Foreword

This Business Plan is Network Rail's second since taking responsibility for Britain's rail network. It sets out in detail how we intend to apply engineering and operational excellence to deliver improvements in the safety, reliability, efficiency and affordability of the railway infrastructure.

In last year's plan, we concentrated on the fresh focus and initiatives we were bringing as the new owner of the nation's railway. We also described the significant challenges ahead of both us and our rail industry partners as we began to address the problems we all faced – an ageing network, unacceptably high costs, poor train performance, low morale. We reiterated the fact that there can be no quick fixes. Before taking over the company we said it would take eighteen months to change the internal processes and three to five years to achieve a sustainable level of efficiency and performance.

People are hungry to see us deliver improvements. The good news is that this year we can highlight significant progress in key areas. We have made a substantial improvement in train performance. We have begun to bring costs under control. We have made important structural changes, including starting the process of taking direct responsibility for rail maintenance, which will improve our ability to ensure efficient and effective delivery on the network.

The recent history of the railway means that our achievements can be overshadowed by the scale of the work still to be done. However, some of these achievements have been recognised within the industry and within Government. Indeed, Alistair Darling welcomed the significant progress we have made in a recent statement to Parliament and the Regulator has acknowledged the work we have done in key areas such as performance. That public recognition was a very welcome testament to the hard work and dedication of our staff.

We have therefore made a positive start and the building blocks are in place for further progress. The interim review set extremely challenging targets for efficiency and performance. However, it also provided the necessary stability to enable us to respond positively to this challenge and allow us to begin to counter the ill effects of historic under-investment.

There remains much to be done. While performance has improved, it remains well below what we would like it to be. Further work is required to drive out inefficiencies. Safety must remain a paramount consideration. We must also become smarter at how we develop and prioritise plans which secure maximum value for money.

We recognise and relish that challenge. Britain deserves a fit-for-purpose, safe and reliable railway at an acceptable cost. This in turn requires us to be a high performing, efficient and customer focused organisation. In the following pages we set out what we will be doing over the next 12 months and beyond to help deliver these objectives.

Ian McAllister (Chairman)

Contents

Overview

Where we are now

Our 2003 Business Plan set out the challenges which Network Rail faced as the new owner of Britain's railway infrastructure, and our plans for tackling them. The realities which we faced were that demand for rail transport had been growing fast but that we had experienced decades of under-investment. As a result, our ageing infrastructure was fragile and capacity was overstretched. We therefore had to improve the effectiveness of maintenance, step up the rate of renewals, and enable congested parts of the network to perform better.

At the same time costs were too high and today's railway was in danger of becoming unaffordable. The size of the organisation had grown considerably, particularly in bureaucratic functions, without any regard to whether this was appropriate or added value. Basic cost control measures were often lacking. To ensure continued public support for the railway, we needed to be able to provide a safe, reliable network that represents good value to our customers and ultimately the taxpayer.

These realities still need to be addressed, but we now have a much stronger foundation upon which we can build over the coming years to meet the reasonable requirements of our customers and other stakeholders. In particular, we now have:

- an interim review settlement which provides stability about the amount of money available for the operation, maintenance and renewal of the network. This will enable us to plan our business more effectively and raise the long term finance which the business needs;
- in-house maintenance in three areas, with three more to transfer at the start of April 2004 and advanced plans to bring the rest in-house within the next few months. This will enable us to deliver the necessary improvements in consistency of process, reliability and efficiency which proved difficult under the previous structure;
- a new organisational structure which, from May 2004, will be consistent across the whole country and organised functionally, enabling us to drive improvements in efficiency quickly throughout the company and improve our responsiveness to customers;
- early signs of success in improving reliability and detailed plans for how we are going to continue to make the improvements which are so critical to our customers and to passengers and freight users;
- improved financial controls and significant progress in developing plans for how we are going to meet the challenging efficiency targets set by the interim review; and
- stronger relationships with our customers, the Regulator, the Strategic Rail Authority (SRA) and Government which enables us to build on the progress made so far to improve the performance of the railway as a whole.

Our progress in each of these areas is discussed further in the following sections.

The interim review and refinancing of the business

Our 2003 Business Plan formed our first cost submission into the Regulator's interim review of our access charges. However, as we acknowledged at that time, that plan reflected the cost levels which we had inherited on becoming infrastructure owner and which were unacceptable and unaffordable in the longer term. We highlighted a number of specific areas where further work was required during the interim review and set ourselves challenging targets to improve efficiency and reliability.

Since our last plan, an enormous amount of work has been done to define the outputs which we are now required to deliver and to identify the efficient cost of delivering those outputs. As acknowledged by the Regulator, the review has also shown the benefits of the more transparent and constructive approach we have taken to working with the Office of the Rail Regulator (ORR) and SRA, often working with independent consultants appointed jointly.

This work has enabled more informed choices to be made by ORR and SRA about the required outputs, constructive review and challenge of the required scope of works to deliver those outputs and an objective assessment of the potential for improvements in efficiency. In addition to the requirements for the operation, maintenance and renewal of the network, we now have clarity about what is required from the modernisation of the West Coast Main Line and the Southern power supply upgrade. Although further work is required to develop the basis for future prioritisation decisions and robust longer term plans, we now have more confidence in what needs to be done over the next few years and a stronger basis for developing these longer term plans.

In accepting the interim review conclusions, we highlighted the scale of the efficiency and reliability challenges which are discussed further below. However, we also highlighted the fact that this review now provides us with secure, predictable revenues for the next five years and a financial framework which puts the company's finances on a secure long-term footing. This stability is an essential pre-requisite for the efficient planning of the business so that we are able to focus on delivery of the required improvements in cost, reliability and therefore value for money. It is also critical to investors and, hence, to our ability to raise efficient and affordable long-term finance to pay for a significant proportion of the investment which is needed over the next few years.

In accordance with these conclusions we have now agreed with the Regulator and the SRA to reprofile our revenues so that they remain broadly flat for the first two years of the next five-year control period. After this transitional period, our revenues will increase substantially in line with the Regulator's conclusions. We have also agreed that a larger proportion of our income can be paid in the form of direct grants from the SRA. However, since these grants are unconditional, this change does not affect our accountability to our customers or the Regulator. Indeed, these accountabilities have been clarified and reinforced through the interim review process and other changes.

The progress we have made in this area is also reflected in our refinancing of the business. In particular, we have completed a successful Medium Term Notes (MTN) programme and are well advanced in our plans for the issuance of long term debt later in the year.

Taking maintenance in-house

Maintenance is a core part of our business and we need to take better care of our assets, understand how they degrade over time and find ways of minimising their whole life costs. The development of our asset and work management systems is therefore critical to the required improvements in this area and substantial progress has been made. Last year we also described our plans to take greater control of maintenance across the country and to take maintenance work in-house in three areas to give us a better understanding of the cost drivers and of what was required to secure greater value for money. This was taken forward through transfers first in the Reading area in June and subsequently in Wessex in November and East Midlands in January. There are already strong signs of improvement in performance where maintenance has been brought in-house.

Alongside this, we carried out a full and fundamental review of how railway maintenance is carried out drawing upon our early experiences of in-house maintenance and the first hand view this gave of the potential for improvements. As announced in October 2003, we decided that it was necessary to take direct control of this core function throughout the country. This will facilitate the consistent application of high standards of rail maintenance across the rail network; the delivery of significant efficiency savings; and continued improvements in track-side safety standards.

Taking all maintenance in-house will be a significant structural change, both for ourselves and for the rail industry as a whole. It is essential that we get it right, and we are therefore working very closely with our maintenance contractors to secure the safe and efficient transfer of responsibilities, skills and employees. This is on course to be completed during the summer and will provide the foundation for further improvements.

Creating the right organisational structure

If we are to deliver the improvements and quality of service expected of us, it is essential that we have a company structure which ensures we are working effectively and consistently.

The 2003 Business Plan set out the first stage in delivering this; the introduction of a standard organisational structure for the regions. This process, which was completed in June, ensured that the roles, responsibilities and accountabilities were clear and properly defined. This in turn enabled us to ensure a consistent way of working across the national network for the first time in 160 years.

We have continued to develop our organisational structure so that it best supports the delivery of our core objectives. We are now building on the current regional structure with a new functional structure formed around four delivery functions (Operations & Customer Services, Maintenance, Major Projects and Investment, and Railway Estates); two units for specification, safety policy and assurance (Engineering and Safety & Compliance); and seven supporting corporate service functions. This new structure is designed to achieve a more efficient, streamlined, customer-facing and responsive organisation; a consistent focus on delivery, with clarity in roles and responsibilities; and a single, integrated company organised by what we do, not where we are. Once the new functional organisation goes live, there will be just five layers between the Board and the crucial delivery teams on the front line.

We are working to finalise the details of this new structure, which will go live later in the year. As with the decision to bring maintenance in-house, this will provide the foundation for further improvements across the business. In particular, the functional structure will enable us to draw on existing best practice and drive further changes quickly and efficiently throughout the organisation.

Improving our outputs

Last year we described a situation where we needed to improve the performance, condition and reliability of our network. We also committed ourselves to continuing to improve safety on the railway.

On reliability, we set ourselves a challenging target to reduce train delays by over 10% for 2003/04. We recently announced the best quarterly performance for four years – a 24% reduction in delay minutes in the final three months of 2003. Despite the delays associated with the unprecedented hot weather during the summer, we expect to get very close to our target for the year as a whole. Reliability is showing welcome signs of improvement and, although there are many more challenges to be faced, we are heading in the right direction. Particular improvements have been made as a result of much better preparation for the autumn leaf fall and for winter conditions. In addition, we have seen the first significant sustained drop in delay per incident for almost four years through improved responsiveness to incidents and better cooperation with our customers.

We have also delivered safety improvements. The number of signals passed at danger has been reduced further, while the incidence of broken rails is at its lowest level ever. We have also successfully completed the fitment of the Train Protection and Warning System (TPWS). This system, which is able to stop trains at risk of passing a red signal at up to 75mph, represents the biggest safety improvement on the national railway for 40 years.

In addition, we have continued to improve how we maintain and renew our network. We have introduced a high-tech measurement train, which significantly enhances our ability to monitor the condition of our network and through that to predict and plan work. We have improved how we package works and how we plan and use possessions of the network so that we can begin to carry out works more efficiently. Taking maintenance in house and introducing our new functional structure will allow us to drive through further improvements.

Improving efficiency and delivery

We have made significant progress in identifying efficiencies which we can make through improvements to our business and we are already taking the steps needed to realise these savings. For example, we have introduced much stronger financial discipline to the management of the business; we have established a dedicated team for the development and design of all signalling projects, both to reduce the costs incurred in those stages and increase standardisation across the network; we have put in place improved, more cost transparent track renewal contracts supported by joint management arrangements to ensure close liaison with our contractors; we have made significant personnel reductions and have plans to achieve further savings in conjunction with the current reorganisation; and we have reduced the level of consultancy support and longer term agency personnel in favour of use of more cost effective in-house resources.

We have also demonstrated that we can deliver work effectively and efficiently. The TPWS fitment programme was completed not only on time but under budget. Extensive engineering programmes were carried out across the August Bank Holiday and Christmas periods, and in each case the vast majority of work was finished on budget and on or ahead of schedule. We commenced operation of Section 1 of the Channel Tunnel Rail Link, and did so ahead of schedule in order to ensure that the new services were properly integrated into the national timetable. At Dolphingstone on the East Coast Main Line, where the existing line was at risk as a result of ancient mine workings, we have successfully carried out a ground breaking engineering project – involving the construction of a 1.8km rail bypass – to provide an efficient, long term solution to a complex problem.

These are some of the improvements that demonstrate that we have made significant progress in getting costs under control. In particular, we have been very robust in ensuring that projects do not begin until they are properly scoped and we are able to deliver the required works as efficiently as possible, given the circumstances. This is reflected in the significant reduction in net debt at 31 March 2004, which we expect to be around £12.8 billion compared to the forecast of £14.5 billion in our 2003 Business Plan.

Meeting the needs of our customers and stakeholders

As well as working more closely with ORR and SRA, we have taken further steps to ensure that our stewardship reflects the needs of our principal customers, the train operators. Many of the changes referred to above, particularly improving performance, will better enable them to run reliable train services. In particular, we have worked closely with our customers individually, through Joint Boards and through the National Task Force. Key developments, such as organisational restructuring, are being taken forward in partnership with our customers to ensure that the end results are properly shaped to meet their needs as a result of a more customer-focused structure. Through the new local output commitments, we now have a proper process for ensuring that we agree and collate what we are going to deliver for individual operators.

We have also worked with other stakeholders, such as the Department for Transport, Scottish Executive, Welsh Assembly Government, Transport for London and the Passenger Transport Executives (PTEs), to understand and support their plans.

Where we are heading

Given the firm foundations outlined above, our aim continues to be the delivery of a safe, reliable, efficient and affordable network. This business plan explains how we intend to manage the business to deliver the outputs required by the interim review and our other contractual commitments within the constraints of the Regulator's assumptions about our future expenditure. The diagram below summarises the implications for our expenditure over the next five years. Total expenditure on the operation, maintenance and renewal of the network is projected to be £23.3 billion in this period. This is around £500 million higher than assumed by the Regulator, due to additional expenditure on signalling renewals which is still subject to further review by the Regulator. Including the enhancement elements of the West Coast route modernisation, this figure increases to £23.9 billion and including other enhancement expenditure increases it further to £26.0 billion.

Figure 1 Expenditure forecasts 2003/04-2008/09

To achieve this plan raises considerable challenges for the business. In particular:

- we must continue to improve safety without driving unnecessary cost increases;
- we need to continue to improve our stewardship of the network and the underlying condition of the assets through more effective prioritisation and better delivery of maintenance and renewals;
- more active management of the network and closer cooperation between all industry parties will be required to build on the encouraging improvements in reliability;
- although we have broadly agreed with the Regulator about the scale of the potential efficiency improvements, the scale of the challenge should not be underestimated and we will need to be clearly focused on achieving these improvements in order to improve the affordability of the railway; and
- these changes will require further cultural transformation to achieve a stronger focus on the needs of our customers.

Improving safety

The majority of our safety indicators are positive and our safety record continues to improve. We have taken prompt action to address safety risk on the railway – for example, by strengthening the conditions attached to the use of on-track trailers following the recent tragic accident at Tebay.

Our objective is to maintain a process of continuous improvement in 2004/05. Our current action plans include:

- updating our risk assessment techniques to set better priorities for safety spending in line with our risk tools and the work on safety decision criteria being carried out by the Rail Safety and Standards Board;
- completing the next phase of the Train Protection and Warning System (TPWS+), which stops trains at risk of passing a red signal at up to 100mph. This will be complete for some 424 signals over the next eighteen months;
- implementing a revised safety leadership and culture change programme across the whole organisation to embrace the staff and teams covering in-house maintenance; and
- putting in place a new process to manage, control and monitor company standards. The process sets objective criteria for a new or change of standard through a series of stage gates. This is linked to the investment and project process by providing a facility for a standards freeze at the end of the option development stage of that process, with the exception of urgent safety related issues.

Improving asset stewardship

Last year we described the need to increase spending on our network to reverse the impact of past underinvestment and to deliver improvements in condition, reliability and performance. The Regulator supported the need to increase the level of work done on the network and this is reflected in the conclusions of the interim review. We now have clarity and stability about the money which is available to invest in the network. This will allow us to increase the volume of renewal activity across the network, for example in carrying out a major replacement of the telecoms network.

