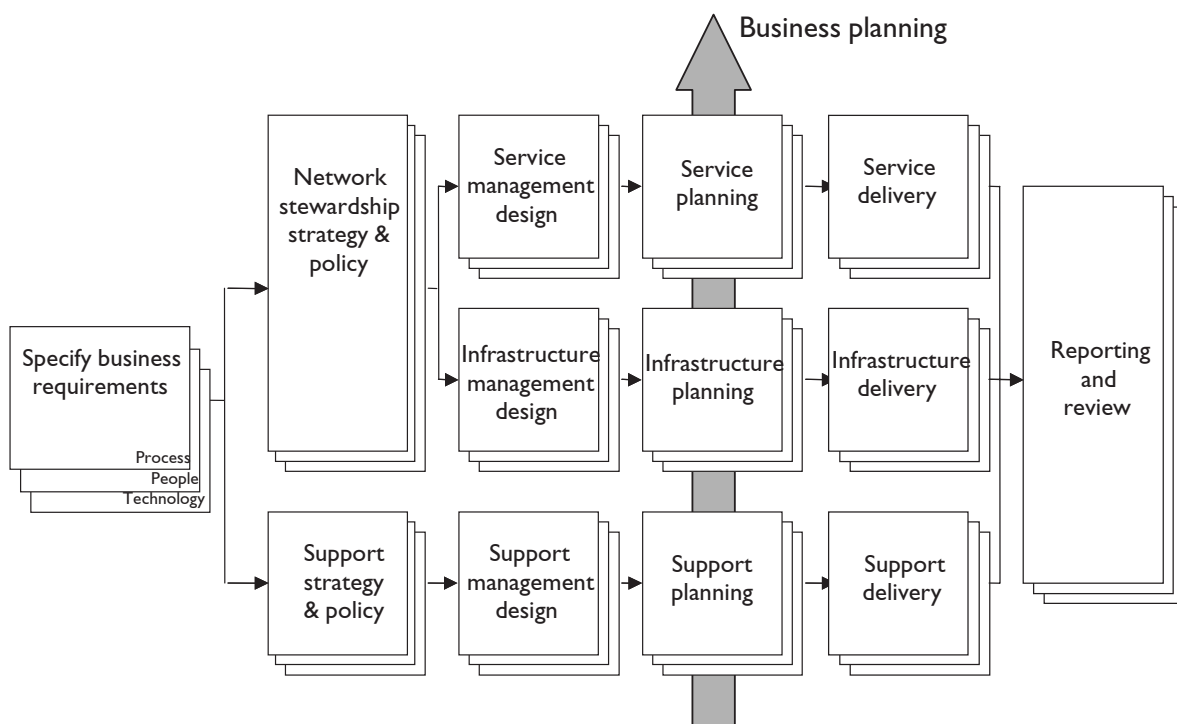
Sustainable asset stewardship

Effective asset management is critical to our success. We have action plans to improve knowledge of our assets as well as the information and tools that we need to support key business decisions. This needs to be supported by the right technology to ensure efficient and consistent information is provided to all those who need it.

Business process model

In our 2003 and 2004 Technical Plans we identified the process model that we were using for the development and implementation of our annual business plans. Although this reflected an accurate representation of the key activities that we undertake in discharging our stewardship responsibilities, a clear alignment between these high level processes and individuals' roles and responsibilities did not exist. As part of our business process initiative (Action Plan BP4), this model has been developed further with the key activities carried out within this framework. This revised model, shown below, is reflected in the new organisational structure of the company, with process activities clearly and unambiguously allocated to individual functional managers. The model also provides the framework for our business change programme.

Figure 9 Business process model



Asset management

We aim to discharge our regulatory and contractual commitments by the effective and efficient management of our assets, meeting the reasonable requirements of our customers and funders and optimising the overall cost of the railway (including infrastructure, rolling stock and operations) within the available funding. The key processes within the above business process model which support the development and delivery of our asset management responsibilities are network stewardship strategy and policy, and infrastructure management design, planning and delivery. The improvements we are making need both to enable delivery of the key outputs included in the 2003 Access Charges Review and to develop our planning capability to support decisions about the outputs and efficient level of costs at the 2008 Access Charges Review.

We are publishing an update of our Business Planning Criteria for consultation with stakeholders. This sets out our approach to asset management and the criteria we apply when considering investment in our assets. The criteria provide a framework for consistent prioritisation of investment decisions and improved alignment between our asset management plans and the delivery of our stewardship strategy. We are taking on new responsibilities for the development of Route Utilisation Strategies (RUSs) and the identification of optimum whole-industry solutions and are currently carrying out RUSs for the

South West Main Line and Cross London. We are working with the DfT and the ORR to develop investment appraisal criteria which will supplement the Business Planning Criteria.

We are developing an infrastructure cost model and plan to carry out further development, where necessary, of the decision support tools which enable us to cost various output scenarios. This is supported by the work we are doing to improve the measurement of unit costs and efficiency which is discussed further below. During the next year we will develop a more rigorous approach to forecasting the asset stewardship measures. We are also assessing whether these asset stewardship measures can be improved (Action Plan AS7).

We need to ensure that the asset management processes are aligned within the overall company process framework based on consistent standards. Business owners have been identified for each process. They are responsible for identifying and improving the process and identifying the essential data requirements for their efficient and effective operation. We are currently documenting these processes which will help to ensure consistency. These processes will be supported by appropriate job descriptions, skill requirements and training needs. Improvement of our business processes will become a more continual activity.

Infrastructure planning involves the application of asset engineering policies to actual assets to produce detailed workbanks. We are planning a number of improvements to our work planning processes:

- we are updating our high-level asset engineering policies to reflect current output requirements and funding availability and a more robust economic evaluation of proposed changes to these policies, which we expect to have completed by in spring 2006;
- we continue to develop route-based planning, with route-specific asset engineering policies providing a better alignment with RUSs and customers' needs, and an improved ability to match proposed activities and expenditure with required outputs;
- we continue to progress the rationalisation of standards and the improved commercial appraisal of changes to these standards;
- we are developing an improved ability to identify value creation options, particularly where major renewal schemes are proposed;
- we are increasing the use of automated inspection for assessing asset condition and the use of remote monitoring; and
- we are continuing to improve the robustness of workbanks, based upon a consistent prioritisation across the business and the use of the risk management framework.

