# BEING RESPONSIBLE

**The railway touches almost every community in Britain - 22 million people live within 500 metres of the rail network. That means we have a responsibility to consider the impact we have on those communities, the wider society, the environment, and the economy**

## Environmental impact
### Biodiversity
We are one of the largest land owners in Britain, managing 20,000 miles of railway and the line either side of the track. That includes Areas of Outstanding Natural Beauty, Sites of Special Scientific Interest, and other areas that are important to local communities and home to a wide range of flora and fauna. We have to balance our moral responsibilities for these sites with the need to run a safe and efficient railway.

We employ ecologists and work with national and local conservation groups to survey animals, plants and insects and plan how and when to do our work so it will have the least impact. This year we launched a new app for our staff and contractors to help them identify the wildlife they come across and check if it is protected. We are also testing a 'net positive' approach on our major projects, where we aim to replace more natural habitat than is lost as part of our work, and we are working with Highways England, Natural England and the Wildlife Trusts on their Green Transport Corridors project – looking at how we use the land alongside the railway to both create greater biodiversity and improve the resilience of the rail infrastructure to climate change. Two pilot projects (in the Humberhead Levels and Morecambe Bay Nature Improvement Areas) are due to report in summer 2017.

## Waste management

| Waste diverted from landfill | 95 % |
|---|---|
| Re-used | 666,438 tonnes |
| Recycled | 1,173,179 tonnes |
| Recovered (converting waste material into energy e.g. composting) | 206,661 tonnes |
| Waste sent to landfill | 109,484 tonnes |
| Total waste | 2,155,761 tonnes |

At a recent project in Farnley Haugh, near Newcastle, the team worked collaboratively with local landowners and the Environment Agency to reuse over 50,000 tonnes of soil, reducing waste to landfill and making significant cost savings.

## Energy use
We are committed to reducing our carbon footprint and our energy usage.

Our target is to reduce our carbon dioxide equivalent emissions, the standard unit for measuring carbon footprints, by 11.2 per cent in this control period (2014-2019), and we are on-track to deliver this.

| | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|---|---|---|---|---|
| CO2e emissions (tonnes) | 298,450 | 301,378 | 281,987 | 262,623 |

We have a clear energy management strategy and policy in place to provide strategic direction for the organisation, combined with devolving accountability for energy to the routes in order to make more decisions locally at the point of use.

At Glasgow station, for example, we have concluded a three year programme of energy saving projects and replaced almost all lighting with LED fittings. This has helped to reduce the station's total energy consumption by 19 per cent.

We are also working with the Rail Safety and Standards Board to look at how the rail industry can measure, and reduce, its 'capital carbon' - the emissions associated with the building, maintaining and demolishing of rail infrastructure.

## Climate change adaptation
Our new Weather Resilience and Climate Change Adaptation Strategy 2017–2019 builds on work undertaken by the programme to-date and provides a framework within which all work relating to weather resilience and climate change adaptation will be undertaken in the future. The primary focus of the strategy is analysis and research to support our understanding of the impacts and costs of climate change on the railway. This will help us identify and prioritise resilience measures and develop frameworks for reporting on resilience.

Each route has now developed their own weather resilience plans, which are available on our website. These are being updated in light of the 2018 UK Climate Change Projections.

→ www.networkrail.co.uk/communities/environment/climate-change-weather-resilience/weather-resilience/

## Social performance
'Social performance' is how Network Rail's operations, activities and decisions impact people – be they employees, suppliers, rail users, communities or other groups affected by Network Rail.

## Community engagement
We know that our work can cause disruption to local communities. This year we have piloted a new process for how we notify local people that we will be working in their area. Reducing complaints about our work is one of our key scorecard targets, which means senior leaders across the business have weekly discussions about volumes of complaints and speed of responses.

Some of our projects have also chosen to 'give back' to the communities they have been working in, getting involved in school art projects, community garden schemes and other local initiatives.