However, it will not be possible to address the full backlog in renewals which has arisen from years of under-investment and the network will continue to be fragile in some areas. We will therefore need to improve our prioritisation and planning processes to ensure that the available funding is used as effectively as possible to manage the impact on reliability. We are discussing with our customers, the ORR and the SRA the way in which our stewardship criteria need to be refined in order to provide an appropriate basis for prioritising work between routes and between asset categories.

This will be supported by continuing improvements in our understanding of asset condition and behaviour. More direct access to the network has given us a much better view of the true state of the infrastructure in those areas where maintenance has already been taken in-house. The forthcoming national transfer of responsibility will therefore allow us to make a further significant step forward. Allied with the introduction of new inspection technology, implementation of improved planning tools (such as MIMS) and the further development of our decision support tools and prioritisation criteria, this will enhance our ability to target work where it is most needed.

The interim review established the high level outputs which we are expected to deliver from the West Coast Route Modernisation and required us to develop a detailed plan for achieving those outputs. The resulting plans are summarised in our Route Plan document and will deliver outputs, including key journey time improvements, which are broadly in line with the SRA's June 2003 strategy for the West Coast Main Line. To date, we have spent £4.5 billion on this project and we plan to spend a further £2.8 billion over the next five years. Delivering the required volume of work with minimum disruption to the network still requires substantial disruption to services throughout this summer (following which the weekday services will be normalised) and considerable weekend access until 2008. On its completion, however, there will be greater flexibility to maintain the route without materially disrupting services.

The focus for this project must now be on the efficient and timely delivery of the required works. We have therefore improved the organisation of the project to achieve this. In particular, the remaining risks to the schedule are being managed proactively through the creation of the West Coast Engineering team, which brings the engineering specification and acceptance responsibilities together under the professional assets heads in support of the Programme Director. By 2006, the main linespeed enhancement works will be complete and the two remaining major projects, at Rugby and the Trent Valley, will be managed as specific projects. The organisation of ongoing maintenance and renewals will then be the same as the rest of the network.

Improving performance

Performance has improved. In particular, one area has already returned to pre-Hatfield levels of reliability, and we plan to restore the overall network to this level as soon as possible. This will require that we ensure a robust and reliable infrastructure and deal with the effects of growth, and of changes of behaviour, particularly on those sections of the network that are operating at or near full capacity.

All of these can be addressed over time. Using Six Sigma methodology, we have put in place processes to ensure that we do so based upon a rigorous appraisal of the root causes of delay, and therefore take the actions which will deliver real and lasting improvements for our customers.

We will continue to look for improvements across all areas that have an impact on train performance. In particular, we are targeting further reductions in the amount of delay per incident. It is this, rather than the number of incidents themselves, which has grown in recent years, and this has contributed significantly to the deterioration in performance. This increase is due to a mixture of factors, and is not therefore subject to a simple solution. But we are working hard, both internally and in conjunction with our customers, to address them.

Bringing maintenance in-house, for example, has already delivered improvements in how we respond to and fix faults in the relevant areas, and we can expect next year to see this replicated nationwide. The ongoing initiatives to develop how we put the timetable together will allow it to reflect real operational conditions and contain an appropriate margin for recovery. We will continue to work closely with our industry partners to improve how we deal with incidents and recover service afterwards.

We will maintain our focus on reducing the number of asset failures. But we are now able to do so based on a better understanding of the locations and key assets where a failure will have the most impact. For example, our analysis has confirmed that complex assets such as junctions can have a considerable effect on network performance, and has identified 116 where this has been particularly the case. This has allowed us to focus our effort on refurbishing those junctions, and thereby delivering noticeable improvements. Alongside this, we are also putting in place measures to improve how we inspect and maintain such critical assets and through that ensure that these improvements are sustained.

We already have an integrated control room at Waterloo. In addition, our staff are co-located with train operating company staff at Swindon and Liverpool Street. There are a number of other locations where Network Rail and train operator control centres are in the same building and we are seeking to exploit these opportunities. Further work is progressing on the introduction of the concept of the single network controller for each route and a single duty manager for each station. In the coming year we will build further on this concept. We are reviewing train control and regulation policies and procedures to identify whether further changes could help to prevent or reduce delay. And we will improve our ability to monitor and analyse small delays to better understand their impact upon overall performance.

Controlling the costs

We said last year that we needed to make a step change in bringing down the costs of operating, maintaining and renewing our network, and set ourselves a target for doing so. We have subsequently worked hard to identify opportunities for improvements and efficiency savings and have examined the scope for bringing costs down even faster. The Regulator has concluded that there is a further reduction to be achieved, and we have accepted that challenge. There remains much to do to identify all of the specific savings but it is our responsibility to make that happen.

We have already made significant improvements in cost control through improving internal processes and making clear that all managers are responsible for challenging costs and inefficiency. We have also removed 600 non-operational middle managers as part of moving back to being a more appropriately sized organisation. Further action in 2004/05 will include further development of our Guide to Railway Investment Projects (GRIP), a closer alignment between asset and procurement strategies through the new organisational structure, and further focus on developing e-business solutions.

Taking maintenance in-house will enable us to make initial cost savings through a reduction in overheads. But equally importantly it will give us greater exposure to the cost drivers and inefficiencies within our maintenance processes, and allow us to make the changes needed to address them. At the same time, our new functional structure will reinforce a standardised national approach and benchmarking for all of our activities, including maintenance, to ensure that the efficiencies are being captured and applied consistently across the whole of the network. The reorganisation will also allow us to be more closely aligned with our customers and will enable us to streamline the decision-making processes. Through the creation of a functional organisation, we must develop tighter and more consistent management and engineering decision processes.

We are developing new track renewals contracts to provide for better use of resources, lower overheads and tighter scope control. We are investing in new equipment to enable more efficient delivery, such as prediction and prevention technology, and are identifying improvements in work methods, such as the move to automated ballast cleaning, which should achieve substantial efficiencies. We are implementing delivery planning units and standard blocks to optimise planning of possessions and we are improving the use of engineering access by operating some engineering plant outside possessions, more closely monitoring possession performance and introducing direct contracts with possession managers. The Signalling Development Group has been created to plan large new schemes and drive common practices, effective scoping and prioritisation and economies of scale. The joint telecoms working group has already achieved a substantial increase in efficiency through tighter job scope and specification. We also intend to develop much greater development of standard structures design and specification which should result in reduced reworking of projects.

Making it happen

We can only deliver this Business Plan with the support of our people. They have experienced a period of change and uncertainty, not only as a result of Railtrack's troubles and administration but also the more recent restructuring of the company. But they have risen to the challenge magnificently. It is they, through their dedication and professionalism, who have delivered the improvements described above.

While we need to implement the new structure over the next few months, we will then have a period of stability in which everyone can refocus on driving forward the further improvements we all want to see. But we also need to continue to rebuild staff engagement. The first results of our programme of measuring staff engagement, through the Q12 process, received in April 2003, confirmed that staff morale was low. We have therefore worked to identify and engage with the root causes of this problem and to find ways to rekindle the enthusiasm of our employees. The second round of results, received in February 2003, show a significant improvement. This proves that, although we have a long way to go, it is possible to improve employee engagement through better management throughout the business.

We will continue to build on the improved relationships we have built with the ORR, SRA and HSE. In addition, we will continue to reinforce the need to focus on our customers. Our new functional structure will provide them with single points of contact within Network Rail, simplify day-to-day relationships and provide for more effective joint working and communication.

Conclusion

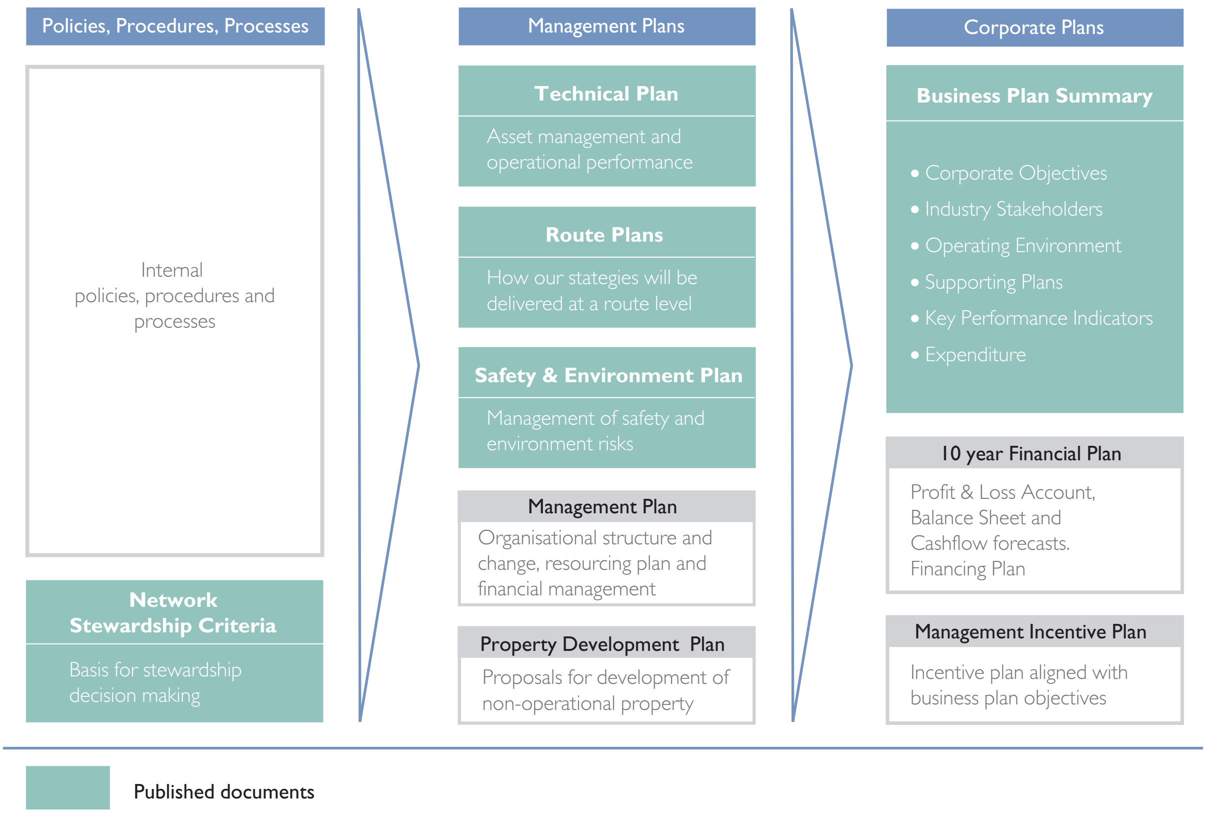
We have made significant steps forward in the last year. Furthermore, we have delivered key improvements at the same time as carrying out fundamental organisational change and participating fully in the interim review. This is a considerable achievement, and is illustrative of our strong commitment to delivering lasting solutions to the problems we faced when we took over the network 18 months ago.

We are developing the building blocks we need to drive forward the substantial improvements which are still required by our customers and other stakeholders. We have stable, clear and increased funding. We will shortly have a fit-for-purpose organisational structure. We will have direct control of the maintenance of our network. We have the support and engagement of our employees and industry partners. And we have the focus on delivery and determination to meet the challenges which face us. This Business Plan sets out how we will continue to do that.

Introduction

This document summarises Network Rail's Business Plan for the period from April 2004 to March 2014, including our corporate objectives and our plans for delivering them. The 2004 Business Plan Summary forms part of a suite of documents which contain our plans, policies and processes, as shown in the figure below. Together with the Technical Plan, the Route Plans and the Financial Plan, the Business Plan Summary fulfils the requirements of Condition 7 of our network licence.

Figure 2 2004 Business Plan – Suite of documents



While the 2004 Business Plan updates the plan published in March 2003, it is also a continuation of the process of revision and refinement which has been carried out over the past year. Our March 2003 plan provided an initial assessment of the activities and expenditure required in the three years to March 2006. It was also our first cost submission into the Regulator's interim review of access charges. We then carried out intensive work to identify the improvements and efficiencies required to deliver the necessary step change in costs and affordability. In doing so, we were able to draw upon the complementary work being carried out by independent consultants as part of the interim review. The initial results of this work were published in our June Business Plan Update, which also set out for the first time our ten-year activity and expenditure projections. A further update, based around three possible scenarios for further changes to our activity plans and the resultant changes to outputs, was published in our September Interim Review Cost Submission.

The 2004 Business Plan builds upon this work. It also reflects the final conclusions of the interim review, published in December 2003, which provide a clearer view of the funding within which our stewardship for the next five years will need to be planned.

This plan does not, however, represent a fully revised view of our plans for the next ten years. We will be working with our customers and funders to develop the comprehensive prioritisation framework needed to allow us to decide how our spending plans should better be optimised. This work could not be completed in time for the publication of this plan, but will be ready in time to provide the basis for a full revision to our plans in March next year.

In the meantime, we have based this Business Plan, as far as is appropriate, on our existing workplans and expenditure forecasts.

Years 1-3 (2004/05 to 2006/07) are based on our work plans, developed through the business planning process. As this is an iterative process, we have been able to ensure that updates to the plan took account of the emerging conclusions from the interim review, in addition to internal and other relevant developments. This has included a final iteration to ensure that the plan is consistent with the delivery of the interim review outputs and other customer commitments in line with the allowed expenditure limits.

Years 4-5 (2007/08 to 2008/09) are projections based on the delivery of the interim review outputs and other customer commitments in line with the allowed expenditure limits. The exception to this is signalling renewals, which will be subject to a further regulatory review to consider whether a revised level of expenditure should be allowed from April 2006. The plan therefore includes projections based on the efficient delivery of the level of signalling renewals activity that we currently believe should be provided for following that review.

Years 6-10 (2009/10 to 2013/14) are assumptions based on analysis which was done during the interim review to produce the Base Plan option in the September Cost Submission with some modifications to ensure consistency with the first five years.

The document is organised into the following sections:

Figure 3 2004 Business Plan – suite of documents

Objectives and responsibilities	Articulates the company's vision, mission and values together with the seven key objectives through which they will be delivered, and how this cascades through to individual responsibilities
Industry stakeholders	Reviews the aspirations of the industry's stakeholders and sets the context for Network Rail's objectives
Operating environment	Discusses the current operating environment and assesses the future factors which shape the plan
Management plans	Summarises supporting management plans, identifying the key issues in each area and the planned actions to address them
Key performance indicators and expenditure	Forecast for the current year and planned outputs and expenditure to March 2014

Objectives and responsibilities

The delivery of a safe, efficient and effective national rail network is the goal of Network Rail as an organisation, and the shared responsibility of all of our people. Everyone, be they engineer or signaller, director or planner, has a key role to play. It is therefore essential that we enable everyone to be clear about both where the organisation is going and what their role is in getting there.

Within Network Rail, as in many large organisations, this clarity is provided through a corporate vision, values and objectives flowing through into team and then individual objectives. This section explains this cascade in further detail.

Vision

Our vision for the railway network is one of engineering and operating excellence, where all contributing individuals and organisations work together to deliver the best possible service to our passenger and freight customers within the prevailing constraints.

This vision is supported by key corporate governance policies. Network Rail is a private sector company, without shareholders but run along commercial lines. The company is managed by a Board of executive and non-executive directors, which reports to and is held accountable by members. Members represent the industry stakeholders and the public. Our primary accountability, however, is to our customers (through access contracts), the Office of the Rail Regulator (economic regulator) and HMRI (safety regulator).

Mission

Our mission is to operate a safe, efficient and reliable rail infrastructure.