We are also reviewing our approach to business planning, particularly the process and systems for taking a "snapshot" of our current plans including workbanks (Action Plan PL6). We recognise that making these improvements will require greater management focus on developing and monitoring of plans for their delivery.

Key initiatives to improve infrastructure delivery through the efficient and effective delivery of maintenance activities and the renewal and enhancement workbanks include the rationalisation of processes and systems following the transfer in-house of maintenance activities and initiatives to achieve our challenging efficiency targets. These are discussed further below.

Asset information strategy

Effective asset management needs to be underpinned by access to fit for purpose asset data to support decision-making. Although the business currently has access to asset information, some of the data is dispersed and of an inconsistent or undefined quality. Our Asset Information Strategy (AIS) is designed to overcome these inadequacies and ensure the effective and efficient provision of the required data. The key initiatives to deliver these improvements are outlined below:

- through Action Plan AS8 we are determining the asset data needs of business process owners, identifying what data is currently available and (where necessary) developing a strategy to correct any data deficiency; and
- Action Plan IMI provides the data quality framework that embraces data quality policy, standards, quality processes, procedures, tools and measures as an important enabler to the delivery of a sustainable asset information strategy.

In addition to these action plans, other initiatives taking place throughout the organisation to improve the availability of asset data to support business decisions include providing clarity on the roles of individuals for data quality and the updating of existing data maintenance procedures. We have developed our plan for the AIS in discussion with the ORR and detailed milestones for the next phase of work will be developed in conjunction with AS8 by summer 2005. We will continue to work closely with the ORR throughout this process.

Continuing performance improvement

We must clearly continue to deliver improvements in our management of the network. As we set out in the previous section, in 2005/06 we are projecting a reduction of around 0.9 million minutes in Network Rail caused train delay which achieves the ORR target for 2006/07 one year early. Further significant improvements ahead of the ORR's target are projected in the remaining years of the control period. At the same time, we have plans to improve the provision of timetable information and the management of possessions.

Our plans to deliver the improvement in train reliability focus on a combination of specific prioritised initiatives, targeted renewals and a range of improvements to the overall effectiveness of the entire company. Wherever possible, we plan to adopt this approach in collaboration with train operators to ensure that cross-industry opportunities are exploited. Our plans are underpinned by improvements in:

- the reliability of our infrastructure;
- day-to-day operational delivery of safe, reliable and predictable train services;
- operational planning;
- major projects and other initiatives; and
- the overall framework for managing performance planning and delivery.

Our planned levels of maintenance and renewals activity are forecast to achieve continued improvements in the asset stewardship measures. This is reinforced by better work environment, training, motivation, work inspection, planning and execution. As a result, we expect a reduction in the level of delays caused by asset failure. We have been making significant improvements in condition monitoring techniques and this work will continue. We will continue the development of train-borne inspection with the introduction, for example, of a second New Measurement Train, the use of ultrasonics for non-destructive testing of welds and switch rails, and the use of train mounted measurement of overhead line and conductor rail systems. The introduction of hand-held computers will also improve the effectiveness of recording inspection data. Specific initiatives to improve performance include further development of the switches and crossings grinding programme and a review of bridges with operating restrictions. We will also improve the quality of work as we standardise our approach to maintenance.

We have a range of initiatives to improve day-to-day operational delivery of safe, reliable and predictable train services that are designed to improve the avoidance of delay incidents and to improve the management of delay (Action Plan OPI). We continue to develop specific plans to mitigate the effects of seasonal weather. Our 2005/06 plans include a number of proposals that reflect the lessons learnt from previous years, such as effective provision of train paths for our railhead treatment trains. We plan to exploit further the increased capabilities of the new railhead treatment fleet to improve

adhesion during the autumn. We are developing the use of route-based hazard-linked weather forecasting to replace the current wide area geographical forecast.

Train service recovery following incidents is heavily reliant upon the implementation of robust contingency plans. We plan to standardise our contingency plans across the network and our target date for national implementation is December 2005.

We have a range of centrally led initiatives using Six Sigma techniques. These include a focus on signaller operations and timetabling as well as specific infrastructure projects, such as insulated rail joints and track circuits. We are building on the progress made in 2004/05 by extending the improvement programmes further into day-to-day operational activity and locating the Six Sigma resource at a route level.

We are planning to improve the effectiveness of train regulation and have developed a revised train regulation policy which is currently being implemented through controlled trials. The results of these trials will be reviewed by the industry National Task Force later this summer. We are preparing a plan to improve the skills and effectiveness of our front line signalling and control teams to support effective implementation of the policy.

The successful implementation of Integrated Control Centres (ICCs) will be extended to each of our routes during 2005. This will deliver effective real time management of planned and unplanned disruptive events to minimise the impact on customers with better anticipation and avoidance of foreseeable disruptions. We will assume overall responsibility for the safe and punctual delivery of train services for our customers, stakeholders and partners delivered through the ICCs. We will lead each ICC with professional and well-trained teams from both Network Rail and train operators. These teams will be focused on improving the overall performance of the railway. ICCs are being implemented in two stages; co-location followed by integration. The completion of the ICC programme will deliver significant improvements to incident duration.

Other initiatives planned to focus on specific elements of incident response include the improved use of analysis tools to review current performance more accurately, and determine actions to speed incident response. There will be renewed focus on basic operating disciplines, including the attention to detail in all aspects of operational management and maintenance. We will also focus more on learning the lessons from the structured reviews carried out after all major incidents.