In 2016 we worked with the Sussex Community Rail Partnership on improving London Road Station in Brighton. This included helping with litter clearing, gardening and maintenance work as part of the community rail 'Adopt a Station' initiative.

# BEING RESPONSIBLE CONTINUED

In Banbury, we invited members of the public, local schools, rail enthusiasts and local businesses to visit the Banbury North signal box before it was closed as part of upgrading the signalling in the area. Over 3,500 visitors joined the tours, which were used to explain railway history, signalling, railway safety and to promote careers in the rail industry.

## Volunteering
All our staff have the opportunity to take five days' volunteer leave to help a charity or community group. This year we saw a significant increase in the number of staff taking up this opportunity, engaging in activities as varied as volunteering in a local hospice to using their technical skills to support a railway heritage project.

|  | 2016/17 | 2015/16 |
|---|---|---|
| Total number of employees participating in volunteering | 2,226 | 825 |
| Number of hours of volunteer leave used | 27,265 | 11,512 |

## Charity of choice
Our two and a half year partnership with cancer charity CLIC Sargent came to an end in 2016/17. During that time, £817,000 was raised for the charity through staff fundraising, rising to £4.5 million when sponsorship, gifts in kind and volunteering support are factored in. In October 2016 staff voted for Barnardo's to be our next Charity of Choice. As well as a payroll giving scheme which allows employees to donate easily and tax-free to Barnardo's, we are working with Barnardo's on a range of opportunities to fundraise and volunteer.

## Keeping communities safe
We take our responsibility to keep the public safe very seriously. Trespass is a key concern, with one person an hour risking their lives by trespassing on the railway. We run national media campaigns, and local activities with schools and youth groups, aimed at reducing trespass. This year we also began a pilot project looking at causes of antisocial behaviour that commonly drive trespass (such as graffiti, drug and alcohol misuse and fare evasion).

Level crossings are one of the biggest safety risks on the rail network. As well as campaigns to raise awareness of how to use crossings safely, we have a rolling programme of closing or altering crossings in order to reduce the safety risk. We have closed a further 67 crossings this year.

## Suicide prevention
4.5 per cent of suicides take place on the railway. As well as attempting to prevent people from accessing the tracks, building fences and gates, we want to play a role in reducing the number of people who take their own lives. We have partnered with the Samaritans to train staff in suicide intervention techniques, and in the last year alone staff made 1,593 interventions – potentially saving 1,593 lives.

## Economic impact
Did you know?

- We support an estimated 155,750 jobs, with c.38,000 people directly employed and a further 117,750 through our supply chain.
- This year we worked directly with over 3,850 suppliers, 64 per cent of whom were SMEs, spending over £7.359bn.
- We are a major purchaser of UK steel. Of the 119,384 tonnes of steel we bought last year, 93 per cent came from UK suppliers.

At Network Rail we are committed to doing business in a sustainable and responsible way. This includes a commitment to do all that we reasonably can to prevent all forms of modern slavery in any part of our own business and our supply chain. We expect our customers and suppliers to do the same.

In 2016/17 we raised awareness of modern slavery throughout our business by:

- Updating our Code of Business Ethics and other policies to include a clear statement of our stance on modern slavery

- Producing and publishing our Anti-Slavery and Human Trafficking policy

- Amending our procurement contracts to include a modern slavery clause and reviewing the procedures for new suppliers, to make sure they have implemented adequate provisions to prevent modern slavery in their own businesses

- Identifying key risk areas to us and our supply chain

- Issuing guidance to our people on how to recognise the signs of human rights violations and how to report concerns

- Creating a webpage on our company intranet dedicated to modern slavery. This contains information and resources for employees wanting to know more about modern slavery and human trafficking.

In 2017/18, we plan to provide training to employees in high risk areas of our business. This will give them the knowledge and skills to help prevent human rights violations and acts of modern slavery. We will also communicate our approach on modern slavery to our labour and material suppliers.