Objectives

Our mission has been related to a series of objectives, each of which has measurable outputs as shown in the figure below.

Figure 4 Outputs, objectives and measures

Outputs	Objectives	Measures
Improved safety	Reduced number of accidents	Public Safety Index
Higher service performance	Better punctuality and reliability	Public Performance Measure (PPM)
Increased system capability	Facilitate SRA's Strategic Plan to increase passenger and freight usage	RAB adjustment for passenger and freight volume incentives
Improved relationships with customers and stakeholders	Increased passenger and Freight Operating Company (FOC) 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 Index
Improved business performance	Greater employee engagement	Employee Engagement Measure

Although we are in control of only a proportion of the factors that contribute to the industry-wide objectives relating to safety, performance, capability and relationships, this approach reflects the need to co-ordinate and align the interests of all industry participants in working together towards the delivery of a better service.

Achievement against the objectives is measured through the use of a cascade of key performance indicators (KPIs). This plan sets targets for improvement for each of the next ten years to March 2014.

Numerical targets, together with associated expenditure projections, are set out later in the plan. Appropriate definitions and associated targets are reviewed each year as part of the annual business planning process. Where applicable, Network Rail targets and KPIs are aligned with delivery of our regulatory targets.

Values and behaviours

We have identified the set of values which supports its vision:

- safety;
- 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.

Team and individual objectives

As in most large organisations, corporate objectives and values can seem too high level to be easily related to a person's day-to-day activities. However, it is important that they do relate. We need to ensure that individual roles are focused in a way that enables them to understand the contribution they are making to the achievement of the wider corporate objectives.

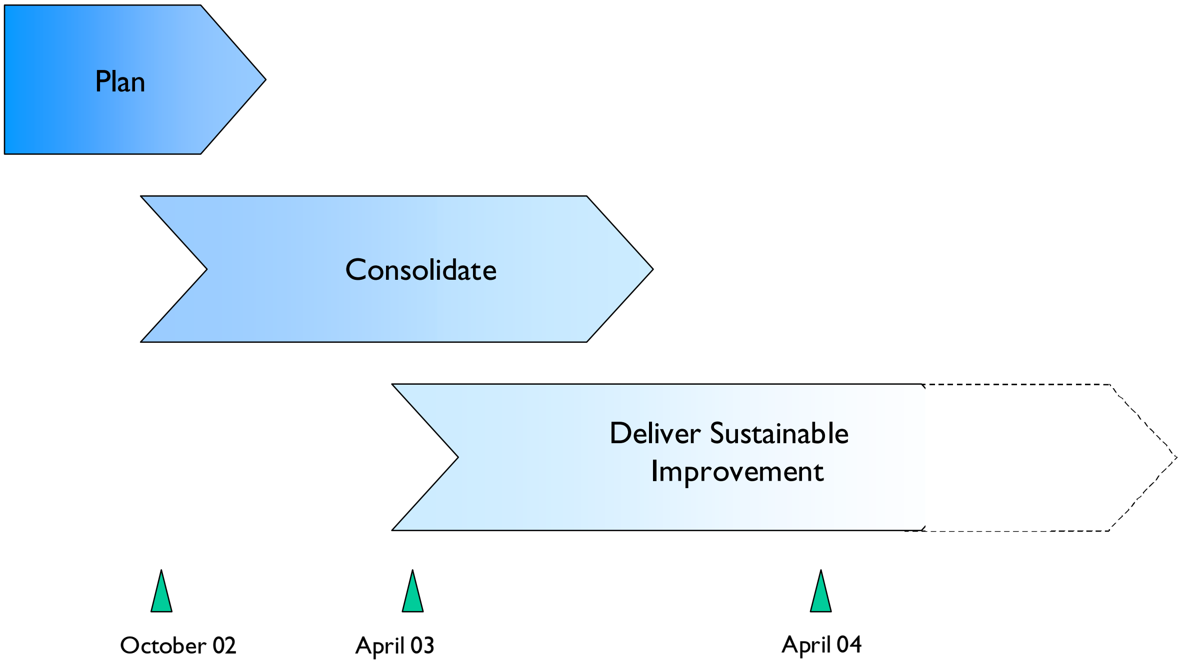
This is done through ensuring that objectives cascade through the company, tailored appropriately for the relevant level. Looking upwards, therefore, any individual will be able to see how he or she contributes to the achievement of their immediate team's objectives, how those relate to those of their wider colleagues and, by following the chain through to the corporate objectives, how they are part of what the company achieves as a whole.

Action plans

Since becoming responsible for the national rail network, we have been undertaking a series of action plans to deliver the improvements to which we have committed. In our 2003 plan, we reported that all these actions plans had been initiated and that, while most of these actions plans were planned to be completed within 18 months, it would take three to five years to achieve a sustainable level of efficiency and performance.

The relevant stages in the transformation programme are shown below. Most of the "plan" stage was completed before acquisition and this has been "consolidated" over the last 18 months. We are now delivering sustainable improvements as a result of these action plans.

Figure 5 Stages of transformation programme



The action plans have already delivered significant benefits to the business by enhancing our understanding of the issues we face and improving the tools and processes available to address them. Key achievements have included:

- improvements to our organisational structure and culture, including the implementation of the standard regional template and the design of the new functional structure;
- a thorough review of our safety management system and our company standard frameworks, leading to improvements in how we manage and deliver safety on the network;
- establishment of joint boards, involving Network Rail and our customers and funders at a route level, as more effective vehicles for engagement and communication with our stakeholders;
- stronger financial control, including the introduction of improved investment appraisal processes and the establishment of a framework for collation and monitoring of unit costs; and
- development of our asset management strategies, including one for the further enhancement and use of decision support tools.

Of the 33 action plans which were adopted, 26 have reached or are now drawing to a natural conclusion. Of these:

- 11 have been successfully closed out;
- 15 are currently drawing to a close, and will be closed out once the activities have been completed or transferred to the new functional structure; and
- 4 were closed out early, without completing the original remit, due to changes in circumstances. The reasons for early closure include duplication with established and effective initiatives (e.g. maintenance quick wins and changes to the performance regimes); limited industry support (e.g. creation of Regional Councils); and changes in policy (e.g. replacement of the New Maintenance Programme by full internalisation of maintenance).

Before any action plan can be closed down, the plan owner and responsible director must complete a close-out report documenting its achievements, the actions which have been taken to build upon and drive them forward; and any outstanding issues and further work required. This process ensures that the necessary arrangements have been made to embed the benefits from an action plan within the normal operation of the business and thereby deliver sustainable improvements.

Progress monitoring

Progress towards delivering the outputs and objectives is reported using a number of internal KPIs on a periodic basis, usually four-weekly. Thorough business reviews with operating units, led by the Deputy Chief Executive, are held four-weekly and the Chief Executive leads quarterly reviews of all business units. This process is an essential part of the drive for continuous improvement in cost control, reliability, asset stewardship and customer focus.

This ongoing review process shapes both remedial actions and the following year's Business Plan. In addition, annual performance is reviewed in the Annual Report in May and the Annual Return to the Regulator in July.

Management Incentive Plan

To support delivery of the plan, our Management Incentive Plan is aligned with relevant targets for the business. This focuses in particular on three KPIs relating to financial efficiency, reliability and asset stewardship. Where appropriate these KPIs are applied at a local level and, for the first time, we have established a long term element of the plan which is designed to incentivise sustained improvements in the business.

The plan is developed by the Remuneration Committee who retain the discretion to reduce the payments made to executive directors and senior executives, notwithstanding awards becoming payable against the Management Incentive Plan, if it considers general business performance is not appropriate. In accordance with Condition 28 of our network licence, we publish a statement summarising the principles underlying the Management Incentive Plan.

Industry stakeholders

Introduction

Transport demand has increased rapidly over the last ten years. Rail passenger kilometres increased by 30% from 1995/96 to 2000/01. Whilst growth has been slower since 2000/01, demand is expected to rise from around 40 billion passenger kilometres per annum in 2003/04 to around 53 billion per annum over the next 10 years. Over the same period, freight demand is assumed to rise from 19 billion to 24 billion net tonne kilometres per annum.

Key influences on future passenger demand are:

- economic growth – despite a recent slowdown, the Treasury predicts steady economic growth over the next decade. This is expected to generate additional demand for commuting and business travel as employment and business activity increase, and for leisure travel as disposable incomes grow;
- punctuality – which affects rail's attractiveness against other modes;
- increasing road congestion and road pricing – which are expected to improve rail's competitive position in its major markets; and
- competition from the aviation market – which has seen significant decreases in short haul fares during recent years. However, air competition is largely restricted to a small number of routes and does not have an impact on the core medium distance and suburban passenger markets.

The demand for rail freight is driven not only by economic conditions, but also by rail's capacity and its competitive position with road. The reliability of road versus rail and variations in the road transport cost base therefore have a significant impact on freight traffic levels. The freight growth forecasts assume changing patterns in coal traffic, further recovery in the Channel Tunnel market and a significant growth in construction materials and non-bulk traffic.

This section reviews the aspirations of Network Rail's stakeholders and sets in context our plans to deliver key industry and stakeholder objectives. Key stakeholders include:

- the Strategic Rail Authority (SRA) and the Government;
- the Office of the Rail Regulator (ORR);
- safety regulators including Her Majesty's Railway Inspectorate (HMRI);
- Train Operating Companies (TOCs) and passengers;
- Freight Operating Companies (FOCs) and freight users;
- regional and local agencies;
- members;
- the European Union;
- contractors and suppliers;
- the labour market;
- developers and landowners; and
- lenders.

All of these stakeholders have an important role to play in influencing the future direction of the company. In particular, Network Rail has to comply with its statutory, regulatory and contractual obligations.

Our future relationship with our stakeholders may also be affected by any changes resulting from the rail review announced by the Secretary of State for Transport on 19 January 2004. This work, which is due to conclude in the summer, will look at changes to improve rail performance; the potential for greater devolution of decision making to the Scottish Executive, the Welsh Assembly Government and PTEs; and the regulation of safety. However, the Secretary of State has confirmed that the review will build on the progress made as a result of the creation of Network Rail and that the principle of public-private partnership is right for the railways. We have welcomed this review and will seek to participate constructively by putting forward our own proposals in due course.

SRA and Government

The Government's Ten Year Transport Plan, as subsequently amplified through the SRA's Strategic Plan, sets out its objectives for the industry. The SRA is Network Rail's major funder, either directly (through grants) or indirectly (through access charges paid by operators which are subsidised by the SRA). However, the balance between access charges and grants does not affect our accountability to our customers or the Regulator since these grants are unconditional.

The SRA is also responsible for:

- providing strategic direction and leadership to the railway industry;
- letting and managing passenger franchises and freight grants;
- developing and sponsoring major infrastructure projects; and
- some aspects of customer protection.

The SRA has emphasised that its role as funder and strategic specifier goes hand-in-hand with private sector management and risk taking and that Network Rail operates at arm's length from the SRA under an incentive scheme designed to reflect private sector practices. The announcement of the rail review referred to above has highlighted the need to adopt an iterative approach to determining the outputs which Government wants to buy from the railway taking account of the efficient cost of those outputs.

The SRA Strategic Plan outlines its goals over a 10-year period:

- growth in passenger and freight traffic;
- reducing overcrowding on services within the London area to meet standards set by the SRA; and
- improving performance, in the form of train service punctuality and reliability.

Network Rail plays a key role in this, with our contribution quantified by the KPIs outlined later in the plan.

The Strategic Plan is normally updated in the January of each year, but will be published later in 2004 to allow it to align with and reflect the outcome of the Government's comprehensive spending review. This plan therefore takes account of the SRA's 2003 Plan, and also of discussions with the SRA in the course of the last year.

Office of the Rail Regulator

The Office of the Rail Regulator (ORR) is Network Rail's economic regulator. It is responsible for ensuring fair and equitable treatment, and for protecting the public interest in holding us to account for our performance and stewardship of the network. It is required to determine Network Rail's income for meeting the reasonable requirements of customers and funders. ORR has stressed that it is not its job to micro-manage the business or to determine the individual asset strategies we should pursue since these are matters for us to decide upon within a clear, robust and predictable regulatory framework.

Following the conclusion of the interim review, our focus will be on delivery and improving how we address our customers' reasonable requirements. By being successful in these areas we should fulfil our obligations to the Regulator. We will continue to work closely with ORR to ensure that our position is clear and understood and that decisions are taken which are appropriate for the industry as a whole. We will also begin to work with the ORR to prepare for the further reviews, such as that for signalling renewal expenditure, which the Regulator has indicated will take place within the new control period.

In July 2004, the ORR will become the Office for Rail Regulation, in line with the Government's wider policy of introducing board structures for economic regulation. This will not affect either the independence or the jurisdiction of the ORR, and we look forward to working constructively with the new board. The Secretary of State has also confirmed that independent economic regulation will be central to Government proposals from the current rail review.

Safety regulators

Network Rail is regulated for safety purposes by the Health and Safety Executive, through Her Majesty's Railway Inspectorate (HMRI), to secure the proper control of risks to the health and safety of employees, passengers and others who might be affected by the operation of the railway.

Specific areas targeted by HMRI for improvement over the next three years include:

- following installation of the regulated Train Protection and Warning System (TPWS) equipment, to continue to reduce the number of signals passed at danger through the installation of TPWS+ to provide additional protection for trains travelling up to 100 mph;
- improvements to the arrangements for managing contractors and reducing the risks to workers from trackside working;
- prevention of vandalism, tackling the widespread problem of trespassing and reducing the numbers of assaults on rail workers; and
- improvements to recognition and understanding of occupational health issues.

Network Rail will continue to respond to the following regulatory structural issues:

- Health and Safety Executive discussion document entitled "Safety on the Railways – Shaping the Future";
- emerging European legislation; and
- the Secretary of State's review of the industry and regulatory structure.

The Railway Group Safety Plan is an annually reviewed over-arching industry plan and Network Rail therefore makes a significant contribution towards its delivery.

The 2003/04 and 2004/5 plans aim to achieve objectives across five key areas:

- risk management;
- catastrophic risk;
- passenger safety and security;
- public safety; and
- workforce safety.

Train Operating Companies and passengers

Our customers' needs are clearly key to our business.

Optimising capacity usage is a challenge, especially when attempting to reconcile different needs and operating patterns. Passenger operators require regular and reliable timetabled services, while freight operators want maximum timetable flexibility in order reliably to meet their customers' requirements. In addition, greater volumes of maintenance and renewal activity are increasing pressure for engineering access to maintain the network. A balance must be struck between these competing needs, through better planning, enhanced co-operation and improved asset management. Area delivery groups and joint boards (for route level discussions) will continue to play an important part in achieving the required balance through cooperation, discussion and resolution of issues, and the sharing of best practice.

To achieve the required improvements in performance we will need to manage the operation of the network more proactively through integrated control centres. The benefits of this are already visible and we expect to take this further with our customers over the next year.

The nature of our customers' franchise agreements with the SRA is evolving, with some consolidation in the number of franchisees who will generally take fewer risks and have relatively short franchises. However, because of their direct relationship with the travelling public, TOCs are still well placed to identify and advise on ways in which we can improve the travelling experience. We therefore need to improve our responsiveness to the reasonable requirements of our customers.

Model access contracts, provided by the ORR, are intended to strengthen, streamline and simplify access contracts and to align incentives. The Regulator is also consulting on proposals to reform the stations' code in order to clarify and simplify the existing arrangements, and we are discussing alternative arrangements. As a result of these initiatives, both we and the operators will have a much clearer joint understanding of their contribution to delivering an improved railway service to passengers. In particular, local output commitments will increase our accountability to customers for the reliability of our infrastructure.