We are establishing a Railway Operational Code (ROC) which will formalise the procedures relating to seasonal weather arrangements, contingency planning and the introduction of ICCs. The ROC will provide a framework for the management of all aspects of service disruption. Procedures for these three categories will exist alongside a number of other operational procedures which are being developed to meet this objective. The staged introduction of each section of the ROC will be preceded by extensive industry consultation to ensure realistic and operationally practical procedures are supported by clear, unambiguous contractual drafting.

We are improving our performance monitoring systems and processes, both through better access to data and more robust analytical tools. For example, we are working to upgrade the industry's train management systems which are 20 to 30 years old. The extent of replacement and the potential technical solutions are currently being investigated. We intend to replace these key train-running systems over the next three to five years.

We plan to improve our approach to train planning and the robustness of the timetable (Action Plan OP2). We have restructured the operational planning team and introduced a new national short term planning system. The new structure will enable us strictly to define and control the scope of the work that feeds into the December 2005 timetable. We are progressively improving the quality of information in our train planning systems and are introducing a measure to monitor the quality of individual train data. Over the next year, we are also introducing modelling software to validate the timetable before it becomes operational. This relates to both long-term planning choices and key short-term planning solutions, such as amended train services around large possessions. Our Resilient

Timetables Programme seeks to improve the quality of the timetable using Six Sigma techniques and we have a programme that covers the whole country over the next three years. This builds on the successful work undertaken in 2004 on the South West Trains timetable. The aim will be to review specific timing components (such as sectional running times, dwell times), build in appropriate operational constraints and meet projected demand wherever possible.

We will continue to deliver our Informed Traveller recovery plan to restore provision of timetable information to train operators 12 weeks in advance from September 2005 (T-12). This includes reducing the number of late booked possessions and introducing more rigorous quality checking of the information input to the industry timetable database. We will discuss with other stakeholders what needs to be done to develop more realistic planning timescales to be applied from December 2005 as they are not sufficiently robust. We will also work with our customers to eliminate duplication of effort within the timetabling process. Once we have restored T-12, we will work with the ORR to understand whether the existing requirements should be modified for some types of service.

Better cross-industry co-operation will be achieved through Joint Performance Improvement Plans (JPIPs). These are already being developed and are expected formally to replace the existing Local Output Commitments by the Network Code by April 2006. In our view, this approach should deliver further continuous improvement in performance.

Delivering efficiency savings

Renewals

Bringing all these improvements together effectively will require better planning of work on the network. We plan to strengthen further the interfaces between engineers, investment and delivery planning units. The resulting improvements will be aligned with the company's business planning process to optimise the work and access planning process. As we deliver our demanding renewals programme and take control of maintenance, we must deliver very significant efficiency savings.

We have developed an overall efficiency programme based on efficiency strategies for each asset category. These are underpinned by specific action plans to achieve our efficiency targets, while delivering the volumes necessary to maintain the outputs set through the 2003 Access Charges Review.

Industry engagement is fundamental to successful delivery of our objectives. We will continue to develop more effective relationships with suppliers to develop a basis for strong project performance and the efficiency drive will continue to be a key theme of supplier conferences planned in the coming year.

We are developing new framework contracts for asset renewals. These contracts will increase progressively the level of competitiveness when tendering, particularly for larger value civils projects, and for high value and repetitive works in operational property. For example, we have recently awarded new five-year framework contracts for major civils works which we expect to deliver savings of approximately £100 million in their first year. The contracts are focused on efficient delivery mechanisms with the contractors clearly incentivised to achieve high levels of performance on cost, delivery and quality. These new contracts will be fully introduced by the first half of 2006.

Following the implementation of the new functional structure we are reassessing the processes required to facilitate clear and effective planning of investment and maintenance work together with the necessary engineering access. We are developing a programme that will implement a single process with a standard set of procedures and milestones. This will improve further the accountabilities, responsibilities and interfaces between functions, and directly link through common systems architecture. This will facilitate improved efficiency of planning and project delivery, and allow full visibility of any changes that occur.

We are implementing a new project management framework to enable better project control, embed better project management disciplines and develop professional standards throughout the company. The framework will be introduced and appropriate competence levels established by summer 2005. Over the next two years, the framework will be fully embedded together with an ongoing training and development programme to strengthen the project management capability which is so essential to our success. We will continue to recruit and develop permanent employees for the core tasks we undertake and therefore continue to reduce the number of agency staff in the organisation during 2005/06.

The Investment Management System (IMS) programme introduces new systems to support improved project delivery as part of the first phase of the project management framework implementation. These systems will provide more effective cost estimating, risk management, project planning, project control and reporting.

We are completing the unit cost measurement definitions and implementing the cost collection and analysis framework as part of IMS. This will improve our understanding of cost causation and enable us to drive efficiency actions more effectively. It will also allow unit cost and efficiency performance to be better measured and monitored for external reporting. The benchmarks for all activities will be reviewed and altered as necessary, and this will help refine the framework for planning and monitoring the delivery of efficiencies. Delivery of our efficiency plans will continue to be monitored through the monthly business review process. It will include the status of forecasts against efficiency plans for the year and the control period as a whole, our progress in implementing key initiatives and our unit cost performance.

Maintenance

We are continuing to identify and implement efficiency initiatives to meet the overall challenge for reducing costs while maintaining the assets in good condition. Our tactical and strategic improvement plans focus on identifying improvements in productivity and costs to deliver the savings required whilst ensuring the output improvements are obtained.

The insourcing of maintenance and the subsequent restructuring has resulted in a reduction of more than 1,000 indirect staff, managers and supervisors, and has delivered cost savings of around £100 million per annum. We are planning to standardise the terms and conditions of our maintenance workforce as we have inherited more than 50 separate sets of terms and conditions. This will also simplify annual pay negotiations and facilitate improvements in employee rostering.

Increasing labour productivity is critical if we are to continue delivering improvements in asset performance and quality of work at lower costs. A project team has been established to raise the productivity of the maintenance workforce. The team is focused particularly on training to improve skills and improving planning processes that will help us to maximise productive time within possessions. We have inherited many different procedures for every maintenance activity. The consolidation of these procedures into a suite of standardised work instructions will enable significant improvements in the quality and consistency of activity at lower cost.

