



Department  
for Transport



**EB/047**

# Memorandum of Understanding

Memorandum of Understanding between  
Department for Transport and Network Rail  
on rail enhancements

## Glossary

<b>Department for Transport (DfT)</b>	The Secretary of State (for the purpose of the memorandum described as ‘the Department for Transport’) has responsibility for the railways in England and Wales, as well as some reserved railway matters in Scotland such as safety, standards and cross-border services.
<b>DfT Board</b>	The role of the Department’s Board is to ensure effective governance of the Department and its Agencies, in order to make the right decisions at the right time.
<b>Enhancements</b>	Works to improve the UK rail network.
<b>Framework Agreement</b>	A document that sets out how the Department and Network Rail interact in terms of corporate governance and financial management.
<b>Full Business Case (FBC)</b>	A document to evidence that the most economically advantageous offer is being procured and that it is affordable.
<b>Network Rail (NR)</b>	Network Rail Limited, Network Rail Infrastructure Finance plc and each of their subsidiary undertakings (as defined in section 1162 of the Companies Act) and any legal entity Network Rail Limited is required to consolidate into its accounts. Network Rail Limited is a private company limited by guarantee, whose sole member is the Secretary of State.
<b>ORR</b>	Office of Rail and Road.
<b>Outline Business Case (OBC)</b>	A document that revisits the case for investment and the preferred way forward identified in the SOBC; establish the option which optimises value for money; assess affordability; and demonstrate that the proposed scheme is deliverable.
<b>Parties</b>	The Parties to this agreement are the Department for Transport and Network Rail.
<b>Railway Control Period</b>	Network Rail plans its activity in five-year periods, called Control Periods.
<b>Strategic Outline Business Case (SOBC)</b>	A document that establishes the need for investment; to appraise the main options and to provide a preferred way forward for further analysis.
<b>Tier 1 scheme</b>	An Enhancement valued at over £200 million or high risk.
<b>Tier 2 scheme</b>	An Enhancement valued at over £50 million.

# 1. Introduction

This Memorandum of Understanding (MoU) responds to the recommendations of the Bowe Review<sup>1</sup> by clarifying the roles and responsibilities of the Department for Transport (DfT or 'the Department') and Network Rail (NR) in the delivery of Government funded rail enhancement projects.

The Government has set out an ambitious programme of railway investments. These investments will deliver increased capacity, improved journey times and greater reliability. This investment in our railways also makes an important contribution to economic growth and a rebalancing of our economy. Our railways are carrying more passengers now than ever before. The number of journeys has more than doubled since privatisation and demand continues to grow. It is vital, therefore, that the Department and Network Rail work effectively together to support this investment and deliver major infrastructure projects to time and budget.

This MoU is a joint commitment to new working practices and their governance to ensure that we better deliver improvements for passengers and other rail users.

We are committed to building new levels of trust, openness and transparency, and working to solve problems collaboratively, while maintaining a robust level of constructive challenge between organisations to drive up the efficiency of railway improvement programmes. Within each programme, we are committed to working together as one integrated team.

Our new approach is founded on some core principles:

- clarification of the Department's role as the funder and client on the Government's behalf for infrastructure investments, and Network Rail's role as the system operator and principal delivery partner;
- agreed documentation on the scope, costs, outcomes and benefits of all projects;
- new arrangements for the control of costs and the management of change;
- a revised governance structure founded in improved management information and arrangements for the early identification of problems and their resolution;
- joint responsibility for continuous improvement, value for money and efficiency.

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<sup>1</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/479560/bowe-review.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479560/bowe-review.pdf)

## 2. Scope

This MoU establishes common ways of working, a lifecycle for enhancements with joint decision gateways, the roles each party will fulfil and strengthened joint governance arrangements. The MoU will operate in conjunction with the Framework Agreement<sup>2</sup> between the Department and Network Rail.

The MoU is not intended to constitute a legally binding agreement and the commitments made are not intended to be legally enforceable. This MoU is a bi-lateral agreement and does not affect the Department's and Network Rail's statutory functions or duties and does not affect their relationship with any third parties.

The DfT and NR have an important relationship with the High Speed 2 Programme. This has been defined, jointly with HS2 Ltd, in a separate Tripartite Cooperation Memorandum and this MoU does not affect those arrangements. Similarly this MoU does not affect the separate arrangements for the delivery of Crossrail and Thameslink.