An updated modern slavery statement for 2017/18 will be published on our website: **networkrail.co.uk** in due course.

# OUR APPROACH TO RISK MANAGEMENT

**Our approach to risk management across Network Rail balances the risks associated with our operational environment with identifying opportunities to improve performance through careful acceptance of some risk.**

## Introduction

We recognise our status as a regulated rail network infrastructure provider and the importance of maintaining essential service provision.

The operational railway is continuously susceptible to changing environmental conditions. The success of the railways in the UK, measured by the growth in passenger numbers, and the continued drive for efficiency means that we must be both flexible and innovative in our risk mitigation strategies. Our enterprise approach to risk management provides multiple opportunities to review, monitor and enhance mitigations depending on the changing conditions and challenges.

Our principal risks are outlined in the 'Key strategic risks' section on page 40.

## Embedded risk management processes

We take an enterprise-wide approach to risk management and have an ERM framework in place for the identification, analysis, management and reporting of all risks to strategic objectives. The purpose of our ERM process is to identify and mitigate risks to the delivery of a safe, reliable, efficient service to our customers. Our ERM framework supports all areas of the business to recognise both threats and opportunities early. Early recognition of risk allows us to work collaboratively and proactively with customers, stakeholders and suppliers to manage our extensive portfolio of works better. Being Better Every Day requires us to look at areas where we can improve our service. By careful consideration of risk we can focus on those opportunities that have the highest potential to increase efficiency and provide a better experience for our customers.

Our ERM framework takes account of operational risk and recognises the need for specialist approaches in areas such as safety, project management and information security. The use of a standard risk assessment matrix and defined risk appetite supports and enables intervention, prioritisation and the integration of the strategic and operational risk management approaches. Clear escalation criteria and the use of business assurance committees throughout the business provide structured governance, challenge and assurance. Visibility of the systemic nature of principal risks is provided through our award winning risk visualisation approach. We have introduced the concept of risk trajectory to enable more informed challenge on the effectiveness of risk mitigations. The establishment of early warning indicators provides the ability to continuously monitor how effective our controls are at managing the root causes of our principal risks.

By using current reporting and monitoring techniques such as visualisation boards and periodic reviews we can better link risk with performance.

Whilst the ultimate responsibility for risk management rests with the board, it delegates the more detailed oversight of risk management and internal control principally to the audit and risk committee, which reports the findings of its reviews to the board. The audit and risk committee receives regular reports from the internal and independent auditors and reviews progress against agreed action plans to manage identified risks. Detailed oversight of safety related risks is delegated to the safety, health and environment committee.

## Categories of risks (i.e., safety, performance, value) and who manages them

All principal risks are mapped to performance reporting and strategic objectives. The assessment of risk is informed by the performance targets and the company's risk appetite statements. Each risk is appointed an executive committee owner.

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**Network Rail has defined its risk appetite as follows:**

*Network Rail has no appetite for safety risk exposure that could result in injury or loss of life to public, passengers and workforce. Safety drives all major decisions in the organisation. All safety targets are met and improved year on year.*

*In the pursuit of its objectives, Network Rail is willing to accept, in some circumstances, risks that may result in some financial loss or exposure including a small chance of breach of the loan limit. It will not pursue additional income generating or cost saving initiatives unless returns are probable (85 % CI for income and 60 % CI for cost reductions where potential returns are high).*

*The company will only tolerate low to moderate gross exposure to delivery of operational performance targets including network reliability and capacity and asset condition, disaster recovery and succession planning, breakdown in information systems or information integrity.*

*The company wants to be seen as best in class and respected across industry. It will only tolerate low to moderate exposure that may result in short term negative impact on reputation and stakeholder relationships and is easily recoverable, i.e. minimal negative local or industry media coverage, and/or minor employee experience and political impact. This will continue to be balanced by regular positive media coverage at national and local level.*