Making the most effective use of possessions is critical to the delivery of improvements in productivity and we are focusing on a number of aspects of the planning process to minimise the amount of unproductive time lost in the setting up and handing back of possessions. We are also working to ensure the timely delivery of tools and materials to work sites so that possession time is not wasted.

Before maintenance was brought back in-house, local decision-making was fragmented. We will develop national utilisation plans to optimise the use of key resources across the network and to allow the rationalisation of surplus equipment. A key focus is optimising the utilisation of major items of on-track plant, including tampers, stoneblower and road-rail vehicles, across the network. Our National Delivery Service is now responsible for the supply of all bulk materials in support of maintenance

activities, such as short lengths of rail and sleepers, and heavy rail plant, such as tampers and stoneblowers. The change to central purchasing is expected to reduce costs significantly. We have tendered a single, national procurement contract for the supply of other maintenance materials. This new approach will provide an all-inclusive stock control, logistics and procurement service optimised across the network.

In addition to the focus on training and improving key workforce skills, our technical improvement plans include improvements in inspection technology, development of risk-based inspection regimes to improve prioritisation of resources and application of Six Sigma methodology to develop solutions. We are introducing an efficiency programme based on the Six Sigma methodology to review all aspects of activity. "Black belt" project leaders in the maintenance team will lead specific efficiency improvement projects to optimise the way maintenance is delivered. Project leaders will be assigned to review all maintenance activities from sleeper changing to signal lens cleaning.

In conjunction with renewals, we are developing a process for improving the end-to-end planning of investment and maintenance work to improve our ability to plan tasks to the appropriate level of detail at the right time (Action Plan PL5). We will improve co-ordination of work volumes, job specification, track access requirements and maintenance resources. Specific improvements include developing detailed network access plans to co-ordinate track access planning, developing plans for utilisation of key resources, establishing a process for verification of the continued need for work and detailed activity planning. As part of the development of new work planning processes, we will develop our approach to achieving economies of scale through packaging works into larger more efficient possessions, while recognising that there must be an appropriate balance between achieving cost efficiencies and delivering train services.

We are currently developing a process for reporting the volumes of activity and unit costs for the top 20 maintenance activities. We plan to introduce this in early 2005/06 so that we can monitor unit cost trends, although we will need to improve the robustness of data and analysis as the process develops. As our processes for collecting consistent data on volumes of activity and costs become established we will be able to make increasing use of benchmarking between areas to highlight best practice and areas of weakness and focus on further areas for efficiency improvement.

We are working with other railways and similar infrastructure companies to drive improvements through benchmarking and understanding of best practice. We will also build upon the emerging unit cost information to make further progress through internal benchmarking.

Enhancements

We are also strengthening our management of enhancements. We have updated the criteria for assessing enhancement proposals. These now provide much greater transparency on the requirement to demonstrate that proposals are consistent with our overall strategy, that there are adequate resources for delivery and that there is an appropriate method to fund the scheme. Our investment regulations are being updated to ensure that there is consistency between core renewals and enhancements, which will support identification of appropriate small incremental enhancements in conjunction with existing renewal schemes. We are also improving the application of our planning guidelines, including business case analysis and stage gate reviews, to enhancements. A new workstream has also been established to find ways of improving our responsiveness to train operators and other parties in considering enhancements.

Operating costs

As well as achieving the savings in operating costs set out in the previous section, we must deliver improvements in the way we manage each of our functions, including support services. Each support function has developed plans to improve the service that is being provided to the business. We are introducing more effective enterprise resource planning systems (Action Plan BP3) through a fully integrated suite of systems using fewer administrative resources. This includes the deployment of components of the Oracle eBusiness suite, covering core human resource functions and Oracle iProcurement to support the efficient management of the supply and store of materials. We are developing systems for contract management and more efficient financial management. In Spring 2005, we will introduce a simplified recruitment process with direct links to functional resourcing plans. We are implementing a competency based training programme, particularly for specialist areas within Engineering and Maintenance. We are reviewing our financial processes to improve the effectiveness of our purchases and payments for goods and services (Action Plan FIN1).

Safety

We must deliver performance and efficiency improvements while continuing to focus on the safety of the railway. We are reviewing our approach to workforce safety (Action Plan SAF5) and we plan to achieve a significant improvement in the accident frequency rate. The programme is focusing on compliance with key health and safety legislation, safety leadership coaching, implementation of a safety tours programme, and a communication programme to obtain input from front line people. The programme of change will be rolled out during 2005/06.

We will continue to work with external stakeholders, including the RSSB, Her Majesty's Railway Inspectorate (HMRI), the new Rail Accident and Incident Board (RAIB) and a variety of European bodies, to ensure that European and national policy and legislation development is consistent with our corporate goals and incorporate the resulting changes into company policy.

We will adopt a risk-based approach to the management of health and safety, which will be consistently applied across the whole company with an improved understanding of where priorities should be focused. We will develop a suite of tools and techniques to assist in developing a consistent understanding of safety risk. We will move to an optimal organisation for Safety and Compliance, consistent with the transfer of safety competence into line roles and providing support in understanding how best to comply with legislative requirements and mitigate risk.

We are planning to simplify and rationalise our standards to deliver improvements in safety, cost and performance with a specific focus on workforce safety. Action Plan SAF3 is aimed at improving the effectiveness and efficiency of Network Rail's standards through the simplification and rationalisation of the standards regime from a risk-based perspective. The current focus is to migrate standards into a new simplified framework while fundamentally reviewing each standard to assess whether it is fit for purpose. A detailed programme of review and standards change for the next two years has been developed for each area of standards ownership.

We are introducing a revised strategy for assurance, aligned to action plans to develop business processes, and focusing the 2005/06 National Core Audit Programme more closely on the key risks within delivery functions.