Freight Operating Companies and users

Freight operators require maximum timetable flexibility, with high reliability levels, in order to meet their customers' needs for sophisticated 'just-in-time' operations, essential if rail is to compete with the road freight sector. Demand patterns will be driven by cost, the level of SRA subsidy and the level and pattern of imports.

Changes in freight traffic patterns can have a significant impact on maintenance and renewals activity because of their relatively high axle-loads. Understanding and anticipating our customers' needs is therefore essential to effective management of the network.

Regional and local agencies

By meeting the reasonable requirements of regional and local agencies we have a key role in helping them to meet regional and local economic, environmental or transport aspirations. These stakeholders are potential partners for development projects, where joint sources of funding can be applied towards the delivery of integration and economic regeneration objectives, and where we can act as a catalyst for improvements. Progress is being made on streamlining the contractual arrangements and other processes for defining and delivering works which these parties wish to fund.

Members

Network Rail has no shareholders and pays no dividends. Instead, we have members and reinvest any operating surplus in the rail network.

Our membership comprises

- 83 public members, chosen by an independent Membership Selection Panel from over 1200 applicants following a national advertising campaign;
- 30 industry members, who are representatives of rail licence holders, the companies that operate train services on our infrastructure; and
- a member appointed by the SRA.

The role of members and their powers are clearly defined. Overall, their position is similar to that of shareholders in a PLC but, because Network Rail is a company limited by guarantee, they do not receive dividends and have no economic interest in the performance of the company. The primary role of members is to hold the board accountable for the governance of the company.

European Union

European legislation is increasingly defining the standards that apply to the network. The EU Directive on High Speed, and the associated High Speed Technical Specifications for Interoperability (TSI) came into domestic law in 2002. These define additional requirements for new high speed trains and for upgrades to the fast lines on the West Coast, East Coast, Great Western and Channel Tunnel Rail Link. A further EU Directive on Conventional Interoperability is expected to come into domestic law in 2005. It encompasses all rail vehicles and just over half of the rail network.

Further proposed legislation, the 2nd Railway Package, currently working its way through Brussels will, as currently drafted, extend the scope of interoperability to embrace renewals on high speed lines and the remainder of the network. This is expected to become EU law during 2004 and to be factored into UK law two years later. The SRA is leading a programme of work to evaluate the effects of the proposed specifications for conventional interoperability, and to form a view on the most appropriate stance to take in leading the industry input to the development of the standards.

The 2nd Railway Package will also contain legislation covering Rail Safety Regulations, the establishment of a European Rail Agency, further opening up of the domestic freight market, and a recommendation for the EC to become a party to the Convention concerning International Carriage by Rail (COTIF). A 3rd Railway Package was announced in March covering the areas of train driver licensing, passenger and freight compensation, and international passenger train liberalisation. In addition to these packages consultation is taking place in the UK on changes to the COTIF regulations.

Some of the proposed changes could have very significant implications for the cost of the railway in the United Kingdom.

Contractors and suppliers

The decision to take maintenance work in house has changed Network Rail's relationship with the supply market. The transition programme is designed for smooth and well managed handover of responsibilities; in particular, the need successfully to transfer key skills, knowledge and equipment from the existing infrastructure maintenance contractors. Once achieved, we can address the issues of securing the most cost effective and efficient services for maintenance work.

We remain committed to using third party suppliers for rail renewals contracts and other specialist maintenance functions as there is a competitive supply market for this category of work. There may also be synergies that make the combination of maintenance with renewals work more cost effective.

We will continue to work closely with our supply chain to improve efficiency. Effective and equitable arrangements will be essential if we are to maximise market capacity and secure cost-effective services. This is a particular challenge in the key niche markets of track renewals and signalling design and equipment with a relatively small number of suppliers. Barriers to entry into the rail market are high, and despite substantial growth in activity levels, only two significant suppliers in track renewals have entered the market since privatisation. The market for civil engineering and building work on the network is open to a much larger pool of suppliers, but still demands some skills and techniques specific to the railway environment.

Suppliers have not been able to invest consistently in the plant and human resources necessary to improve efficiency of delivery due largely to the absence of clarity on long-term workload. Whilst this plan addresses these needs to some extent, significant external strategic decisions are required before the industry can proceed with reasonable certainty.

In the case of materials suppliers, significant work has been done to negotiate framework contracts, resulting in high volume materials such as ballast, sleepers and rail being purchased nationally and issued to the contractors. There is a short-term risk that these arrangements, made to secure value, may preclude innovation or the ability to negotiate with alternative suppliers, but the risk is largely outweighed by the commercial benefits.

Supply contracts are being rolled out for spares, consumables and services to support in-house maintenance. Initial arrangements are based on existing approaches but these will be replaced by our own contracts as the new organisation takes shape and becomes capable of delivering the change.

Labour market

The rail industry is, and will continue to be, a constrained labour market, due to the specialist nature of the skills and competencies required to work on the operational infrastructure. With the key exception of safety competence, the industry has been heavily reliant on development through experience, rather than structured training. Delivery resources in the industry divide broadly into signallers and engineers. The former are exclusively employed by Network Rail. As maintenance is brought in-house, we will also become a major engineering employer. A constructive working relationship with the rail unions will be necessary if we are to be able to deliver the required improvements in reliability, efficiency and affordability.

At privatisation, engineers were split between approximately 15 employers. Since then, there has been only a modest level of recruitment at junior level, and the skill shortage and wage inflation has been exacerbated by a proliferation of small and medium-sized competitors who have grown by recruitment rather than training, resulting in a sellers' market for railway technical skills. A further significant cause of skill shortage has been the lack of workload certainty, which has prevented investment in staff and caused a major increase in the casual workforce.

For maintenance, the transfer of employees from our contractors to Network Rail will allow us to provide the necessary stability and investment to further develop a permanent skilled workforce. Building on this, our long-term commitment to training includes the creation of eight training schools dedicated to maintenance skills. We will also continue to work to address the issues affecting the wider rail sector. Key initiatives which are already successfully in progress include recruiting engineers from other industries, such as highway engineering, and providing them with appropriate skills through conversion programmes, and increasing the intake of graduate engineers. We are also establishing two new signaller training schools, which will use world leading signalling simulation and teaching aids. However, attracting and retaining non-rail specific employees will continue to be a challenge in the context of current media and public perception of the railway.

Developers and landowners

Developers and adjoining landowners provide opportunities to exploit the network portfolio and their desire to do so will be driven by the economic and environmental factors and the quality of our relationship with them. At the same time, however, they have the ability to frustrate or enable successful developments, for example, at stations. Understanding who they are, and how they can be persuaded to participate in a manner which will release optimum value at minimal risk to Network Rail, is a key objective. It is important not only to encourage these parties to bring forward proposals but also to negotiate terms, financial and non-financial to best advantage. A reputation for being "firm but fair" will be essential if the market is to take us seriously.

Lenders

Our lenders will require evidence of improved financial control, through more efficient delivery and more robust financial management. This requirement relates both to Network Rail directly and the rail industry as a whole, where enhanced value for passengers and freight companies is essential. Following the conclusion of the interim review, we are working to secure the additional debt financing required to deliver stakeholders' objectives over the medium to long term.

Operating environment

Introduction

Substantial progress has been made in the last 12 months, although the national rail network continues to perform below the level expected of it. Performance is better, but remains well below pre-Hatfield levels. Costs are being challenged, but the interim review has confirmed that they need to be reduced much further. And while the safety record of the railways continues to improve, we need to do more to rebuild the confidence of the travelling public.

We also face continuing growth in passenger and freight demand. Passenger journeys in 2003 rose to nearly 1 billion, whilst freight traffic is also expected to continue to rise. There continues to be a tension between accommodating this growing demand, undertaking the necessary amount of work on the network and improving network capability and performance.

Our role as infrastructure controller, and how we fulfil it, continues to evolve. Taking direct control of maintenance is a major change, but one which will bring significant benefits. We aim to work more closely with our customers to achieve performance improvements through integrated network control. We will continue to work closely with our customers, our regulators and our other stakeholders in other areas to develop shared solutions to industry issues. Our customer focus will be further enhanced by our new company structure.

This section reviews the current operating environment in relation to each of the corporate objectives, including our performance over the past year, and assesses the future factors which will guide and constrain the way we develop the business to meet our obligations and responsibilities. Definitions for all of the KPIs are given at the end of this plan.

Safety

At the end of 2003/04, overall safety performance across the network has shown an encouraging improvement with the number of incidents classified by the HSE as significant train accidents revealing a historic low. In addition, no passenger was killed in a train movement accident during the year and many of the precursor events that could lead to a serious incident also showed improvement. In particular, reductions have been recorded in the number of Category A Signals Passed at Danger, broken rails, collisions at level crossings and passenger train collisions.

In September 2001 HSE published the Part 2 report of Lord Cullen's Ladbroke Grove Rail Inquiry. In his report Lord Cullen considered the management of safety and the regulatory structure. In particular, the report recommended:

- the need for change in safety culture, management and leadership across the industry (including the management of contractors);
- that HSE should remain the safety regulator;
- the setting up of a new Rail Safety and Standards Board (RSSB) to undertake the development of railway standards, provide safety leadership in the industry, sponsor research and development and several other functions;
- the setting up of a new rail accident investigation body (RAIB) to carry out 'no blame' investigations to determine the causes of rail incidents (HSE will continue to investigate for enforcement purposes);

- a new system of accreditation for contractors and suppliers; and
- new arrangements for the licensing of drivers and signallers.

These recommendations have all moved forward with the RSSB being set up in April 2003 and the new RAIB now scheduled for being operative from January 2005.

The emerging European legislation and regulations is starting to have an impact on standards with the emergence of TSIs, the High Speed and Conventional Interoperability Regulations, and the European drive for driver licensing. There is an increasing move towards common standards set at an EU level, and this is expected to have a significant impact upon our future stewardship of the network.

As shown in the table below, we have delivered an improvement in the overall safety of the rail network and are forecast to exceed our safety KPI target.

Figure 6 Improved safety

KPI	02/03 (actual)	03/04 (target)	03/04 (forecast)
Public safety index	0.46	0.45	0.49

As at the end of period 12, there were 219 people fatally injured on Britain's railways during 2003/04. Of these, 50 were killed trespassing, six were railway employees, six were passengers and 157 other members of the public (including suicides). In the past year there have been no major train accidents. However, major train crashes have occurred approximately every two years, which represents a small percentage of the 80 million train movements each year. Rail travel continues to remain a much safer means of travel than the private car (about six times as safe).

Train performance

Performance has continued to improve, with a forecasted total of 13.7 million delay minutes attributed to Network Rail for 2003/04. This includes approximately 250,000 additional minutes as a result of the extreme summer heat and 36,000 minutes as a result of the London power outages. Network Rail is currently responsible for nearly half of all delays.

As is shown in the table below, while this does not meet our target level, this is an improvement of over 1 million minutes compared to last year. Our principal performance target – the public performance measure – is forecast to be 81.1 per cent. While we have made improvements, the level of delay remains higher than the pre-Hatfield level of around 8 million (which, allowing for growth, translates to a current equivalent of 8.3 million minutes). Furthermore, the improvement masks proportionately greater delays on certain routes and in certain TOC operating areas, which we will need to address while driving forward further network-wide improvements.

Figure 7 Higher performance

KPI	02/03 (actual)	03/04 (target)	03/04 (forecast)
Public Performance Measure (PPM)	79.2%	81.7%	81.1%
Train delay minutes (000 mins)	14,717	13,250	13,700

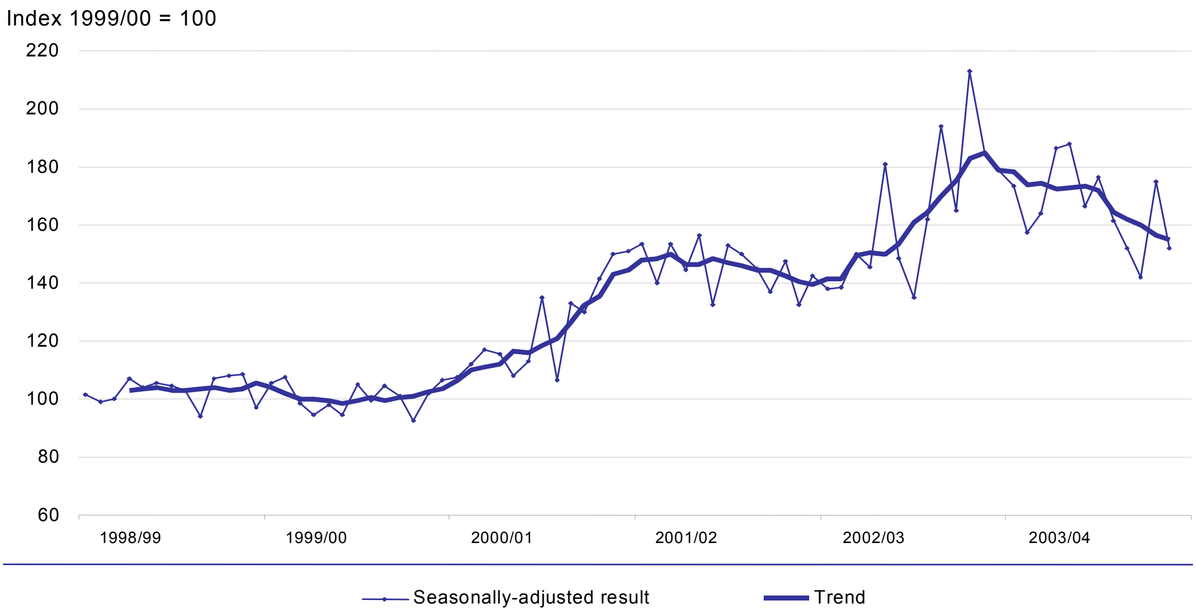
A significant issue in improving performance continues to be tackling delay per incident (DPI). While the number of infrastructure failures has remained fairly static in recent years, the average amount of delay caused by each incident has grown considerably, albeit with a significant reduction over the last 12 months. It is this increase in DPI that lies behind much of the recent deterioration in performance, and it will therefore be important to deliver substantial further improvements.

The increase in DPI was due to a number of factors, including changes in driving styles, safety standards and contractor times to respond to and fix faults. These changes have been compounded by timetables which in some cases are not achievable in practice and by weaknesses in the cross-industry capability efficiently to restore service following disruptive incidents. Not all of these factors are within the direct control of Network Rail and, while we will continue to give a lead to the industry in finding solutions to these wider issues, we will ultimately carry some risk that our industry partners will not be able to deliver improvements at the rate we would wish to see.

Network congestion also continues to be a contributory factor. Some steps have been taken to address this, with the SRA reviewing train patterns and withdrawing or adjusting services where doing so would have a beneficial effect on capacity and performance. But there continue to be a number of bottlenecks around the network where a small delay to one train can have a significant knock-on effect. In such cases, there is a limit to what can be done further to improve performance within the existing constraints, and consideration will need to be given to whether to run fewer services or to upgrade the infrastructure.

Although more needs to be done, the diagram below demonstrates that sustained reductions in DPI are now being achieved for the first time since Hatfield.

Figure 8 Delay per incident in non-track asset failure categories



Network capability

We have delivered an improvement in the overall capability of the rail network and have achieved our network capability KPI target. The improvement in capability (i.e. the number of train paths) is reflected in the measures used by the Regulator to adjust our Regulatory Asset Base (RAB).