# KEY STRATEGIC RISKS

**Risk Area: Safety**

Britain's railways are the safest in Europe, however we are not complacent. Network Rail continues to assess and monitor all areas of safety and continues to invest in preventive measures to keep likelihood of safety incidents to a minimum.

| Risk | Risk Owner | Current Actions | Planned |
|---|---|---|---|
| Failure to safeguard our workforce resulting in single and/or multiple fatalities to Network Rail staff (employees and contractors). | Group director of Safety, Technical and Engineering | • We are introducing a vehicle tracking system to our 7,500 fleet vehicles to enable our drivers to get immediate support to drive within the speed limit. This will reduce the risk of road traffic accidents.<br>• We have updated our arrangements for staff accessing the track side environment. Specifically we are bringing accountability for safety and productivity into one person, that person will be involved in planning their work and will incorporate task risk controls.<br>• We have introduced the Industry Common Induction within Infrastructure Projects. To date over 75,000 staff across our Supply Chain have gained the competence.<br>• Sentinel has been upgraded to enable staff to gain authorisation for work via smart phone technology, reducing the risk of double shifting, enhancing fatigue management and capturing better competence usage.<br>• Review of Work Activity Risk Assessment (WARA) and Task Risk Control Sheets to get clearer, simpler, and more effective risk assessments. | • Implement the revised standard Safety of Staff at Work on or Near the Line as a critical element for Planning and Delivering Safe Work.<br>• Implement an electrical safety delivery programme focusing on improved isolation methods, better test equipment, accountabilities and competence/training.<br>• Establish a fatigue risk management programme aligned to a new policy and deliver a fatigue risk tool kit for line managers.<br>• Safer Trackside Working programme - High integrity protection and Signal controlled warning technology.<br>• We will develop the next phase of our Occupational Road Risk Programme to further reduce the risk to our staff from driving. |
| Failure to prevent a major avoidable train accident (collision, derailment etc.) which results in multiple injuries/fatalities to members of the public passengers resulting in loss of reputation, finance and reduced performance. | Managing director, England and Wales | • Corporate Scorecard measure for risk reduction changed allowing for targeted measurement of key activities.<br>• National Earthworks Manager (EWE1) competency assessment completed allowing Route Asset Managers to review competencies and training needs.<br>• 1,072 point ends, 2,248 tubular stretcher bars installed.<br>• Trials continue for key technology interventions such as remote failure monitoring for earthworks.<br>• Plain Line Pattern Recognition operational for 6,090 miles.<br>• Targeted action at level crossings through the Level Crossing Risk Reduction programme.<br>• Targeted removal of lineside vegetation that could present a risk to train derailment/collision.<br>• Targeted reduction in the number of high risk road vehicle incursion sites.<br>• Targeted reduction in the number of high risk scour sites.<br>• Working with key stakeholders to reduce railway crime including | • Continued roll-out of new control framework in the form of Business Critical Rules.<br>• Development and roll out of the Civils Strategic Asset Management System to provide better asset information.<br>• Continued focused measurement through the train accident risk element of the corporate scorecard.<br>• Targeted reduction in the number of very poor condition fences that could present a risk to train derailment/collision.<br>• Increased coverage trainborne track testing.<br>• Revision of the signalling design handbook.<br>• Targeted User Worked Crossing communication campaign launched.<br>• Targeted Automatic Half Barrier level crossing communication campaign launched.<br>• Plain Line Pattern Recognition operational for 15,002 miles.<br>• Continued targeted removal of lineside vegetation that could present a risk to train derailment/collision.<br>• Continued targeted reduction in the number of high risk road vehicle incursion sites.<br>• Continued targeted reduction in the number of high risk scour sites.<br>• Continued roll-out of new control framework in the form of Business Critical Rules. |