We will develop our approach to working with the new Rail Accident and Investigation Board (RAIB) which is planned to become operational in late Spring 2005. The arrangements for internal investigations are currently under review and it is likely that this will lead to a revised organisational structure based on greater ownership of investigation by line managers where appropriate. We also plan to improve the confidential incident reporting and analysis system (CIRAS) with significant changes to the way the system is operated.

We plan to update the environmental management system in early 2005/06. This will include revisions to the environment legislation database and will support the delivery of planned efficiencies. We will further develop our ability to provide support to area teams to prevent environmental incidents, mitigate the impacts should they occur, and resolve noise and vibration enquiries.

Safety and Compliance is leading the programme to develop our risk management framework through which we identify, understand and manage the key risks to our corporate objectives (Action Plan FR4).

Transforming the business

We will improve our use of information systems to support our standard processes and maximise the benefit from using integrated technology across the business. At the same time, tight control over our financial processes and our organisation design changes (Action Plan ORG1) will ensure that we deliver improvements without compromising quality.

We must ensure all our employees have a clear understanding of how they can contribute and that this is explicit in both their job descriptions (Action Plan ORG7) and through effective communication. We will continue to build on the progress achieved through the first three waves of Q12 and develop our people to establish a culture of high performance (Action Plan ORG2). Engaging the workforce to deliver improvements will require us to clearly communicate our aims and this will be supported by improvements to our existing internal communications framework (Action Plan COM7). Ensuring that managers demonstrate a high level of competence and that the whole workforce is properly trained will be an essential ingredient underpinning success. We need to strengthen the company's management and leadership capabilities and we are planning to create a leadership development centre as a focus for all management, leadership, professional and graduate training (Action Plan ORG6). We will set up a national college to provide a rail specific development programme for maintenance apprentices (Action Plan ORG5).

Railway Estates is now focused on supporting the operational railway by optimising value from the company's estate portfolio so that this can be invested in the operational railway. We must do this by integrating planning for our property portfolio with our developing route planning capability. As part of the continuing drive to focus on our customers needs, responsibility for the day-to-day operation of our managed stations has been transferred to Operations and Customer Services. For our franchised stations, we are examining whether industry efficiencies can be achieved by a single party taking responsibility for their repair and maintenance (Action Plan RE1).

We must raise awareness internally of the needs of our customers and develop the competencies of the teams who have a frontline responsibility for customer service. A programme of training and customer awareness sessions is being developed which will build on existing packages to provide employees with the necessary skills and management tools to deliver the customer product. Following on the pilot sessions currently underway it is expected that this will be ready to roll out nationally from Spring 2005. We are developing a single consistent framework for managing contact with stakeholders and the public to help ensure that issues are dealt with rapidly and proactively based on close and effective liaison with our delivery organisation (Action Plan COM8).

In delivering our plans to transform Network Rail, we will work closely with train operators so that we can provide better service to the ultimate customers – the fare paying passengers and freight users. Providing an excellent service to our customers means keeping our costs down, cutting bureaucracy, and responding quickly and helpfully to all of our stakeholders.

Appendices

Basis of preparation

This 2005 Business Plan has been developed on the basis of actions which aim to deliver a safer, more efficient and reliable infrastructure for the nation's rail industry and the public. The plan has been developed to comply with the Network Rail Safety Case and the Railway Group Safety Plan and to deliver, as far as possible, the following objectives:

- the network capability, asset serviceability and asset condition outputs set out in chapter 9 of the final conclusions of the 2003 Access Charges Review published on 12 December 2003;
- the trajectory for operational performance set out in the 2003 Access Charges Review;
- the reasonable requirements of our customers and funders; and
- our contractual obligations to our customers.

In a number of areas we are currently predicting that outputs will be better than the targets for 2004/05. Where this is expected to be sustained in future years without the need for additional incremental expenditure, we have amended our output projections accordingly.

As a general principle, the business plan is based on the delivery of the outputs specified in the 2003 Access Charges Review within the expenditure levels allowed for in those conclusions. For 2005/06 to 2008/09, the plan is based on achievement of the profile of overall efficiency savings set out in the 2003 Access Charges Review. For 2009/10 to 2014/15, the plan assumes additional efficiency savings of two per cent per annum.

We have taken into account the practical delivery and supply chain constraints on our ability to deliver these objectives. To the extent that it has been necessary to curtail planned activity as a result of constraints, we have adopted the prioritisation set out in the draft Business Planning Criteria.

In developing the plan we have also sought to improve efficiency, cost-effectiveness and whole-life cost optimisation. It is recognised, however, that achievement of these goals is constrained by the speed at which the organisation is able to change and the practical constraints on activity identified above.

This plan does not include separate projections for Scotland, although disaggregated information is included in the relevant Route Plans. We are currently discussing the approach and timescales for developing separate analysis with the Scottish Executive.

All financial figures shown are at 2004/05 prices and are rounded to the nearest £1 million (unless otherwise stated). As a result of rounding, totals may not appear to be the exact sum of the individual lines, and an entry of £0 indicates spend between £0 and £0.5 million. Forecasts of expenditure are based on information available at the end of Period 10 (January 2005).