Some information is available on the theoretical capacity and practical availability of the network to accommodate the traffic demand placed upon it. Work to improve this is being taken forward through the development of a forward capacity plan. An initial version of this plan has been compiled and includes details of all access rights sold (or expected to be sold) to train operators, expected access requirements for engineering and stewardship works, details of the available network capacity and constraints on its use. However, the consistency of information relating to these constraints, such as route availability, loading gauge and electric traction power supply remains variable. Work is continuing to improve the level of detailed information included in the forward capacity plan and to improve our understanding of synergies and potential conflicts between the individual access requirements contained within it.

Similarly, further work is required to improve the information we hold in relation to rolling stock, including its current condition and capability. Consequently, the provision of a timely response to requests for new train services, particularly where vehicles are proposed for introduction on new routes, is slow and may not adequately assess the impact of such new services on other outputs such as performance.

Work to improve network capability continues to be carried out through enhancement and development schemes. We will continue to work with the SRA and stakeholders to explore possible capability upgrades. However, the current financial position of the principal funder for such works, the SRA, suggests that fewer new projects are likely to be developed over the next few years than had previously been anticipated.

It is therefore essential that the industry continues to develop its understanding of and ability to work effectively within the existing network capability. To this end we will need to continue to develop our route planning capabilities and to work closely with the SRA to develop Route Utilisation Strategies.

Customers and stakeholders

The KPI target set for the average number of passenger complaints per 100,000 passenger journeys in 2003/04 was based upon a forecast level for 2002/03 of 130 (which in turn reflects the trend in complaints at that time) and was therefore intended to signify an improvement. Our performance against our own KPI target for 2003/04 is therefore less significant than our being set to deliver a reduction in the number of complaints from last year's total. Given this discrepancy between forecast and actual performance, we will review our future KPI targets to ensure that they represent a realistic and challenging level of improvement.

Figure 9 Improved customer and stakeholder relationships

KPI	02/03 (actual)	03/04 (target)	03/04 (forecast)
Passenger complaints (per 100,000 passenger journeys)	115	120	108

We have taken steps to develop closer and better-aligned working relationships with the train operators as our principal customers. The need to serve our customers more effectively has been a key driver of the new functional organisation which will be implemented this year. The new organisational structure has been devised to provide the best fit with the businesses of our customers and to minimise the number of area boundaries over which our customers operate. We have created joint control centres in Great Western and Wessex, with staff from Network Rail and the local train operator co-located in the same facilities, allowing us to work more closely with operators in optimising the real time operation of the rail network. We plan to establish more joint controls in future, and hope that they lead to fully integrated controls in due course. We have been preparing the local output commitments for franchised passenger train operators by improving the robustness of the performance plans for the forthcoming year and consulting customers on the plans that underpin the national performance target. We will continue to build upon the improved relationships and will in particular be closely involving our customers and key stakeholders in the development of our new prioritisation framework.

Our relationship with the ORR and SRA has continued to improve, particularly through the transparent process adopted throughout the interim review. We will need to build further upon this in dealing with the issues identified in ORR's business plan. Although we recognise the need for continued constructive engagement, the arrangements going forward will need to be less intensive than those adopted for the interim review, as we focus on delivering day-to-day improvements.

Our relationships with wider stakeholders, such as PTEs and devolved administrations, are likely to be affected by the outcome of the Government's review of the rail structure, announced in January by the Secretary of State for Transport. It will be important to engage with the review to ensure that the implications of any potential changes for Network Rail are understood both by ourselves and by Government.

We have also taken steps to improve how we work with the wider community. This includes, for example, the introduction of the "man-in-a-van initiative", which was launched in April 2003 in several areas across the country and has gradually been rolled out nationally. This initiative is designed to allow the company to respond quickly to off-track issues raised by the public, such as cutting back lineside shrubs which have overgrown into neighbouring gardens, minor fencing repairs, and litter and fly tipping clearance.

Financial management processes

The financial efficiency index (FEI) is a measure of how efficiently we spend on the operations, maintenance and renewal of the network, normalised to take account of any changes in outputs. As efficiency improves, we should be spending less to deliver the same outputs and therefore our FEI score which reflects total expenditure should reduce. However, because the calculation of the FEI (and particularly the normalisation) is linked to the structure of the organisation, any structural changes within the company may be reflected in the specification of the index. For example, the normalisation is currently based on regional expenditure, but will in future be changed to reflect the introduction of the functional structure. This means that, for this particular KPI, comparison of performance between years will be more complex.

As shown in the table below, our financial efficiency index is forecast to improve against target for 2003/04.

Figure 10 Improved financial efficiency

KPI	03/04 (target)	03/04 (forecast)
Financial efficiency index	2,608	2,429

The conclusions of the interim review have reconfirmed the need for significant reductions in the cost of operating, maintaining and renewing the railways. There is now a challenge for us to manage the railway and deliver the outputs and improvements required of us within the funding which is available. Furthermore, the robustness and credibility of our plans are central to our ability to raise additional finance.

Major steps have already been taken to improve cost control and financial management. The establishment of monthly business reviews and of revised delegated authorities have allowed management to take closer control of expenditure plans. This, together with new processes such as the Guide to Railway Investment Projects, has in turn helped to reintroduce the discipline across the business of challenging costs and ensuring that planned activities provide value and support company objectives. We will continue to develop a culture of rigorous cost control throughout the company, with the aim of being able to provide greater autonomy of decision-making. But we will also make sure that people are encouraged to propose investment where that will deliver cost-effective improvements, such as reductions in train delays, which provide benefits for the company and for the industry as a whole.

Further work will be required to develop our unit cost framework and ensure that we are able to understand our cost base and benchmark and monitor our performance in controlling it. High-level unit cost comparators are already in place for track renewals, structures, signalling, electrification and plant and some maintenance activities, allowing us to collect and monitor cost data for those assets. Similar comparators need to be finalised for other asset categories, and work is needed to develop more detailed frameworks across the company. Work is also required to improve our data collection processes and, through that, consistency of data quality. Further work is also required to ensure transparency of our cost base, building upon the work which has been done through our new track renewal contracts.

In addition, it will remain important to optimise revenue from our commercial properties, whilst ensuring that decisions remain consistent with the safe, efficient and reliable operation of the network. However, this will be a challenge in the current downturned property market. Furthermore, the more saleable properties which are not required for the operational railway have already been disposed of and income from that source is therefore dependent upon being able to sell more difficult and less attractive sites.

Asset stewardship

The asset stewardship index is an index which reflects the overall status of a number of contributory indicators, including broken rails, signal failures and temporary speed restrictions, of the condition of the rail network. An improvement in asset stewardship is reflected by a reduction in the score against the index. As shown in the table below, our current forecast using this index indicates that we have delivered an improvement in the overall condition of the rail network and should meet or exceed our target. This is a significant achievement given difficulties (and potential underperformance) earlier in the year due to the high temperatures, which contributed to an increase in track and signalling infrastructure faults during the summer. In addition, a shortfall in planned stoneblowing activities, due to both a shortage of machine crews and to all machines being taken out of service for modifications, had affected track quality (which contributes to the index).

Figure 11 Improved asset stewardship

KPI	02/03 (actual)	03/04 (target)	03/04 (forecast)
Asset stewardship index	0.98	0.96	0.92

The funding allowed to us through the interim review will, in principle, enable us to further increase the level of maintenance and renewals carried out on the network, thereby starting to address the backlog described in the previous Business Plan and to meet the required outputs.

However, delivering the outputs within the available funding will only be possible if we are able to achieve the challenging efficiency profile contained within the Regulator's conclusions. While we have identified, and are working to achieve, a range of specific efficiencies, we do not yet have a full programme which would allow us to achieve the required level of savings. Any shortfall in delivering the efficiencies would need to be addressed either through increased borrowing or a reduction in activity levels, and would in either case expose the company to additional risk.

Improvements are also required as to how we optimise our use of the available resources. At present, policies are in place to govern the prioritisation of workplans for individual assets. We do not, however, possess a properly developed and consistently applied framework for prioritising between asset categories or between routes. As a result, such prioritisation decisions are currently taken on the basis of an informed (but not quantified) understanding and balancing of the factors which impact upon network stewardship. As discussed earlier in this document, work is underway to develop a network-wide prioritisation framework to address this. Constructing such a framework will be a challenging task, but must be completed in time for it to feed into development of the 2005 Business Plan. Further work will also be required to expand our range of decision support tools and to continue to develop and refine existing ones. In addition, we need to continue to improve our management of our supply chain, to ensure both that our work plans reflect the available skills and resources and to allow our suppliers to plan to meet our needs.

For maintenance, we will need successfully to complete the transfer in-house. The principal risks, which are being actively managed, include ensuring that key people and skills are retained and transferred from their current employers and ensuring that the transfer does not have an adverse effect upon train performance. We will also need to keep our maintenance policies and processes under review to ensure that we maximise the opportunities for efficient delivery.

While asset knowledge has continued to improve, we need to build a fuller picture of asset performance and condition to inform our maintenance and renewal decisions. Our experience in areas where maintenance has come back in-house is that direct access to the network by Network Rail employees is allowing greater progress to be made, but is also illustrating that the asset information held about those areas prior to transfer is less reliable than had been thought.

The relatively limited availability of access for maintenance and renewal work continues to place constraints on efficiency. The greater use of longer possessions has the potential to deliver considerable efficiency benefits, but is not practicable within the current contractual framework and will require greater industry support if it is to be achievable. Alongside this, further improvements will be required to optimise work within possessions and within the existing timetable.

Business performance

The first results of our Q12 survey were received in April 2003, after the publication of the 2003 Business Plan, and it is therefore not possible to directly compare levels of employee engagement between the current and previous years. Comparison between those first results and the second set received in January 2004 show an improvement in the level of engagement across the company and that employees share a widespread commitment to delivering quality work. As measured through Q12, staff engagement has risen in all of the areas covered by Q12 and we have achieved a higher overall response rate.

The progress which has been made in the last 12 months is encouraging. This proves that it is possible to improve employee engagement through better management throughout the business. However, as reflected in the table below, engagement remains below our target level and lower than should be achieved by a well-performing business. Furthermore, there are significant disparities between the levels of engagement and satisfaction of different teams. It is essential that Network Rail continues to improve and becomes a world class organisation consistently reaching the levels achieved by high performing companies. We will therefore continue to require a tight focus across all managers within the company on understanding satisfaction and engagement issues within their teams and on identifying and following through consistently the actions needed to address them.

Figure 12 Improved business performance

KPI	02/03 (actual)	03/04 (target)	03/04 (forecast)
Employee engagement	n/m	3.4	3.45

Management plans

Management plan

Introduction

In October 2002, Network Rail launched a major corporate change programme involving 33 specific action plans that would be implemented over the following 18 months. Most of these would be executed completely, with the expectation that the changes would be embedded within the "day job" of the organisation quickly. Most of these have been successfully completed; a few have been modified to take account of the wider-changes, such as the decision to internalise the entire outsourced maintenance operation.

Now that these changes have been made, the next wave of corporate change is being implemented. All changes are designed to achieve our goal of becoming a high performing, efficient and customer-focused organisation. The size of the challenge remains immense, but the success of the implementation of the first wave of changes proves that this company can accommodate significant change and still deliver improvements in performance, cost control and asset stewardship.

The main thrust of the next wave of the change programme is:

- corporate governance;
- organisational development;
- cultural transformation;
- performance management;
- developing our people; and
- effective communication.

Corporate governance and controls

The main planks of corporate governance were established at the creation of Network Rail and were ratified by the Extraordinary General Meeting with the Members in December 2002. Since then, we have continued with the programme of regular meetings with the Members around the country, as well as having a successful Annual General Meeting in Glasgow on 23 July 2003.

Throughout the year, the company's key non-Executive Board committees – comprising: Audit Committee; Remuneration Committee; Safety, Health and Environment Committee; the Property Board; and the Nominations Committee – have all met. In addition, and consistent with the Higgs Report recommendation, an independent review of the Board's effectiveness has been undertaken.

The new committee structure introduced twelve months ago has continued throughout the year. These comprise:

- the Executive Committee – which reviews matters of financial, operation (or a material or policy type) and significant other strategic issues and general approvals above Chief Executive delegated authorities and below Board Authorities;

- the Operations Committee – which reviews operational issues, such as improving performance, sharing best practice and the tactical implementation of corporate change initiatives; and
- the Investment Board – which approves investment proposals for investment above Chief Executive delegated authorities and below Board Authorities.

The implementation and standardisation of Quarterly and Monthly Business Reviews (QBRs and MBRs) have been successfully introduced into the organisation and these are conducted by the executive directors for all regions, major projects and key parts of the operation. Likewise, the new structure for safety management has been adopted successfully. The Strategic Safety Group (SSG) and the Tactical Safety Group (TSG) have been implemented and fine-tuned over the last twelve months.

Throughout the year, all delegated authorities have been reviewed, standardised and tightened to ensure that large authorities are not inappropriately delegated.

The challenge in 2004/05 is to review and evolve the corporate control framework to reflect the new functional organisation. The main changes will be to:

- the Operations Committee;
- the Tactical Safety Group;
- the QBR/MBR processes; and
- the delegated authorities framework.

Organisational development

One of the key actions plans was a phased programme of organisational changes. The main change was the establishment of a regional/area-based structure designed the replace the old "zonal" structure. This, along with the demerger of the Eastern Region, was successfully implemented by the early part of 2003/04. The operational railway organisation currently is built around 18 Area-based delivery units, each managed by a General Manager, and seven Regions, each managed by a Regional Director.

In addition to these changes, during the year, Network Rail had made significant changes to the way in which we managed the business. These included:

- the establishment of a new operational unit to manage the first phase of the Channel Tunnel Rail Link;
- the transfer of maintenance operations in Thames Valley, Wessex and East Midlands;
- the transfer of desktop management into Information Management;
- the implementation of the New Maintenance Programme;
- the creation of the West Coast Management Unit;
- the removal of 600 managers from the organisation; and
- the establishment of joint/integrated control rooms in Waterloo and Swindon to manage train operations, with our customers in Wessex and Great Western, respectively.

Part of the original plan was to remove the regional management layer and reduce the overhead in managing the 18 area-based delivery units. In October 2003, Network Rail announced its intention to assume direct responsibility for managing the maintenance of the core railway infrastructure and, as such, the organisational plan had to reflect the inevitable changes of bringing 18,000 additional people into the organisation.

The new organisation will, subject to consultation and safety-case assessment, be implemented in May 2004. This will see the establishment of an efficient, customer-facing organisation with direct responsibility for many key parts of the operation. It will be based upon the following components:

- eight "routes", each being led by a Route Director, aligned – as close as possible – to the operations of our customers. These will be: Scotland, London North West, London North East, Anglia, Western, Wessex, Sussex and Kent. These will all report to a new Operations and Customer Services Director. The primary goal of this function is to deliver high performing and efficient operational services to our customers;
- 18 Areas, each managed by an Area General Manager, aligned with a specific Route, with responsibility for the provision of an operational railway;
- a maintenance organisation, built around the 18 areas and reporting through five territory maintenance directors to a Maintenance Director. The primary goal of this function is to internalise all maintenance operations, standardise and mechanise processes and procedures, so that we can provide railway assets that are reliable, at significantly lower levels of cost;
- a national investment organisation, built around five territories and reporting into a Major Projects and Investment Director. The primary goal of this function is to manage the major capital investment programme in a consistent manner that reduces the costs of delivery and minimises the impact of implementation on the operational railway;
- a national engineering team, built around key asset types. The primary goal is to ensure consistency and speed in engineering decision making;
- a national safety and compliance team, built around a smaller policy team, with devolution of safety decision making to local management;
- an integrated Railway Estates function that brings together all aspects of property management – including commercial exploitation, operational property management and responsibility for managed stations; and
- simplified and streamlined corporate service functions, including Human Resources, Government and Corporate Affairs, Finance, Information Management and Legal.