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|---|---|---|---|
| | | • diversionary arrangements with local communities and suppliers.<br>• Implementation of drainage objectives set out in section ten of the drainage policy.<br>• NR Standard on the Application of the Construction (Design and Management) Regulations published<br>• Prevention through Engineering and Design Policy published. | • Continued development and roll out of the Civils Strategic Asset Management System to provide better asset information.<br>• The Engineering Capability Steering Group work to drive the completion of a Network Rail Single Competency Framework for professional Engineers and Asset Managers. |
| Failure to have suitable and sufficient infrastructure, systems and controls in place to safeguard passengers and public at the interface with trains and the railway (excluding train accident risk), resulting in a fatal or major injury. | Group director of Safety, Technical and Engineering | • 70 Level Crossings permanently closed for Year 3 (264 during CP5).<br>• Seven crossings have been reduced in status during year 3 (20 during CP5)<br>• 68 crossings temporarily closed, removing risk whilst permanent risk reduction measures are developed.<br>• Adjustment of the Night Time Quiet Period to better align with level crossing usage trends.<br>• Development of "Transforming Level Crossings, 2015 – 2040" - a vision-led long-term strategy to improve safety at level crossings. The strategy, endorsed by NR's SHE Committee, is to inform our safety-led asset management activities and the development of new level crossing technologies.<br>• Support and input into RSSB's research paper T936, which focuses on enhancing the All Level Crossing Risk Model's (ALCRM) algorithms and accuracy of calculated risk. NR is a key stakeholder and customer for the new risk engine that will replace the existing ALCRM tool. The work stream is well advanced and on target to complete in Spring 2017.<br>• Roll out and deployment of the Platform Train Interface (PTI) risk assessment tool at Network Rail Managed stations.<br>• Community safety strategy developed and key initiatives delivered including the appointment of a new delivery partner to run a sports themed railway safety educational programme in schools located near sites with high levels of trespass and vandalism.<br>• Better communication with level crossing users through a series of risk based community safety campaigns focused on the hazards created by intoxication, distractions from using mobile devices, impaired mobility, and trespass in the vicinity of crossings.<br>• Development of new materials to support community safety interventions with vulnerable groups such as young offenders and those | • Closure of an additional 50 Level Crossings (subject to feasibility studies and liabilities negotiations).<br>• Development of a user interface for the new ALCRM risk engine, together with full impact assessment of changes to the national risk profile, in preparation for CP6 activation.<br>• Refresh the ALCRM to improve the accuracy of risk modelling and calculations of level crossing risk.<br>• Supporting RSSB to educate other Station Infrastructure Managers about how to use the PTI risk assessment tool across the railway stations estate.<br>• Revision of the Community Safety Strategy, including development of metrics to help measure the reach and impact of our Community Safety Campaigns.<br>• Targeted local campaign for addressing the issue of trespass at stations.<br>• Delivery of the next cycle of the railway safety educational programme in schools located near sites with high levels of trespass and vandalism during academic year 2017/18.<br>• Further delivery of community safety campaigns and interventions directed towards<br>  ► Public education and engagement<br>  ► Trespass prevention<br>  ► Suicide prevention<br>  ► Level crossings risk reduction<br>  ► Trial and implementation of novel level crossing technology |

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|---|---|---|---|
| | | with special educational needs.<br>• Community safety awareness campaigns were delivered on topics ranging from youth distraction at Level Crossings, to intoxication and trespass. | |

## Risk Area: **Value**

Network Rail is committed to delivering value for money through robust planning and where possible supplementing funding through selling non-core assets.