Expenditure, income and key performance indicators

| Figure 10 National OM&R expenditure projections | | | | | | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| £m | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
| 2004/05 prices | (forecast) | | | | | | | | | | |
| Operating expenditure | | | | | | | | | | | |
| Controllable | (937) | (880) | (845) | (811) | (754) | (757) | (748) | (740) | (732) | (717) | (702) |
| Non controllable | (236) | (258) | (255) | (249) | (250) | (251) | (251) | (252) | (252) | (253) | (253) |
| Total operating expenditure | (1,173) | (1,138) | (1,100) | (1,059) | (1,004) | (1,008) | (999) | (991) | (983) | (969) | (955) |
| Maintenance | (1,292) | (1,191) | (1,096) | (1,008) | (928) | (908) | (886) | (864) | (840) | (823) | (806) |
| Renewals (non-WCRM) | | | | | | | | | | | |
| Track (Plain Line) | (434) | (501) | (526) | (521) | (484) | (477) | (468) | (458) | (449) | (440) | (431) |
| Track (S&C) | (167) | (179) | (222) | (217) | (192) | (193) | (189) | (186) | (182) | (178) | (174) |
| Structures | (270) | (286) | (330) | (382) | (371) | (341) | (336) | (329) | (323) | (316) | (309) |
| Signalling | (174) | (325) | (434) | (516) | (540) | (562) | (671) | (790) | (816) | (792) | (770) |
| Electrification | (29) | (41) | (82) | (118) | (115) | (100) | (96) | (97) | (98) | (106) | (61) |
| Telecoms | (193) | (197) | (173) | (224) | (196) | (150) | (110) | (84) | (68) | (40) | (56) |
| Plant & machinery | (91) | (66) | (59) | (76) | (77) | (45) | (42) | (40) | (35) | (44) | (36) |
| Operational property | (172) | (164) | (203) | (198) | (201) | (203) | (179) | (183) | (157) | (156) | (153) |
| IT | (87) | (105) | (136) | (112) | (112) | (90) | (88) | (87) | (83) | (81) | (76) |
| Other | - | (32) | (20) | (18) | (3) | - | - | - | - | - | - |
| Total renewals (non-WCRM) | (1,617) | (1,896) | (2,185) | (2,382) | (2,292) | (2,162) | (2,177) | (2,253) | (2,212) | (2,153) | (2,067) |

| £m | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| 2004/05 prices | (forecast) | | | | | | | | | | |
| Renewals (WCRM) | | | | | | | | | | | |
| Track (Plain Line) | (176) | (144) | - | - | - | - | - | - | - | - | - |
| Track (S&C) | (278) | (143) | (33) | (37) | (14) | - | - | - | - | - | - |
| Structures | (72) | (72) | (19) | (17) | (3) | - | - | - | - | - | - |
| Signalling | (268) | (170) | (111) | (118) | (28) | - | - | - | - | - | - |
| Electrification | (156) | (114) | (120) | (93) | (26) | - | - | - | - | - | - |
| Telecoms | (49) | (16) | (2) | (2) | (1) | - | - | - | - | - | - |
| Plant & machinery | (34) | (14) | (14) | (11) | (2) | - | - | - | - | - | - |
| Total renewals (WCRM) | (1,033) | (674) | (299) | (278) | (74) | - | - | - | - | - | - |
| Total renewals | (2,650) | (2,571) | (2,483) | (2,660) | (2,366) | (2,162) | (2,177) | (2,253) | (2,212) | (2,153) | (2,067) |
| Total operating expenditure, maintenance and renewal | (5,115) | (4,899) | (4,679) | (4,727) | (4,298) | (4,078) | (4,061) | (4,108) | (4,035) | (3,945) | (3,828) |

Figure 11 National enhancement projections

| £m | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| 2004/05 prices | (forecast) | | | | | | | | | | |
| Funded by access charges review | | | | | | | | | | | |
| Safety schemes | (69) | (114) | (132) | (135) | (140) | (92) | (92) | (92) | (92) | (92) | (92) |
| West Coast | (241) | (163) | (121) | (110) | (12) | (1) | (3) | (5) | (6) | (6) | (8) |
| Transition projects | (376) | (224) | (53) | (37) | (37) | - | - | - | - | - | - |
| RAB funded schemes (committed) | - | (23) | (111) | (25) | (32) | (44) | (23) | (23) | (23) | (23) | (23) |
| RAB funded schemes (planned) | - | (50) | (66) | (80) | (100) | (50) | (50) | (50) | (50) | - | - |
| Outside Party funded (committed) | - | (57) | (32) | (21) | - | - | - | - | - | - | - |
| Outside Party funded (planned) | - | (60) | (140) | (184) | (126) | (96) | - | - | - | - | - |
| Network Rail funded (committed) | (45) | (32) | (32) | (28) | (22) | (85) | (54) | (47) | (26) | - | - |
| Network Rail funded (planned) | - | (14) | (5) | (5) | (5) | - | - | - | - | - | - |
| Total enhancements | (731) | (736) | (693) | (625) | (474) | (369) | (222) | (217) | (197) | (121) | (123) |

Figure 12 National income projections

| £m 2004/05 prices | 2004/05 (forecast) | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|----------------------------------|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Schedule 8 | 60 | 47 | 49 | 46 | 45 | (10) | (10) | (10) | (10) | (10) | (10) |
| Access charge supplement – Sch 8 | 14 | 13 | 12 | 12 | 11 | 10 | 10 | 10 | 10 | 10 | 10 |
| Schedule 4 | (65) | (75) | (82) | (85) | (85) | (85) | (85) | (85) | (85) | (85) | (85) |
| Access charge supplement – Sch 4 | 75 | 75 | 82 | 85 | 85 | 85 | 85 | 85 | 85 | 85 | 85 |
| Fixed track access | 878 | 894 | 1,852 | 1,839 | 2,006 | 4,258 | 4,294 | 4,338 | 4,380 | 4,416 | 4,444 |
| Variable track access | 202 | 199 | 200 | 209 | 209 | 206 | 206 | 206 | 206 | 206 | 206 |
| EC4T | 114 | 126 | 157 | 162 | 162 | 162 | 162 | 162 | 162 | 162 | 162 |
| Capacity charge | 5 | 6 | 7 | 7 | 6 | - | - | - | - | - | - |
| SRA grants | 1,808 | 1,676 | 2,573 | 2,532 | 2,288 | - | - | - | - | - | - |
| Single till (see below) | 728 | 730 | 746 | 719 | 705 | 703 | 702 | 701 | 700 | 699 | 698 |
| Total income | 3,819 | 3,691 | 5,597 | 5,526 | 5,433 | 5,329 | 5,364 | 5,407 | 5,449 | 5,484 | 5,510 |