Network Rail and the Department are working with Office of Rail and Road (ORR) to review the role of enhancements within the wider Periodic Review process which the ORR will consult on in due course. This will outline options for the future role of ORR in the enhancements planning and funding processes. To give further clarity to the respective roles of the three organisations, the scope of this MoU may be extended in future to cover the role of ORR and the way the three organisations work together.

This MoU commences on the date of signing. We will review it in response to any relevant changes in Government policy and no later than 12 months from the date of signing. To support this, we have jointly committed to an internal audit of these arrangements after six months.

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<sup>2</sup> <https://www.gov.uk/government/publications/network-rail-framework-agreement>

# 3. How we will deliver improvements to the railway

This section sets out the principles we have adopted to improve the delivery of railway investments.

## Roles

When the Department is the principal client and funder of enhancements, it will define the outcomes that the investment is expected to achieve. No enhancement will progress without an appropriate business case in line with Treasury guidance. Enhancements are expected to have clear and measurable passenger or freight benefits. A senior officer<sup>3</sup> in the Department will be accountable for the delivery of the enhancements portfolio. When these conditions are met and the relevant gateways (Strategic Business Case, Outline Business Case, Full Business Case) have been passed, and funding is available, the Department will commit funds to scheme development, design and delivery.

Network Rail is the railway system operator and infrastructure manager and a significant deliverer of railway infrastructure upgrades. It operates today's railway and manages capacity, performance and safety on a day to day basis. It builds a cohesive national timetable and understands the demands on the network. It will identify future opportunities and needs and develop options for infrastructure investment. It will deliver infrastructure projects and programmes when commissioned to do so by the Department or other funders.

Where the client, funder or delivery roles are shared with one or more third parties, specific governance arrangements will be developed in line with the principles of this MoU.

## Planning and delivery: lifecycle and joint decision gateways

We have established a shared lifecycle for enhancements covering development, design and delivery. It supports a continuous planning approach and moves away from an overly rigid 5-year cycle for enhancement planning linked to Railway Control Periods.

Before any development commences, the Department will specify its strategic objectives having regard to the needs of passengers and other railway users. The Department and Network Rail will seek inputs from a wide range of stakeholders to improve the quality of its portfolio of potential schemes for investment. This process will better inform the Government's decisions on future schemes for investment.

The development, design and delivery stages are each preceded by joint decision points. These are formal gateways to proceed to the next stage of work, supported by joint commitments to fund and deliver work. The joint decision points are informed by

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<sup>3</sup> The Senior Responsible Officer for enhancements

the Treasury business case guidance<sup>4</sup>. We will align our decision making processes so that decision points can only be passed with sufficiently mature cost, benefit and risk estimates. Joint decision points will ensure there is a clear line of sight between funding, outputs, outcomes and benefits.

The joint decision points are first, the approval of the strategic outline business case (SOBC). This makes the case for rail enhancements and how they contribute to the Government's objectives. It results in a commitment to develop outline schemes. Second, the approval of the outline business case (OBC). This considers options and results in a commitment to design the preferred option. Third, the approval of the full business case (FBC). This confirms the value for money of the preferred option and the engineering design that underpins definitive cost, time, resource and risk estimates. This decision results in a commitment to deliver.

Investment decisions will consider the overall impacts on rolling stock, franchises and infrastructure. An investment decision point may be repeated following a change either within the programme or externally. Schemes may be rejected at any stage.

Public announcements will recognise the level of maturity of costs, schedule and risk. At the first two joint decision points we would announce an intent to find solutions to fulfil certain requirements without prejudice to the final solution. Only announcements at the final joint decision point would be specific about scope, cost and schedule.

### **Joint governance**

We have established new arrangements to govern the enhancements lifecycle at portfolio, programme and project levels. The new Network Portfolio Board will enable us to govern the enhancements lifecycle at the portfolio level. Portfolio level decisions will be concerned with maintaining alignment with objectives and maximising portfolio value within a defined set of constraints.

Route Programme Boards have been established to govern the route programmes. Programme decisions are concerned with ensuring delivery of the business case, mitigating programme risk and oversight of programme dependencies and interfaces. They include operator representatives.

Decisions will be made at the lowest possible level of governance.

