

**MINUTES OF A MEETING OF THE BOARD  
OF  
NETWORK RAIL LIMITED  
held at  
1 Eversholt Street, London NW1 2DN  
on  
Thursday 19 March 2015 at 12.00 noon**

**Present:** Richard Parry-Jones (Chairman) Michael O'Higgins  
Patrick Butcher Paul Plummer  
Mark Carne Bridget Rosewell (by phone from 2pm)  
Sharon Flood (from 12.50pm)

**In attendance:** Suzanne Wise – Secretary  
James Menzies – Deputy Secretary  
Barney Wyld (from 3.15pm)

**Apologies:** Malcolm Brinded; Chris Gibb; Janis Kong

<b>MINUTE NO.</b>		<b>ACTION</b>
<b>15/48</b>	<b>CHAIRMANS REMARKS</b>	

Richard Parry-Jones welcomed everyone to the additional Board meeting and outlined his proposed structure of the meeting:-to spend the first 2 hours examining the proposed Business Plan as presented and challenging the content; an hour on understanding the underlying causes of the change from last year's plan, then the final hour on the narrative and communication of the Business Plan.

This being an additional Board meeting the minutes and actions from the previous meeting would be considered at the next Board.

<b>15/49</b>	<b>UPDATE ON THE BUSINESS PLAN</b>
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Mark Carne gave his opening remarks on the plan. He confirmed that whilst the ORR and DfT had a line of sight to most of the information in the current iteration of the Business Plan, some, such as Renewals, would be new to them.

Mark Carne confirmed that targets on Safety are not changing. This is due to the business having had good, robust and well-developed plans for Safety.

It was noted that the Routes numbers in respect of renewals activity do not fully match those agreed in the Final Determination. Patrick Butcher, Phil Hufton and Francis Paonessa were working to bring these numbers back into line with the Final Determination over the course of CP5. Further work would be undertaken over the next few months to identify the best course of action, whether this was demonstrating that fewer renewals were in fact needed or identifying additional improvements.

Mark Carne expressed his confidence that although the Business Plan presented a challenging picture the Company was doing the right things to deliver the required improvements to bring the metrics back to target, but that he needed time to allow the necessary changes to deliver. Work would continue on the later years of the Business Plan for CP5 to close the funding gap but the Board needed to be aware that the funding gap could be significant.

Richard Parry-Jones thanked Mark Carne for his remarks and emphasised that the Board must consider the Business Plan in light of the following principles that must be adhered to by the Board:

- No compromise on safety
- No loss of focus on improving asset reliability
- Renewals to be delivered at a level that is sufficient to maintain an efficient

railway.

The Board then discussed the plan in detail, covering:

- safety
- train performance;
- operating costs;
- asset management maintenance;
- asset management renewals;
- enhancements;
- financing opportunities;
- financial summary.

#### *Safety*

In respect of safety it was agreed that forecasting against safety targets to the end of CP5 was not feasible and would not be included in the plan.

#### *Train Performance*

In respect of train performance it was noted that whilst the impact of enhancements and failure rates for new equipment had been underestimated this had not then been reflected in the corresponding waterfall chart, and this would be amended accordingly.

**PB**

The evidence that increasing passenger numbers are now significantly impacting train performance was discussed in some detail and the further analytics that could be brought to bear. The point was made that as well as detailed modelling being required on a line by line basis, the global message that the overall system is now over-stretched and may struggle to accommodate any shocks needed to be brought out more strongly in the narrative.

The impact of the business adopting structured continuous improvement was discussed, and it was acknowledged that benefits were unlikely to come through until 2017. The ambition to exit CP5 having met the regulated PPM targets was believed to be achievable.

#### *Financing Opportunities*

Having discussed all aspects of the plan in some detail the Board noted that without further improvements (which the Executive team required further time to work through and identify) there would be a substantial shortfall in funding. The Board then reviewed the various options that could be considered for introducing risk capital into the business to bridge the funding gap, noting that this would require the cooperation of, and agreement with, the DfT and Treasury. The Board discussed the underlying assumptions and principles that would be applied to any such transactions and the range of options. Some had limited executional risk whilst others are much greater, some would be broadly neutral to the underlying business whilst others would be more impactful, and some would generate significant funds whilst others were of more limited benefit.

The Board **AGREED** that the Executive team would progress its work to further scope out the various options to generate additional funding but a commitment to find £300m from the low business impact and low executional risk group of options would be built into the Business Plan.

**PB**

The Chair then moved the discussion on to a discussion of the reasons why the plan differed in some areas to the Final Determination.

Of note was the fact that the processes used to cost the renewals plans for the Final Determination had been based on theoretical cost models for doing certain work. The current Business Plan had based the calculations on a more sophisticated model, using actual cost data. This was therefore more accurate, but had flagged errors in the assumptions made previously.

Mark Carne advised the Board that he had asked for an external audit of the revised cost modelling to be carried out, to provide greater assurance over assumptions now being made.

The Board also discussed the fact that the degree of change going on in the business in respect of devolution to the Routes and then the reversal of Project Dime in Infrastructure projects had also been a factor.

The Chair wished to continue the debate on lessons learnt, so that the balance of the Non-Executive Directors would have an opportunity to input, and a forum to have this debate would be identified.

**RPJ/SEW**

The Board asked whether the average unit rates for civils, track, signalling etc were better or worse than CP4, as it was felt that there had been continuous improvement in this area but that the evidence was required to support this view. An analysis would be undertaken. An improving trajectory would provide assurance that the business was doing the right things.

**PB**

The Chair then moved the discussion on to debating the narrative, communication and next steps.

There followed a discussion on key upcoming events. Mark Carne and the Chair were due to meet the ORR in April. There would be a briefing meeting by NR, ORR and DfT for the incoming Rail Minister shortly after the election. The April Member Workshop was due on 13 April.

Paul Plummer shared his upcoming meetings with ORR and DfT, including agreeing the scorecard with them. Decisions were due to be made regarding various key enhancement projects from June.

There followed a general discussion on messaging, the Company's strengths and weaknesses in this area, and the merits of being more positive in core messages to the press, ensuring that there is more balanced coverage.

Following the detailed discussion on the Business Plan the Board **AGREED** the following:

- To **APPROVE** the 2015/16 plan and budgets, which would form the basis of the scorecard for the Annual Incentive Plan for 2015/16. In doing so the Board had requested minor changes as discussed to the safety slides, and the Opex and Renewals slides had been agreed (although not it was noted for the later years in CP5 for Renewals).
- To **APPROVE** the course of action proposed by the Executive to revise and assure the plan in particular:
  - The review of the sustainability of maintenance and renewal volumes, it being noted that the outcome of this review was required no later than June 2015 to inform the enhancement discussions
  - The production of detailed Route Asset Management Plans for 2015/16 by April 2015
  - The production of revised CP5 RAM Plans by September 2015
  - The decisions required jointly with the DfT re enhancement deferrals from June
- That depending on the outcome of the further work identified there may be a funding gap for the balance of the CP5 Business Plan in respect of maintenance volumes (assessed as low/medium) and renewal volumes (assessed as medium/high) and this was noted.
- As minuted above, however plans to address the funding gap where being progressed.

**15/50**

#### **ANY OTHER BUSINESS**

There was no further business.

**15/51 DATE OF NEXT MEETING**

The Chair confirmed that the next meeting was the previously scheduled meeting on 23 April 2015.

There being no further business the Chairman closed the meeting.

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CHAIRMAN

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