The implementation of this is a very significant organisational change. It affects everybody in the organisation and some 18,000 people who are yet to join. A massive amount of work has been completed in 2003/04, including the review and redevelopment of over 1,500 individual job descriptions. The challenge in 2004/05 is the smooth introduction of this change and embedding it into the organisation. To ensure effective management of the risks associated with such a major change, a new committee has been established. This reviews risk management and makes sure that all parts of the company are ready for the implementation of each step of the change programme. The result of this major part of the change programme will be an organisation that is a single, national team aligned to customers' operations and able to deliver at reduced costs.

It is our intention to build upon the successful implementation of joint control rooms in Glasgow, Liverpool Street, Waterloo and Swindon. These 'co-located' centres facilitate future integrated working and NR plan to lead the introduction of eight integrated control centres - one for each route. Recognising the needs of our customers, we will encourage a steady migration from some outlying or satellite centres over the next three years. By the end of this calendar year, we expect joint centres in six of the eight routes to be operating to varying degrees of integrated activity. The co-operation of TOCs and FOCs is essential and the enthusiasm for integration so far has been extremely encouraging.

Maintenance transfers will continue to happen throughout the first part of 2004/05:

- around 3,500 employees will join from Jarvis on 1 April, 2004;
- 1350 will join from Amey on 29 May, 2004; and
- a further 8,334 will join from the remaining maintenance contractors later in the summer of this year.

The organisation will continue to evolve in 2004/05. Planned changes include the standardisation of the maintenance delivery function, following the transfer of each outsourced maintenance unit and includes the reallocation of corporate functions and responsibilities of overhead functions that transfer as part of maintenance.

Cultural transformation

Changing a culture within a company is a lengthy programme. However, we realise that this is fundamental to achieving our aspiration of becoming high performing, efficient and customer focused.

Q12 remains the primary tool by which the culture of the organisation is measured. The first wave was undertaken in November 2002 and this was followed up in December 2003. A significant improvement in the results was achieved, despite being a year of change and tough decisions.

During 2003/04, we expanded the programme of roadshows, at which the Executive Board present the company's objectives and plans to employees. At 15 events, in seven cities, over 8,000 people came together to hear about the progress, successes and challenges the organisation still faces. In 2004/05, these will continue and be expanded to reach the 18,000 people transferring from the maintenance companies.

A new Leadership Forum has been established. This will bring together, on a regular basis, the top 100 or so people in the organisation with specific leadership responsibility to discuss and develop ideas for addressing the key issues that we face.

Performance management

In March 2004, a new performance management system was launched. This replaces the previous "Managing for Success" programme. The new system is designed to assess and identify management capabilities and performance in a consistent manner, throughout the company. It will include the adoption of a national ranking system for the assessment of all employees, so that the top and bottom performers are identified and appropriate development and intervention can take place.

Throughout 2004/05, the key action will be to embed this new process into the organisation.

People development

The actions identified for 2003/04 have, largely, been implemented. These include:

- the centralisation and management of training and development budgets;
- the relentless drive to reduce the cost of agency labour to the organisation, through tight controls and management of daily rates;
- the implementation of the first phase of the new Oracle Human Resource Management System (HRMS);

- the complete overhaul of our induction programme; and
- the creation of an Executive Leadership Development Programme (ELDP).

There is still more to do, especially to control the number of agency people – although around two-thirds of these people are engaged on short-term, highly critical projects, such as West Coast Route Modernisation and Southern Power Upgrade.

Key actions in the coming year include:

- the start of the second wave of ELDP;
- implementation of Oracle HRMS Phase 2;
- the establishment of new training schools for signalling competence development and for maintenance competence, together with an in-house training network for the new maintenance organisation;
- establishment of a succession planning and talent management programme; and
- the creation of a new defined contributions pension scheme.

Communications

A number of key changes were implemented throughout 2003/04, consistent with Network Rail's desire to improve stakeholder relationships through delivery of consistent and effective communications within the company and with external stakeholders, as well as providing clear and concise messages. These include:

- an expanded programme of employee roadshows at which executives address all employees face to face;
- rationalisation and standardisation of internal communication material, including Connecting, Track Record, the Connect intranet and company website and the newly introduced Frontline Focus magazine designed to improve communication amongst the front-line operational community; and
- the introduction of a new management process to cascade key messages quickly throughout the company.

Key actions for 2004/5 include:

- an expansion of the employee road-shows to ensure engagement with the 18,000 additional people joining the organisation over the next twelve months;
- a change to the nature of internal communications support throughout the country, shifting away from preparation and dissemination of material to providing coaching, training and support for line management;
- further changes to ensure improved response times and effectiveness of the community relations operation;
- the establishment of the Marketing Services function, designed to ensure consistency and professionalism in the delivery of events, publications and the use of the Network Rail brand; and
- changes to the media relations function.

Information management

Throughout 2003/04, we have done much to address the gaps in information management systems and processes. The Information Management (IM) inheritance was particularly poor. Despite having 15,000 people, there was no central HR system; capital investment runs at over £2 billion per year and yet there were no standard, modern project management systems; and although poor performance had historically cost the company hundreds of millions of pounds, there were no forward-looking performance management tools.

Throughout the last year, much progress has been made in addressing the problems, including:

- completing the implementation and operation of the first phase of the Oracle Human Resources Management System;
- "in-sourcing" the responsibility for PC desktop management, resulting in the transfer of just over 200 people from Unisys to Network Rail;
- completing the roll-out of the MIMS system – the works management system for the maintenance of all assets;
- starting the development of a new integrated management systems (IMS) for all projects, based upon Primavera P3e, including advanced estimating tools and earned-value measurement techniques;
- the completion of a performance forecasting and measurement tool (Winbugs); and
- development of a single, standard system for fault management (FMS).

Key activities for this year, include:

- further development of the Oracle HRMS system under the ERP "Enterprise Resource programme" which will include further integration of the Oracle solution around the HR, Finance and Supply Chain functions;
- ensuring the adoption of MIMS, including shutting down legacy systems where possible, and further development of MIMS to support unit costings and work planning and prioritisation;
- creation of a proper IT infrastructure and support organisation to support the requirements of the maintenance operation, post-transfer; and
- implementation of key systems, currently under-development, including FMS and IMS.

In addition, we will continue the process of stabilisation, simplification, standardisation and rationalisation of the entire suite of IT systems. Key deliverables over the next ten years include:

- the rationalisation of over 1,000 applications to just 40 key business services;
- the reduction and repositioning of 125 suppliers to just five business partners; and
- the replacement of 20,000 local databases by one virtual corporate database, with data management under control.

Business planning

We must ensure that we make the best use of the available resources and most effectively deliver our outputs within the constraints within which we have to work. An effective and efficient business planning process is an essential part of delivering this.

Our principal focus during 2003/04 has been on the provision of information to the ORR throughout the interim review taking into account the improved understanding of our costs as a result of work carried both by us and the independent consultants. We now need to focus our effort on improving the business planning process. In particular, we will develop our ability to plan by route, improve the quality of information underpinning the business plan, ensure consistent application of the business planning process and develop a framework for prioritising expenditure. Further development is also required of our long-term planning, including further developments of decision support tools. Following the reorganisation, it will also be important to ensure that roles within the planning process remain clear within the functional organisation.

Risk management

Our approach to risk management is based on the implementation of a robust strategic risk management framework, supported by embedding appropriate risk assessment and decision-making tools and techniques within the company's management and control processes.

Good progress has been made during 2003/04:

- the Board has identified the key strategic risks and individual accountability for managing them ;
- the business risks associated with each of the strategic risks have been prioritised and the effectiveness of the related control frameworks assessed; and
- we have completed the development of an operational risk framework designed to provide a comprehensive and structured approach to the management of risk associated with the operation, maintenance and renewal of railway network assets.

Key priorities for future development and implementation are:

- continued review and updating of the strategic and business risks through a period of intense business change;
- agreeing and progressing action plans to improve the effectiveness of the control frameworks related to the prioritised business risks;
- progressive roll out of the new operational risk framework across the company, supported by a comprehensive training programme;
- developing common policies and standards to be applied to risk assessment across all key processes; and
- integrating the top-down strategic and business risk assessment with the bottom-up identification and control of risks embedded within our management processes.

Technical Plan

This Technical Plan provides a blueprint for the achievement of our vision of delivering engineering and operational excellence for Britain's railway. It is our second plan since we took responsibility for the rail network in 2002 and sets out how we intend to achieve our network stewardship objectives. It is designed to:

- provide our customers and funders with details of how we intend to deliver our network stewardship obligations (in terms of performance and network capacity, condition and capability);
- enable providers and potential providers of services relating to railways (including train operators) to plan their business; and
- enable funders and potential funders of services relating to railways to plan their future financial and service requirements.

Last year we pointed out the scale of the challenge facing us: an ageing infrastructure due to years of under-investment, unacceptably high costs and poor train service reliability. We set out our plans to address these issues, but stressed that these plans were not complete. Given the then recent transfer out of administration they represented a transition from the old to the new. This transition has gained considerable momentum, with the last 12 months seeing the most significant changes in the management and operation of the rail infrastructure since privatisation. Considerable progress has been made across many aspects of the business and there are signs that our focus on the root-cause of train delays is beginning to deliver the benefits we expect.

Last year also saw the completion of the Train Protection and Warning System (TPWS). This was completed on time and within budget, and provides the most significant improvement to the safety of the network for over 40 years – a significant achievement for the industry. Another major milestone during 2003 was the completion of the Regulator's interim review of access charges last December, providing stability about the amount of money available for the operation, maintenance and renewal of the network and enabling us to plan our business more effectively.

Our plans for the next 12 months are equally ambitious: the continued drive to reduce train delays; bringing maintenance in-house to improve cost control and the quality of maintenance activities; the implementation of a functional structure; and a major programme of cost reduction.

Expenditure projections

Our 2003 Business Plan formed our first cost submission into the Regulator's interim review of our access charges. It was based upon minimising whole life costs and assumed that the backlog of work on our assets would be substantially addressed over the next decade. Our plan reflected the cost levels that we had inherited on becoming infrastructure owner. As we acknowledged at the time, however, we considered these costs to be unacceptable and unaffordable in the longer term. We highlighted a number of specific areas where further work was required and set ourselves challenging targets to improve efficiency. Since the publication of last year's plan, an enormous amount of work has been carried out to define the outputs that we are now required to deliver and to identify the efficient cost of their delivery. We have accepted the Regulator's final conclusions on our access charges and the network outputs we must deliver.

The interim review identifies our allowed operational, maintenance and renewal expenditure for the five-year period from April 2004 to March 2009 (£22.8 billion at 2003/04 prices) and requires us to reduce train delays to 9.1 million minutes per annum by 2008/09. As acknowledged by the Regulator, this review has also shown the benefits of the more transparent and constructive approach we have taken to working with the ORR and SRA, often working jointly with independent consultants. This work has enabled more informed choices to be made by ORR and SRA about network outputs, based upon a better understanding of the required scope of works to deliver these outputs and an objective assessment of the potential for improvements in efficiency.

The challenge we now face is ensuring the delivery of the required outputs for the levels of expenditure assumed. We are in the process of reviewing and refining our existing strategies, and this plan should therefore be seen as work in progress. We also need to improve our business planning processes and enhance our ability to monitor the delivery of the plan, in particular the delivery of our efficiency targets. An important component of this work is the development of an improved method for prioritising our operational, maintenance and renewal expenditure across the network. We will be working with our customers on this over the next few months and will publish details of the outcome of this exercise in an update of our Network Stewardship Criteria later in the year. This may result in some changes in the allocation of expenditure provided in this plan, particularly beyond the next two years.

A summary of our expenditure forecasts is shown in Section 3. These are broadly in line with the Regulator's conclusions, the main exceptions being:

- signalling – projected signalling expenditure is above the Regulator's final conclusions for 2006/07 to 2008/09, and represents the level of expenditure that we currently believe should be provided for in the Regulator's further review of signalling. We will, however, be working closely with the ORR and SRA to ensure that our expenditure in this area meets the requirements of our customers and funders as effectively as possible; and
- West Coast – although the total expenditure is in line with the Regulator's conclusions, the allocation between years has been adjusted.

Improving train performance

A robust fit for purpose rail infrastructure, allied with a realistic train timetable and an ability to respond rapidly following disruptions to services are essential components of the delivery of a significant reduction in train service delays over the life of this plan. There are welcome signs from recent results that our strategy for addressing performance is showing signs of delivering reduced delays – in 2003 we had our best autumn for four years. We acknowledge that there is still a long way to go.

We are continuing to look for improvements across all areas of the business that can have an impact on train performance. We are maintaining our efforts to reduce the number of asset failures and are now able to do so based on an improved understanding of the locations where a failure will have the most impact. However, addressing infrastructure reliability is only one part of the equation. Equally important is the robustness of the train timetable and our ability to deliver it. During the last 12 months we have focused increasingly on the contribution that improvements in our operational processes can have on reducing train delays. In particular we are targeting further reductions in the level of delay per incident, as this is the main source of the deterioration in performance in recent years.

We have integrated control rooms at a number of locations where our staff are co-located with train operating company staff. There are a number of other locations where Network Rail and train operator control centres are in the same building and we are seeking to exploit these opportunities. Other initiatives include reviewing train control and regulation policies and procedures to identify whether further changes could help to prevent or reduce delay. We also intend to improve our ability to monitor and analyse small delays to better understand their impact upon overall performance.

Local Output Commitments

A major development in our relationship with our customers is the introduction of Local Output Commitments, which are expected to come into effect during 2004. These will commit us to deliver a level of performance output for each franchised train operator. Details of our improvement initiatives will be shared with operators. This will provide an unprecedented level of transparency to our plans and the opportunity for a greater degree of scrutiny by train operators. In addition to providing train operators with sound basis on which to plan their business, it also provides them with an opportunity to influence our plans. The necessary lead times for developing performance improvement initiatives means that our plan for 2004/05 is almost complete. As a consequence, we have little further opportunity to target specific/new improvements for individual train operators. This is not the case, however, for subsequent years. We look forward to working with the train operators on developing this important initiative and ensuring that as far as we are able our future plans meet our customers' reasonable expectations.

Asset stewardship

Last year we described the need to increase spending on our network to reverse the impact of past under-investment and to deliver improvements in condition, reliability and performance. The Regulator supported the need to increase the level of work done on the network and this is reflected in the conclusions of the interim review. However, this funding is only sufficient to maintain current condition levels so it will not be possible to address the full backlog in renewals and the network will continue to be fragile in some areas.

As described above, we intend to improve our prioritisation and planning processes to ensure that the available funding is used as effectively as possible to manage the impact on reliability. Continuing improvements in our understanding of asset condition and behaviour will support this work. More direct access to the network has given us a much better view of the true state of the infrastructure in those areas where maintenance has already been taken in-house. The forthcoming national transfer of responsibility will allow us to make a further significant step forward. Allied to the introduction of new inspection technology and the further development of our planning tools and prioritisation criteria, this will enhance our ability to target work where it is most needed.