Figure 13 National single till income projections

| £m 2004/05 prices | 2004/05 (forecast) | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---------------------------------|-----------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Single till income | | | | | | | | | | | |
| Stations | 248 | 247 | 247 | 247 | 247 | 247 | 247 | 247 | 247 | 247 | 247 |
| Depots | 47 | 46 | 46 | 46 | 44 | 42 | 41 | 40 | 39 | 38 | 37 |
| QX | 38 | 37 | 37 | 37 | 37 | 37 | 37 | 37 | 37 | 37 | 37 |
| Freight income | 84 | 80 | 82 | 85 | 85 | 85 | 85 | 85 | 85 | 85 | 85 |
| Property income | 243 | 244 | 260 | 273 | 261 | 261 | 261 | 261 | 261 | 261 | 261 |
| Open access income | 62 | 58 | 56 | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 |
| Other | 6 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 |
| Total single till income | 728 | 730 | 746 | 719 | 705 | 703 | 702 | 701 | 700 | 699 | 698 |

| Figure 14 Key performance indicators | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|--|------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | (forecast) | | | | | | | | | | |
| Improved Safety | | | | | | | | | | | |
| Public Safety Index | 0.44 | 0.39 | 0.36 | 0.33 | 0.30 | 0.29 | 0.28 | 0.27 | 0.26 | 0.25 | 0.24 |
| Higher performance | | | | | | | | | | | |
| Public performance measure | 83.5% | 85.5% | 87.2% | 88.7% | 90.0% | 90.8% | 91.2% | 91.4% | 91.6% | 91.8% | 92.0% |
| Train delay minutes (000 mins) | 11,473 | 10,596 | 9,801 | 9,115 | 8,500 | 8,114 | 7,908 | 7,826 | 7,745 | 7,668 | 7,591 |
| Increased system capability | | | | | | | | | | | |
| Cumulative passenger train miles growth | 0.0% | 1.6% | 1.9% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Cumulative freight train tonne miles growth | 4.2% | 8.8% | 10.8% | 12.4% | 14.0% | 15.6% | 17.3% | 18.9% | 20.5% | 22.1% | 23.8% |
| Improved customer & stakeholder relationships | | | | | | | | | | | |
| Passenger complaints (per 100,000 journeys) | 73 | 70 | 67 | 64 | 62 | 60 | 60 | 60 | 60 | 60 | 60 |
| Improved financial control | | | | | | | | | | | |
| Financial efficiency index | 2,186 | 2,074 | 1,936 | 1,816 | 1,687 | 1,667 | 1,634 | 1,601 | 1,568 | 1,535 | 1,504 |
| Net debt | 16.0 | 18.8 | 19.4 | 20.1 | 20.4 | 20.4 | 20.2 | 20.0 | 19.5 | 18.7 | 18.3 |
| Improved asset stewardship | | | | | | | | | | | |
| Asset stewardship index | 0.95 | 0.92 | 0.89 | 0.87 | 0.86 | 0.86 | 0.86 | 0.86 | 0.86 | 0.86 | 0.86 |
| Improved business performance | | | | | | | | | | | |
| Employee engagement | 3.35 | 3.65 | 3.85 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 |
| Supplementary Indicators | | | | | | | | | | | |
| Delay mins per 100 train kms | 2.21 | 2.01 | 1.85 | 1.72 | 1.60 | 1.52 | 1.48 | 1.46 | 1.44 | 1.43 | 1.41 |
| Number of broken rails | 330 | 303 | 290 | 280 | 280 | 280 | 280 | 280 | 280 | 280 | 280 |
| Level 2 exceedences | 0.94 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 |
| Number of signalling failures > 10 minutes delay | 26,500 | 26,000 | 25,500 | 25,000 | 24,500 | 24,500 | 24,500 | 24,500 | 24,500 | 24,500 | 24,500 |
| Number of structures and earthworks TSRs | 93 | 89 | 85 | 81 | 77 | 77 | 77 | 77 | 77 | 77 | 77 |
| Traction power supply failures | 91 | 86 | 81 | 77 | 72 | 72 | 72 | 72 | 72 | 72 | 72 |
| Track geometry | 0.96 | 0.94 | 0.92 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 |
| Points and track circuit failures | 18,000 | 17,700 | 17,400 | 17,100 | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 |

Financial plan

Figure 15 Financial projections: profit & loss account (nominal prices)

| £m | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Fixed track access income | 924 | 1,961 | 1,993 | 2,230 | 4,860 | 5,033 | 5,222 | 5,417 | 5,607 | 5,796 |
| Other track access income | 434 | 487 | 515 | 528 | 529 | 543 | 557 | 573 | 588 | 604 |
| Single till income | 755 | 790 | 780 | 784 | 802 | 823 | 844 | 866 | 888 | 910 |
| Schedule 4 & Schedule 8 | (29) | (35) | (42) | (44) | (108) | (111) | (114) | (117) | (121) | (124) |
| SRA grants | 1,734 | 2,725 | 2,745 | 2,544 | - | - | - | - | - | - |
| Total income | 3,819 | 5,928 | 5,990 | 6,041 | 6,083 | 6,287 | 6,509 | 6,738 | 6,962 | 7,187 |
| Opex | 1,177 | 1,165 | 1,148 | 1,116 | 1,151 | 1,171 | 1,193 | 1,216 | 1,230 | 1,246 |
| Maintenance | 1,332 | 1,261 | 1,192 | 1,132 | 1,136 | 1,139 | 1,140 | 1,139 | 1,145 | 1,151 |
| Depreciation | 874 | 963 | 1,031 | 1,098 | 1,167 | 1,241 | 1,318 | 1,398 | 1,475 | 1,549 |
| Total costs | 3,384 | 3,388 | 3,371 | 3,346 | 3,454 | 3,550 | 3,652 | 3,753 | 3,851 | 3,946 |
| Operating profit | 435 | 2,540 | 2,619 | 2,695 | 2,629 | 2,737 | 2,857 | 2,985 | 3,111 | 3,241 |
| Net interest | (885) | (983) | (1,016) | (1,049) | (1,061) | (1,058) | (1,045) | (1,029) | (998) | (965) |
| PBT | (450) | 1,557 | 1,603 | 1,646 | 1,567 | 1,679 | 1,812 | 1,956 | 2,114 | 2,276 |
| Tax | 423 | (552) | (564) | (573) | (546) | (575) | (773) | (827) | (875) | (928) |
| Retained profit | (27) | 1,005 | 1,039 | 1,073 | 1,022 | 1,104 | 1,039 | 1,129 | 1,239 | 1,348 |