| | | | |
|---|---|---|---|
| Failing to produce credible forward projections resulting in less funding than required and/or unachievable targets.<br><br>Failure to achieve net receipts from asset sales to support shortfall funding and failure to deliver efficiency savings programme | Chief financial officer | • Facilitation, co-ordination and tracking of the NR business plan<br>• Route milestone plans and glide paths linked to the Corporate dashboard<br>• Change portfolio group ensures the business is delivering the right portfolio of change<br>• Enhancement portfolio board set up to ensure enhancements costs are in line with Hendy Review<br>• Business performance management framework outlined business function accountabilities<br>• Creation of a central register of assets being disposed of<br>• Agreed clearance process and protocols with the routes including involvement at all levels of the portfolio organisation<br>• LC7 process agreed with ORR Delivery of receipts that score in Public Sector Net Borrowing for the government through option analysis without compromising value for money. | • Improve planning capability within the routes through implementation of corporate rostering<br>• Develop clear quantifiable programme milestone plans split by route/region/function linked to the corporate dashboard<br>• Engagement with routes to clarify the route to close clearance and adaptation or relaxation of existing process to facilitate additional volumes<br>• Ongoing engagement with Government to ensure all options are explored regarding asset disposals. |

## Risk Area: **Performance**

Delivery of our extensive enhancement and renewals portfolios is a key priority for us. New controls and governance arrangements have proved successful over the last 12 months and seen us deliver our largest ever portfolio of works with no major possession overruns.

By investing in our staff and attracting young talent to the rail industry we are managing risks to recruitment and retention and have low staff turnover. We understand change is unsettling and will continue to work closely with staff and unions to minimise any adverse impact.

We are investing in our recovery and business continuity planning to reduce long-term impact of business interruption. This includes further controls in areas of information governance and cyber security.

Managing train performance to meet ORR targets remains extremely challenging with likelihood higher than we want. Mitigations in this area remain a priority over the next 12 months. We remain confident that over the longer term we will reduce risks in this area to within acceptable levels.

| | | | |
|---|---|---|---|
| Failure to deliver the enhance-ment portfolio to time and cost | Managing director, Infrastructure Projects | • Affordability and deliverability review of the CP5 enhancements portfolio as part of the Hendy Review.<br>• Implementation of the Enhancements Improvement Programme (EIP).<br>• Ongoing integrated planning processes to assign critical resources at times of peak demand, e.g. bank | • Complete the full implementation of Business Assurance Committees across all divisions of Infrastructure Projects.<br>• Delivery of the balance of efficiencies to meet the affordability constraints set during the Hendy Review.<br>• Implementation of a tri-partite integrated assurance framework across Network Rail, |

| | | | |
|---|---|---|---|
| | | holidays.<br>• Continued focus on delivery governance adherence (e.g. GRIP, DWWP) and assurance resulting in 99.5 % safe, on time hand back at bank holiday possessions.<br>Continue to implement the IP change programme, referred to as One Vision One Way, which aligns risks to strategic objectives. | Department for Transport and ORR which further develops independent peer reviews that have already been embedded into the business.<br>• Continuation of the peer review process, as embedded last year, with full alignment to the milestones and key outputs in the Enhancements Delivery Plan.<br>• Completion of actions associated with Network Rail's 'Must Wins' as they relate to enhancements. |
| Failure to deliver the renewals portfolio to time and cost | Managing director, Infrastructure Projects | • Introduction of an improved planning process (GRIP 4 Track) throughout the project life cycle<br>• Embedment of GRIP 4 Track across all elements of the programme<br>• Understanding various access regimes and impact on cost<br>• Improved governance across the programme including Programme Board, Assurance panel and Route Track Governance panels.<br>• Improvements in reporting of risks through Track & Signalling Business Assurance Committees. | • Completion of actions associated with Network Rail's 'Must Wins' as they relate to renewals.<br>• Further focus on renewals related delivery risks as part of the ongoing management of risk led by the IP Executive Team.<br>• Escalation of risks associated with the smoothing of the workbank and transition from CP5 to CP6, to provide assurance to the industry supply chain. |
| Failing to attract, retain and develop the full potential of our pipeline of talent for key roles; resulting in sub-optimal leadership capability, worse business outcomes and a compromise of our ability to deliver a better railway for a better Britain | Group human resources director | • Developed a strategy for Network Rail to be an employer of choice to emerging talent<br>• Development and engagement of a Network Rail professions programme which includes career pathways<br>• Ongoing support and engagement with talent groups. | • Implement and communicate Network Rail's strategy to be an employer of choice to emerging talent.<br>• Delivery of professions programme identifying and implementing career pathways within each profession<br>• Deliver further cohorts of accelerated leaders programme<br>• Development of networks and alumni for roles in NR professions |
| Failing to secure employee and Trade Union support for our forward change agenda | Group human resources director | • Regular and positive engagement with Trade Unions providing opportunity for bargaining groups to meet early<br>• Development of Industrial Relations learning programme to upskill key frontline managers. | • Continue positive engagement with Trade Unions providing visibility of major change programmes<br>• Deliver and roll-out industrial relations learning programme to key frontline managers. |