Maintenance is a core part of our business. We need to take better care of our assets, understand how and why they degrade, and find ways of minimising their whole life costs. We announced in November 2003 that the delivery of the required high standards of rail maintenance across the network at an affordable cost made it necessary for us to take direct control of this core function throughout the country. This represents a significant structural change; both for ourselves and for the rail industry as a whole. It is essential that we get it right. We are working very closely with our maintenance contractors to secure the safe and efficient transfer of responsibilities, skills and employees. This is on course to be completed during the summer and will provide the foundation for further improvements.

Conclusions

We recognise that we have along way to go in addressing many of the challenges that we face, and in restoring the public's confidence in its rail network. We have a congested timetable running on a fragile network that has suffered from years of under-investment. Many of the underlying problems we face will take time to resolve. However, our efforts over the last twelve months provide us with a solid foundation upon which we can build over the coming years. Our plans for the next twelve months are equally challenging, and we believe their successful implementation will take us a long way towards achieving our vision of delivering engineering and operational excellence for Britain's railway.

Route Plans

The purpose of our route plans is to describe the way in which we intend to deliver our relevant licence obligations on a route-by-route basis and enable our customers, funders and other stakeholders to plan their activities. It is based around 26 Strategic Routes which are aligned as closely as possible to the relevant traffic flows, the SRA's route definitions and our own delivery units.

Each individual route plan contains a description of the route – including a physical description and a summary of route capability and current and expected future utilisation. Tables of forecast expenditure and activity levels are presented. We outline the plans for delivering the baseline outputs for each of our major assets on the route and specific local performance initiatives. Current route development work – funded by our stakeholders – is summarised. Finally there is a short section outlining emerging issues on the route.

The document outlines enhancement schemes that we are committed to deliver. It also describes those schemes, such as the West Coast Route Modernisation, the Southern Region New Trains Programme and TPWS+, which we are developing for the SRA and others, including the Scottish Executive and the Welsh Assembly, for delivery during the next few years. We also include Safety Plan enhancements and increases in passenger capacity at some of our Managed Stations.

We provide further information that will enable the reader to understand the plans more fully. It contains a description of significant bottlenecks in our capacity as identified through our route capacity utilisation work described in Section 6 of the Technical Plan. A glossary of terms used in the document, a table identifying stations to routes and a description of Project Development Phases are also included.

At this stage the plans represent an articulation of our bottom up delivery plans, presented on a route-by-route basis. It is our intention to strengthen route based planning significantly to align delivery more closely to our customers' requirements. EU Directive 2001/14 reinforces our role in identifying capacity constraints and carrying out capacity studies to address the issues. The Strategic Route plans will play a key role in making trade-offs to ensure that our outputs are delivered within a constrained budgetary framework.

Safety and Environment Plan

The Safety and Environment Plan (S&E Plan) 2003-06 sets out how Network Rail will continue its systematic improvement of control of key risks, reduction of business loss, compliance with new legislation/directives and work with industry partners to improve the safety, health and environment delivery performance of Britain's railway. Detailed arrangements to support the delivery of this are contained within internal guidance notes which are regularly updated to optimise our performance. The improvements are also set out in the Network Rail Railway Safety Case Development Plan.

The Update to the 2003-06 Plan identifies actions that will be undertaken in 2004/05, as well as a summary of what was achieved in 2003/04. It should be read in conjunction with the 2003-06 Plan, which remains available. Network Rail continues to improve control of safety, health and environment risk in the face of a challenging business environment, and has made progress in a number of areas, with more set for 2004/05. These include:

- establishment of workshops to engage train operators, local authorities, user groups, police and other agencies in the development and delivery of accident reduction and mitigation at level crossings;
- using the surface water risk assessment model in a five-year programme to identify, investigate and mitigate surface water pollution risks;
- alteration of Network Rail procedures that may be necessary to reflect the Railways (Interoperability) (Conventional) Regulations when these become law in 2004;
- actively assisting the Rail Accident Investigation Branch in their development, and work closely with them to ensure investigations down to the root cause are undertaken;
- implementing further elements of our safety leadership and culture change programme which reflect the needs of maintenance staff transferring to Network Rail;
- continuing to improve and revise business critical standards and document management control system;
- developing corporate business continuity plans to address corporate risk; and
- developing further the product assurance process to be compatible with the wider European interoperability requirement.

As infrastructure controller, Network Rail has received encouraging co-operation from a range of other bodies, both within and outside the railway industry. Such co-operation is vital in allowing Network Rail to discharge many of its S&E Plan objectives. In 2003/04, examples were where we:

- implemented the Train Protection Warning System (TPWS) at key locations;
- rolled out a successful programme of training and competency courses in signal sighting, attended by Network Rail, train operator and contractor staff;
- implemented of a revised strategy for the control of SPADs;
- co-operated with the train operator environment forum and the association of train operating companies to reduce litter and effluent accumulation at stations;
- used the forum provided by the management board with industry partners to strengthen contractor capability assessment and reduce duplicated effort on the part of the main contractors;
- worked with the Rail Safety and Standards Board for the successful introduction of the new modular rule book across Network Rail; and
- continued the work on the physical marking of boundaries of Sites of Special Interest (SSSIs).

The Network Rail S&E Plan highlights how important it is for all parts of the rail industry to work together and with other bodies in the delivery of real improvements.

Property Development Plan

Last year we announced the review of all aspects of our property based businesses to create a strategy for the future development of these activities to optimise their revenue generating capability in support of and without compromise to the core business of operating, maintaining, renewing and enhancing the network and its performance. Assessments have also been made of the capital and operating expenditure needs to maintain and/or develop these businesses.

The most significant outcomes of this review are the withdrawal from taking equity risk within commercial development projects and the possible move to longer term concession management for activities which have in-built long term revenue streams.

It is anticipated that this strategy will reduce operating expenditure and capital requirements, reduce exposure to risks associated with non-operational railway activities, provide enhanced security of income and allow some types of transactions to be completed more speedily than previous practice allowed.

With long-term revenues from sales activities expected to decline as the opportunities to realise value from the existing surplus land and property bank diminish we will introduce in 2004/05 a portfolio strategy review activity targeted at driving out incremental value by optimising and intensifying land use allocation throughout our entire portfolio of land and property holdings.

Notwithstanding the general impact we have suffered from the downturn in the UK retail market, the forecast growth in passenger numbers presents a further significant risk to the sustainability and growth of the managed stations trading income. The impact of this growth in passenger numbers is expected to result in the selective or wholesale removal of retail facilities, with the resulting loss of retail income.

Financial Plan

Network Rail has net debts as at 31 March 2004 of around £12.8 billion, financed by a range of short and medium-term facilities from commercial banks, finance lessors and the capital markets. Our commercial facilities benefit from a £21 billion package of standby support loans from the SRA (of which £4 billion is undrawn standby support). Over the coming year, we expect net debt to rise to £17.2 billion. We expect to finance this additional debt through a combination of existing facilities and (subject to market conditions) new facilities including a planned long-term debt programme. These will also be used progressively to refinance our existing facilities. We also expect to continue working with the SRA and ORR to develop financing for enhancements for the rail network.

Expenditure, income and key performance indicators

Figure 13 National OM&R expenditure projections

£m 2003/04 prices	2003/04 (forecast) (note 1)	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Operating expenditure (note2)											
Controllable	1,016	966	880	823	786	746	739	730	722	714	700
Non controllable	232	227	229	228	229	229	230	230	231	232	232
Total operating expenditure	1,248	1,193	1,110	1,052	1,015	975	969	960	953	946	932
Maintenance	1,316	1,251	1,151	1,059	974	896	877	855	834	811	795
Renewals (non-WCRM)											
Track	650	609	703	678	674	669	837	848	828	807	791
Structures	304	301	278	315	356	338	331	325	318	312	306
Signalling	212	301	376	421	500	524	540	629	740	777	761
Electrification	35	47	60	88	91	86	95	93	91	89	87
Plant & Machinery	165	178	77	59	55	50	50	45	40	40	39
Telecoms	231	224	189	265	258	58	120	122	109	78	59
Stations and Depots	120	176	165	174	193	195	197	173	177	152	151
IT (and other)	112	129	129	102	96	96	95	94	93	91	89
Total Renewals (non-WCRM)	1,829	1,965	1,977	2,104	2,223	2,016	2,265	2,329	2,396	2,348	2,283

£m 2003/04 prices	2003/04 (forecast) (note 1)	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Renewals (WCRM)											
Track	577	361	251	64	17	14	-	-	-	-	-
Structures	79	81	72	20	8	2	-	-	-	-	-
Signalling	326	300	212	141	82	40	-	-	-	-	-
Electrification	203	212	192	72	1	1	-	-	-	-	-
Plant & Machinery	33	26	16	12	8	5	-	-	-	-	-
Telecoms	121	66	22	6	7	1	-	-	-	-	-
Stations and Depots	0	0	1	1	0	0	-	-	-	-	-
IT (and other)	2	0	0	0	0	0	-	-	-	-	-
Total renewals (WCRM)	1,341	1,048	767	316	121	62	-	-	-	-	-
Total renewals	3,170	3,013	2,744	2,420	2,344	2,078	2,265	2,329	2,396	2,348	2,283
Total operating expenditure, maintenance and renewal	5,734	5,457	5,005	4,531	4,333	3,949	4,111	4,144	4,183	4,105	4,010

Note 1: We expect actual 2003/04 expenditure to be below the level assumed in the interim review final conclusions. However, we currently expect around £40 million of this underspend to be rolled over into 2004/05, although this has not been reflected in the business plan.

Note 2: For 2003/04 accounting convention differs from that of the statutory accounts to be consistent with regulatory accounting.

Figure 14 National enhancement projections

£m 2003/04 prices	2003/04 (forecast)	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Enhancements											
Funded by interim review											
Safety schemes	132	178	159	133	123	115	-	-	-	-	-
West Coast	242	252	181	116	51	8	-	-	-	-	-
Transition projects	204	636	88	20	-	-	-	-	-	-	-
SRA committed	21	88	20	0	-	-	-	-	-	-	-
SPV schemes	-	-	0	76	5	4	-	-	-	-	-
Non SRA funded	30	96	49	29	-	-	-	-	-	-	-
Network Rail (or joint venture funded)	131	59	53	54	52	62	-	-	-	-	-
Total enhancements	761	1,308	551	429	231	188	-	-	-	-	-

Figure 15 National income projections

£m 2003/04 prices	2003/04 (forecast)	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Schedule 8	(355)	(14)	(13)	(12)	(11)	(10)	(10)	(10)	(10)	(10)	(10)
Access charge supplement – Sch 8	2	14	13	12	11	10	10	10	10	10	10
Schedule 4	(56)	(64)	(73)	(80)	(82)	(83)	(83)	(83)	(83)	(83)	(83)
Access charge supplement – Sch 4	47	64	73	80	82	83	83	83	83	83	83
Fixed track access	1,623	860	868	1,805	1,805	1,986	3,840	3,840	3,840	3,840	3,840
Variable track access	178	177	177	177	177	177	177	177	177	177	177
EC4T	119	110	115	118	119	124	124	124	124	124	124
Capacity charge	4	6	6	6	7	7	7	7	7	7	7
SRA grants	452	1,757	1,629	2,501	2,461	2,224	0	0	0	0	0
Single till (see below)	590	684	706	709	704	711	711	711	711	711	711
Total income	2,604	3,594	3,501	5,314	5,272	5,228	4,860	4,860	4,860	4,860	4,860

Figure 16 National single till income projections

£m 2003/04 prices	2003/04 (forecast)	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Single till income											
Stations	242	241	241	242	241	241	241	241	241	241	241
Depots	45	42	42	42	42	42	42	42	42	42	42
QX	37	37	37	37	40	40	40	40	40	40	40
Freight income	55	74	77	79	81	84	84	84	84	84	84
Property income	167	226	236	235	241	244	244	244	244	244	244
Open access income	29	43	43	43	28	28	28	28	28	28	28
Other	15	21	30	30	30	30	30	30	30	30	30
Total single till income	590	684	706	709	704	711	711	711	711	711	711

Figure 17 Forecast activity volumes

	2003/04 (forecast)	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Non-WCRM											
Rail renewal (km per year)	879	736	848	804	804	804	1045	1046	1044	1044	1044
Sleeper renewal (km per year)	566	559	685	696	696	696	991	994	991	989	989
Ballast renewal (km per year)	613	575	747	780	780	780	1025	1028	1017	1017	1017
S&C renewal (units per year)	238	349	425	506	580	655	745	821	820	808	808
WCRM											
Rail renewal (km per year)	224	138	99	0	0	0	-	-	-	-	-
Sleeper renewal (km per year)	201	135	126	0	0	0	-	-	-	-	-
Ballast renewal (km per year)	206	115	97	0	0	0	-	-	-	-	-
S&C renewal (units per year)	130	198	215	0	93	54	-	-	-	-	-

Figure 18 Key performance indicators

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Improved safety											
Public Safety Index	0.49	0.42	0.39	0.36	0.33	030	0.29	0.28	0.27	0.26	0.25
Higher performance											
Public performance measure	81.1%	82.8%	84.9%	86.6%	88.3%	89.7%	90.1%	90.5%	90.9%	91.3%	91.7%
Train delay minutes (000 mins)	13,659	12,300	11,300	10,600	9,800	9,100	8,900	8,700	8,500	8,300	8,100
Increased system capability											
RAB adjustment for passenger volume incentives (£m)	52.6	0.2	85.6	21.1	4.0	28.8	17.6	18.5	19.7	20.9	22.3
RAB adjustment for freight volume incentives (£m)	(11.1)	(6.2)	2.8	2.9	3.1	3.2	3.3	3.4	3.6	3.7	3.9
Improved customer & stakeholder relationships											
Passenger complaints (per 100,000 journeys)	108	110	100	95	90	85	80	75	70	65	60
Improved financial control											
Financial efficiency index (note 2)	2,542	2,417	2,238	2,108	1,917	1,790	1,760	1,724	1,690	1,654	1,620
Improved asset stewardship											
Asset stewardship index (note 3)	0.92 / 1.11	1.10	1.05	1.02	1.00	0.99	0.99	0.99	0.99	0.99	0.99
Improved business performance											
Employee engagement	3.45	3.75	3.90	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Supplementary Indicators											
Delay mins per 100 train kms	2.66	2.39	2.17	2.02	1.86	1.72	1.67	1.62	1.58	1.53	1.48
Number of broken rails	349	343	303	290	280	280	280	280	280	280	280
Level 2 exceedences	1.12	1.03	0.97	0.91	0.91	0.91	0.90	0.90	0.90	0.90	0.90
Number of signalling failures > 10 minutes delay	28,458	28,950	28,900	28,825	28,775	28,750	28,750	28,750	28,750	28,750	28,750
Number of structures and earthworks TSRs	149	139	129	119	109	100	100	100	100	100	100
Traction power supply failures	114	130	130	130	130	130	130	130	130	130	130
Track geometry	1.10	1.09	1.06	1.03	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Points and track circuit failures	20,369	20,190	19,980	19,770	19,560	19,360	19,360	19,360	19,360	19,360	19,360

Note 1: The PPM projections are based on an assumption provided by the SRA for train operator performance from 2004/05 to 2006/07, and as an assumption thereafter that the performance of Network Rail and train operators improves at the same rate.

Note 2: The 2003/04 forecast for the financial efficiency index reflects the current regional structure for consistency with the figures from 2004/05 onwards. The 2003/04 figure differs from that shown in figure 12, which reflects the organisational structure at the time the target for 2003/04 was set (six regions rather than seven).