| Figure 16 Financial projections: balance sheet (nominal prices) | | | | | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| £m | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
| Net fixed assets | 23,995 | 25,878 | 27,799 | 29,495 | 31,401 | 33,217 | 35,176 | 37,122 | 38,935 | 40,698 |
| Net current and long term assets/liabilities | (1,773) | (1,927) | (2,113) | (2,212) | (2,277) | (2,231) | (2,186) | (2,143) | (2,102) | (2,062) |
| Net debt | (18,804) | (19,442) | (20,126) | (20,372) | (20,385) | (20,247) | (20,062) | (19,653) | (18,846) | (18,442) |
| Provisions | (15) | (556) | (1,107) | (1,665) | (2,197) | (2,759) | (3,520) | (4,340) | (5,281) | (5,601) |
| Net Assets | 3,403 | 3,953 | 4,453 | 5,246 | 6,542 | 7,979 | 9,408 | 10,986 | 12,706 | 14,592 |
| Share capital, P/L and other reserves | (746) | 258 | 1,297 | 2,371 | 3,392 | 4,496 | 5,535 | 6,663 | 7,902 | 9,250 |
| Revaluation reserve | 4,149 | 3,695 | 3,156 | 2,875 | 3,150 | 3,483 | 3,873 | 4,323 | 4,804 | 5,342 |
| Capital and Reserves | 3,403 | 3,953 | 4,453 | 5,246 | 6,542 | 7,979 | 9,408 | 10,986 | 12,706 | 14,592 |

| Figure 17 Financial projections: cash flow (nominal prices) | | | | | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| £m | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
| Opening debt | 15,965 | 18,804 | 19,442 | 20,126 | 20,372 | 20,385 | 20,247 | 20,062 | 19,653 | 18,846 |
| Track access income | 1,359 | 2,448 | 2,507 | 2,758 | 5,389 | 5,576 | 5,779 | 5,989 | 6,195 | 6,400 |
| Single till income | 755 | 790 | 780 | 784 | 802 | 823 | 844 | 866 | 888 | 910 |
| Schedule 4 & Schedule 8 | (29) | (35) | (42) | (44) | (108) | (111) | (114) | (117) | (121) | (124) |
| SRA grants | 1,734 | 2,725 | 2,745 | 2,544 | - | - | - | - | - | - |
| Total income | 3,819 | 5,928 | 5,990 | 6,041 | 6,083 | 6,287 | 6,509 | 6,738 | 6,962 | 7,187 |
| Opex | 1,177 | 1,165 | 1,148 | 1,116 | 1,151 | 1,171 | 1,193 | 1,216 | 1,230 | 1,246 |
| Maintenance | 1,332 | 1,261 | 1,192 | 1,132 | 1,136 | 1,139 | 1,140 | 1,139 | 1,145 | 1,151 |
| Renewals | 2,558 | 2,531 | 2,783 | 2,530 | 2,367 | 2,452 | 2,611 | 2,633 | 2,635 | 2,594 |
| Enhancements | 640 | 552 | 456 | 386 | 312 | 260 | 261 | 244 | 155 | 160 |
| Interest | 951 | 1,046 | 1,083 | 1,108 | 1,116 | 1,114 | 1,106 | 1,090 | 1,057 | 1,024 |
| Tax | - | 11 | 12 | 15 | 14 | 14 | 12 | 7 | (67) | 608 |
| Total expenditure | 6,658 | 6,566 | 6,674 | 6,287 | 6,095 | 6,149 | 6,324 | 6,328 | 6,156 | 6,783 |
| Net cash flow | (2,839) | (638) | (684) | (246) | (13) | 138 | 185 | 409 | 807 | 404 |
| Closing net debt | 18,804 | 19,442 | 20,126 | 20,372 | 20,385 | 20,247 | 20,062 | 19,653 | 18,846 | 18,442 |

Figure 18 Supplementary KPIs: ORR Financial Measures (nominal prices)

| | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---|---------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Variance in expenditure (excluding enhancements) - Annual | 534 | 338 | (175) | (378) | (311) | n/a | n/a | n/a | n/a | n/a | n/a |
| Variance in expenditure (excluding enhancements) - Cumulative | 534 | 873 | 698 | 320 | 10 | n/a | n/a | n/a | n/a | n/a | n/a |
| Adjusted interest coverage (including amortisation) | | (0.2x) | 1.9x | 1.9x | 1.9x | 1.9x | 2.0x | 2.1x | 2.3x | 2.5x | 2.0x |
| Adjusted interest coverage (full renewals) | | (0.8x) | 1.1x | 1.3x | 0.9x | 0.8x | 0.7x | 0.7x | 0.6x | 0.5x | 0.6x |
| Liquidity (on gross cash outflow) | | 1.1 | 1.1 | 1.1 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | n/a |
| Net debt | | (18,804) | (19,442) | (20,126) | (20,372) | (20,385) | (20,247) | (20,062) | (19,653) | (18,846) | (18,442) |
| Debt to RAB ratio | | 82% | 78% | 76% | 72% | 68% | 64% | 59% | 55% | 50% | 47% |
| RAB less debt | | 4,231 | 5,328 | 6,384 | 7,739 | 9,573 | 11,576 | 13,767 | 16,168 | 18,832 | 21,040 |
| Cushion / spend multiple | | 75% | 98% | 116% | 153% | 195% | 233% | 268% | 313% | 365% | 408% |