| Failure to recover from a business interruption to pre-defined output levels and within agreed recovery timescales | Chief financial officer | • Central Business Continuity (BC) team funded to support the delivery of the Business Continuity Management (BCM) framework and provide expertise and advice.<br>• Implementation of cyber security awareness programme, training and development<br>• Established cyber security governance structure<br>• Weather Resilience and Climate Change Programme Board to continually assess vulnerability of assets | • Supported implementation of the BCM framework<br>• Completion of tactical Business Impact Assessments within routes/supporting functions<br>• Completion of priority BC Plans<br>• Further Strategic and tactical investment to provide a more resilient network and systems landscape that will perform effectively under increased stress |
|---|---|---|---|
| Unable to achieve passenger and TOC/ FOC performance expectations for the control period | Managing director, England and Wales | • Timetable Rules Improvement Programme to focus on improving the timetable and unlocking further operational performance.<br>• Performance strategies developed collaboratively by Routes and Train Operators.<br>• Strengthening of monitoring and delivery of engineering work to reduce performance impact of overruns.<br>• National Joint Disruption Taskforce to strengthen service recovery and contingency plans: working with British Transport Police (Fusion Team) and improved systems and processes for controls.<br>• Focus on delivery of improvement in South East/GTR performance<br>• Delay per incident must win plans in place for each Route.<br>• Route Asset Management Plans (RAMPs) underpinning the Composite Reliability Index and supporting a reduction of PPM failures. | • Work to understand the impact of increasing passenger growth and action to mitigate any risk to performance.<br>• Delivery of Risk Based Maintenance and further roll out of On Train Infrastructure Monitoring and Remote Condition Monitoring programmes.<br>• Development of Scorecards to drive joint ownership of performance targets.<br>• Development of CP6 metrics to better reflect local passenger and freight priorities.<br>• Initial Industry advice and High Level Output Statement (HLOS) setting out the Industry's performance agenda to CP6.<br>• Digital Railway, in particular, the Traffic Management Programme to support the operational delivery and recovery of service.<br>• Train Location Services to improve the industries understanding of performance issues. |

### Viability statement

The Directors have assessed the viability of Network Rail to maintain the UK's rail infrastructure over a three year period, taking account of Network Rail's current position and the potential impact of defined scenarios on its principal risks and financial viability. The Board considered three years to be an appropriate timeframe. There was certainty over the remaining two years of CP5, and reasonable certainty that Network Rail would continue into the first year of CP6. However as the Final Determination for CP6 had not yet been finalised, the Board did not feel able to confirm NR's viability beyond three years at this stage. Based upon this assessment, the Directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to March 2020. This longer-term assessment process supports the board's statements on both viability, as set out below, and going concern, made on page 87.

Network Rail is funded in five-year blocks called control periods. This five year block runs from 2014-2019 and the next runs from 2019-2024.

The Office of Rail and Road (ORR) determines charges and outputs before the start of each five-year period. In doing so the ORR has statutory obligations with regard to producing a settlement that is equitable to the license holder, Network Rail. This allows Network Rail a high degree of certainty with regard to funding for its operations and investment activities.