Note 3: Changes have been made to the passenger and freight volume incentives and to the asset stewardship index which will apply from 2004/05 onwards. For the asset stewardship index, the table above therefore shows the forecast for 2003/04 on both the current basis (on which we will report at the end of year) and on the revised definition (for comparison with the future targets). For the volume incentives, the forecast for 2003/04 is calculated on the current basis and the forecasts for future years on the new basis.

Appendices

Business plan basis and key assumptions

Basis of preparation

This 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 Rail Regulator's interim review of track access charges, published on 12 December 2003;
- the trajectory for operational performance set out in the interim review final conclusions;
- the reasonable requirements of our customers and funders, including the SRA; and
- our contractual obligations to our customers.

There are, however, practical delivery and supply chain constraints on our ability to deliver the objectives, which have been taken into account. To the extent it has been necessary to curtail planned activity as a result of these constraints, we have adopted the prioritisation set out in the current Network Stewardship Criteria, published in March 2003.

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.

All financial figures are at 2003/04 prices unless otherwise stated. Forecasts of expenditure are based on information available at period 12 (February 2004).

The following section sets out the key assumptions adopted.

Key assumptions

As a general principle, the Business Plan is based on delivery of the outputs specified in the interim review final conclusions within the expenditure levels allowed for in those conclusions. However, while we are determined to achieve this, the scale of the necessary efficiency and performance improvements is very challenging and we are not yet able to say precisely how these improvements will be achieved.

Asset stewardship

Progress on improving our knowledge of the assets, developing decision support tools and understanding input-output relationships has continued over the last year. The Business Plan is essentially based on the knowledge available in early 2004 and residual uncertainty in these key areas remains a risk to the robustness of planned activity, expenditure and outputs. Further improvements can therefore be expected over the next year.

For 2004/05 to 2008/09, the plan is based on delivery of the activity volumes implied by the pre-efficiency expenditure levels set out in Chapter 5 of the interim review final conclusions. The exception to this is signalling, which will be subject to a further regulatory review in 2006 and where we have set out projections based upon the efficient delivery of the level of renewals activity that we currently believe should be provided for following that review.

Deliverability

As noted above, the practical constraints on our ability to deliver the corporate objectives have been taken into account in developing this plan.

Efficient spend

For 2004/05 to 2008/9, the plan is based on achievement of the profile of overall efficiency savings set out in the interim review final conclusions.

For 2009/10 to 2013/14, the plan assumes additional efficiency savings of two per cent per annum.

WCRM

The plan is based on the delivery of the outputs set out in the conclusions of the interim review. We have reviewed our plans in the light of these conclusions and have discussed this with the SRA. This is explained further in Route 18 of our Route Plans.

Enhancements

Enhancements included in the plan are:

- known safety and major station capacity requirements for which funding was provided through the interim review;
- schemes promoted and funded by the SRA and other outside parties;
- schemes which are planned to be carried out by Special Purpose Vehicles; and
- transition schemes committed to by the Railtrack Board.

Safety enhancements to meet the needs of known legislation requirements have been included in the plan. Further expenditure may be required, but cannot yet be fully quantified, for anticipated legislation.

Key performance indicators

A number of key performance indicators are industry-wide measures to which Network Rail makes a significant, but partial, contribution. Where appropriate, it has been assumed that other key partners will improve at the same rate as us.

Material changes since 2003 Business Plan

Overview

As described in the main body of this document, the Business Plan published in March 2003 formed our first cost submission into the interim review. Throughout the subsequent nine months, the plan continued to be reviewed and revised as we worked internally and with the ORR and SRA to identify further improvements, efficiencies and savings and the effect of these changes upon outputs. This included the publication of the June Update and the scenarios in the September Cost Submission, both as further submissions into the review.

This iterative process was specifically aimed at delivering our commitment, made in last year's plan, to reduce costs to a more acceptable and affordable level. As was intended, this has resulted in significant reductions in our expenditure forecasts from last year to this. This is principally attributable to work undertaken in four areas:

- *Efficiency*. In March 2003, we set ourselves a target of delivering 20 per cent efficiency improvements by March 2006, followed by a further 10 per cent improvement over the following three years. Teams were set up within Network Rail to review key processes across operations, maintenance and renewals and to identify where efficiency improvements could be made. Progress on this was reported in the June Update, and work has continued subsequently both to embed delivery of the identified efficiencies in the business plan and to identify further areas for savings. In addition, our internal work has been able to draw on additional opportunities for savings identified by the parallel reviews carried out by independent consultants as part of the interim review, particularly the work done on regional benchmarking and on supply chain efficiency. We have continued to develop our efficiency assumptions since the conclusions of the interim review;
- *Maintenance and renewal volumes*. Work continued throughout the year to review and adjust the work volumes covered by the plan. Minor changes were made to signalling and structures renewals volumes in the June Update, to reflect and ensure consistency with the basis used for preparation of the long-term expenditure (2006/07 - 2012/13) projections. The September Cost Submission then contained further changes in work volumes in line with revised output specifications adopted for each of the three scenarios described in that document. These took the general form of reductions in renewals volumes accompanied by an offsetting increase in the level of maintenance, but also included changes to reflect the SRA's proposals for prioritising expenditure by route categories. Since the interim review conclusions, we have undertaken further analysis of our workplans, including ensuring that they are consistent with the delivery of the outputs specified in those conclusions;
- *Telecoms.* A joint working group of representatives of Network Rail, ORR, SRA and HSE was established as part of the interim review to consider our principal telecoms renewals projects – the renewal of the Fixed Telecommunications Network and the installation of the digital GSM-R system. This led to a number of changes to the scope and phasing of the projects, with a resultant reduction in costs; and
- *West Coast Route Modernisation*. Work was carried out to review the scope and phasing of the WCRM project in order to identify opportunities for further savings. This has led to the deferral of certain renewal and enhancement works, including resignalling works at Macclesfield and Bletchley, remodelling at Stafford and Nuneaton, and four tracking in the Trent Valley.

The following sections set out the main differences between the 2003 and 2004 Plans and explain any further material changes beyond those attributable to the work explained above. As the March 2003 Business Plan contained expenditure and KPI projections for the period 2003/04 to 2005/06 only, the tables that follow show the comparison between this year's plan and the 10-year projections set out in the June Update. For the period covered by both, the material changes from the March Plan to the June Update were:

- reductions in the expenditure projections for controllable opex, maintenance and non-West Coast renewals to reflect the Network Rail efficiency targets;
- changes to the financial efficiency index KPI to reflect increased borrowing requirements; and
- changes to the employee engagement KPI to reflect the results of the first round of the Q12 staff engagement survey, received since publication of the March Plan.

All financial figures referred to as "2003 Business Plan Update" are stated at 2002/03 prices.

Opex

Figure 19 Opex

£m	2003/04 (forecast)	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
2003 Business Plan Update	1,265	1,174	1,096	1,007	981	948	921	906	890	873
Inflation to 2003/04 prices	30	28	26	24	24	23	22	22	21	21
Adjustment for year end forecast	(47)									
Increases in uncontrollable opex (see below)		5	7	5	6	5	4	4	3	2
Increase (decrease) in controllable opex		(14)	(19)	16	5	0	21	28	39	50
2004 Business Plan	1,248	1,193	1,110	1,052	1,015	975	969	960	953	946

Uncontrollable opex has increased due to rises in the Regulator's Fee and the pension liability for the British Transport Police. To offset this, additional efficiency reductions in controllable opex have been targeted.

We have reduced the level of efficiency targeted against controllable opex from 2009/10 onwards. The 2003 plan assumed that opex as a whole would reduce by 2 per cent per annum from that year onwards, with all of the reductions delivered through controllable opex. This plan assumes a reduction of 2 per cent per annum in controllable opex only.

Maintenance

Figure 20 Maintenance

£m	2003/04 (forecast)	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
2003 Business Plan Update	1,328	1,290	1,169	1,048	1,009	971	934	909	884	855
Inflation to 2003/04 prices	45	31	28	25	24	23	22	22	21	21
Adjustment for year end forecast	(57)									
Increase in maintenance to offset reduction in renewals		(15)	29	15	21	24	26	22	19	17
Increase in anticipated efficiency		(55)	(75)	(30)	(80)	(122)	(105)	(98)	(90)	(82)
2004 Business Plan	1,316	1,251	1,151	1,059	974	896	877	855	834	811

As discussed in the overview section above, increases in maintenance activity were added to the plan through the year to offset identified reductions in renewals. Alongside this, further work was carried out to determine opportunities for additional maintenance efficiency savings, including those arising from the transfer of maintenance in-house.

Renewals

Figure 21 Non-West Coast renewals

£ m	2003/04 (forecast)	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
2003 Business Plan Update	2,180	2,533	2,830	3,199	3,072	2,909	2,782	2,690	2,607	2,504
Inflation to 2003/04 prices	52	61	68	77	74	70	67	65	63	60
Adjustment for year end forecast	(403)									
Reclassification of King's Cross Concourse		(12)	(20)	(35)	(70)	(104)				
Reprofiling of telecoms renewals (including GSM-R and FTN)		(221)	(209)	(53)	212	8	77	88	51	14
Reduction in track renewals		(158)	(200)	(345)	(464)	(554)	(327)	(248)	(258)	(264)
Reduction in structures renewals		(154)	(277)	(307)	(230)	(230)	(230)	(230)	(230)	(230)
(Reduction) / increase in signalling renewals		(55)	(236)	(447)	(309)	(151)	(121)	(19)	143	255
(Reduction) / increase in stations and depots renewals (excluding King's Cross)		(1)	4	(285)	(309)	(123)	(137)	(138)	(57)	(59)
(Reduction) / increase in electrification and P&M		(41)	(43)	(1)	(1)	0	15	14	15	15
Revised efficiency savings		16	62	299	247	193	141	108	61	53
2004 Business Plan	1,829	1,965	1,977	2,104	2,223	2,016	2,265	2,329	2,396	2,348

As discussed in the overview section above, reductions in renewal activities were identified iteratively through the year. Alongside this, further work was carried out to determine opportunities for additional renewals efficiency savings. resulting in increases to the maintenance efficiency targets. However, the significant reductions made in renewal volumes mean that, although the percentage efficiency saving has increased, this translates into a lower efficiency saving in cash terms.

The March Plan and June Update both included a provision for work on King's Cross Concourse. This work was subsequently excluded from renewals in the September Cost Submission on the basis that it went beyond like-for-like renewals and should be funded separately as enhancements. Funding was not provided for this work through the interim review, and alternative funding has not yet been secured. The work has not therefore been included in this plan.

Figure 22 West Coast renewals

£m	2003/04 (forecast)	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
2003 Business Plan Update	1,283	1,110	872	893	838	596	316	-	-	-
Inflation to 2003/04 prices	31	27	21	21	20	14	8	-	-	-
Adjustment for year end forecast	27									
2003 re-baselining impacts		86	70	(434)	(535)	(496)	(324)	-	-	-
Deferral of specific schemes (see below)		(41)	(5)	(77)	(162)	16	0	-	-	-
Increase in anticipated efficiency		(134)	(191)	(87)	(40)	(68)	0	-	-	-
2004 Business Plan	1,341	1,048	767	316	121	62	0	-	-	-

As discussed in the overview section above, the scope and timing of the West Coast programme has been reviewed and amended through the past year. This has included the reprofiling and deferral of a number of specific schemes, including resignalling at Bletchley and Macclesfield, Stafford remodelling, Trent Valley four tracking and Nuneaton remodelling. As for other renewals, we have also targeted additional efficiency savings.

Key Performance Indicators

Increased system capability

The KPI targets for both the passenger and freight volume incentives have been revised to reflect the changes to the incentives set out in Chapter 19 of the interim review final conclusions.

Improved financial control

Figure 23 Financial efficiency index

	2003/04 (forecast)	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
2003 Business Plan Update	2,608	2,578	2,479	1,955	1,987	1,978	1,977	1,979	1,985	1,988
2004 Business Plan	2,542	2,417	2,238	2,108	1,917	1,790	1,760	1,724	1,690	1,654
Variance	-66	-161	-241	153	-70	12	217	255	295	335

The KPI targets for the financial efficiency index have been recalculated in line with the expenditure changes set out in this plan, and reflect changes in the organisational structure (from six regions to seven) since the 2003 plan was prepared.

Improved asset stewardship

The previous Network Rail asset stewardship index has been replaced by the slightly different ASI adopted by the Regulator and set out in Chapter 19 of the interim review draft conclusions. The targets for this KPI have been recalculated accordingly.

Supplementary indicators

Figure 24 Number of broken rails

	2003/04 (forecast)	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
2003 Business Plan Update	429	369	291	260	240	220	200	180	160	150
2004 Business Plan	349	343	303	290	280	280	280	280	280	280
Variance	-80	-26	-12	-30	-40	-60	-80	-100	-120	-130

The KPI targets for broken rails have been adjusted to reflect (a) outperformance against the 2003/04 target and (b) the extent to which funding for further improvements has been secured through the interim review.

We have also made a number of changes to our supplementary indicators to ensure that they reflect the revised Asset Stewardship Index. As a result, we have:

- included a revised track geometry measure (which is different to the poor track geometry measure recorded in the 2003 plan);
- replaced the total number of signalling failures with the number of signalling failures causing more than 10 minutes delay;
- replaced the number of track TSRs with the number of structures and earthworks TSRs; and
- added a measure of the number of points and track circuit failures.

Key Performance Indicators

Public safety index	industry-wide index which reflects the number and severity of accidents on the railway.
Public performance	the percentage of trains arriving less than 5 minutes late at final destination or less than 10 minutes late for inter-city operators.
Passenger capability	a volume based measure dependent on the growth in actual passenger train miles and passenger train operators' revenue from fares as reflected in the Regulator's volume incentive.
Freight capability	a volume based measure dependant on the growth in freight train miles and tonne miles as reflected in the Regulator's volume incentive.
Passenger complaints	industry-wide measure of average quarterly complaints per 100,000 journeys.
Financial efficiency	total expenditure on maintenance, normalised for traffic patterns and network size; track renewals, normalised for the volume of track replaced; operations and other core support costs.
Asset stewardship	an index which reflects the overall status of a number of contributory indicators of the condition of the network, aligned with those selected by the Regulator to provide an incentive mechanism for our stewardship of the network. A reduction in the index represents improved overall condition and reliability. This is measurable only at a national level.
Employee engagement	a measure of the level of employee engagement, on a scale of 1 to 5, with the business of Network Rail across all areas. Good levels of employee engagement are reflected in improved retention of employees, business unit productivity, profitability, customer service and safety performance.
Train delay minutes	the train delays attributable to Network Rail as defined in the contractual performance regimes with operators.
Number of broken rails	a measure of the number of rails which, before removal from the track, have a fracture through the full cross-section, or a piece broken out, of the railhead of greater than 50mm in length.
Level 2 exceedence	a measure of track geometry to identify track that requires remedial action within defined timescales. It is measured by the variance between the actual rail position and the 'ideal' position.
Number of signalling failures	records the number of signalling failures causing delays of 10 minutes or more.
Number of temporary speed restrictions	the number of emergency or temporary speed restrictions at the end of a period arising from asset failure or condition.
Traction power supply failures	the number of either overhead line or conductor rail supply failures causing delay over 500 minutes.
Track geometry	the quality of track geometry as measures against national target levels.
Points and track circuit failures	measures the reliability of points and track circuits failures. Those that cause a delay below a threshold (3 minutes or fewer depending on the location) are excluded.