The regulatory process towards setting charges and outputs allows stakeholders to define their required outputs from the network, and governments in Westminster and Holyrood to set out the funding they have available. These are built into Network Rail's strategic business plan. Once the ORR has determined outputs and charges, Network Rail produces a Delivery Plan. This plan is refreshed by bottom up forecasts on a quarterly basis in order to manage outputs within the resources available. Network Rail has secured a £30.875bn loan facility with the Department for Transport (DfT), which it intends to draw upon to specifically support its investment activities in the period to March 2019. This facility remains within its parameters. Network Rail is also investigating various methods of attracting third party capital to finance enhancements to the railway network including potential disposal of non-core assets.

Business plans and financial models are used to project cash flows and monitor financial risks and liquidity positions, forecast future funding requirements and other key financial ratios, including those relevant to our network licence.

Analysis is undertaken to understand the resilience of the group and its business model to the potential impact of the group's principal risks, or a combination of those risks. This analysis takes account of the availability and effectiveness of the mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, the conclusions of the board's regular monitoring and review of risk management and internal control systems, as described on pages 39-44, is taken into account.

In addition, as Network Rail is a central government body and a member of the DfT Group for consolidation purposes its creditors can rely on Her Majesty's Government security, and the statutory obligations on the Secretary of State for Transport, with regard to settling liabilities.

We have set out the details of the principal risks facing Network Rail on pages 40 to 44 described in terms of our ability to meet our strategic objectives. We identify our risks through a robust assessment that includes a continuous cycle of bottom up reporting and review.

In making this statement the directors have considered these principal risks and Network Rail's ability to withstand severe but plausible scenarios based on them. This included consideration of the political environment, industrial relations and the safety of the rail network. The process considered those combinations of risks which were most likely to lead to severe but plausible scenarios. The scenarios were considered in terms of the impact on the financial resources of Network Rail and the impact on delivery of future improvement work.

The assessment took into account Network Rail's current financial position and any headroom in its current forecasts, it also considered other sources of funding or actions such as deferral of improvement work.

A number of mitigating actions were identified including insurance arrangements, re-planning exercises and management of industrial relations.

The time period of 3 years was selected even though it runs into the next Control Period, as the impact of some scenarios may be felt beyond the current Control Period.

The approach was to assess three severe but plausible scenarios covering seven of the principal risks:

| Scenario 1 | **Non-delivery of planned efficiencies, scheduled cost slippage does not occur and failure to achieve the expected income from the asset sales within the anticipated timelines leads to a deferral of projects, a shortfall of cash to deliver the CP5 business plan and a request for more money with corresponding reputational damage.** <br><br> Risks: Programme and Schedule Cost Slippage and NR Asset Divestment |
|---|---|

| Scenario 2 | **A large amount of organisational change either nationally or in a given organisational area, further restrictions on senior pay and reward options from HMG, and/or specific disputes arising from pay negotiations or other business consultations adversely impacts employee relationships and engagement. A national rail strike leads to significant UK economic consequences, loss of talent and disengaged staff results in reduced operational performance and difficulty in maintaining and improving safety, business continuity issues are also created.** <br><br> Risks: Destabilising Effect of Change, Industrial Relations Management, Talent Management and Business Continuity Management Risk |
|---|---|
| Scenario 3 | **Train accident occurs as a result of an attributable error to Network Rail which leads to injuries and fatalities to members of the public, reputational damage and ORR intervention.** <br><br> Risks: Train Accident, Business Continuity Management and Destabilising Effect of Change Risk |

On the basis of this robust assessment of the principal risks facing the group and on the assumption that they are managed or mitigated in the ways disclosed, the board's review of the business plan and other matters considered and reviewed during the year, and the results of the sensitivity analysis undertaken and described above, the board has a reasonable expectation that Network Rail will be able to continue in operation and meet its liabilities as they fall due over the period to March 2020.

### Directors' approval statement
The strategic report has been signed on behalf of the board of the company.

**Sir Peter Hendy, CBE**
Chair
14 July 2017