The established governance arrangements in Network Rail and the Department are not changed by this MoU and as such, following endorsement from a joint governance body, a joint approval is required from the appropriate Department and Network Rail decision making bodies.

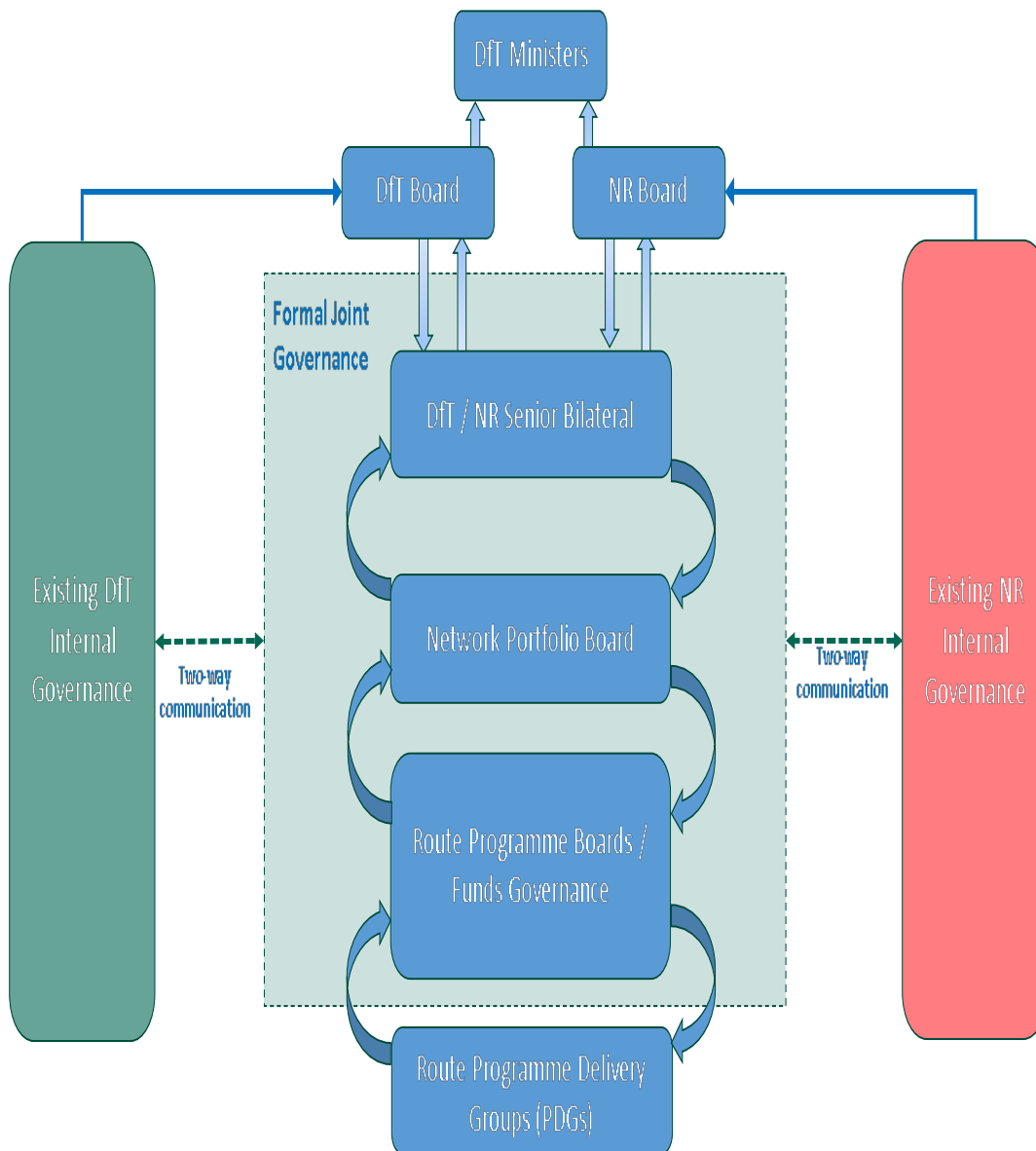
The following diagram summarises the key elements of the new joint governance arrangements.

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[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/469317/green\\_book\\_guidance\\_public\\_sector\\_business\\_cases\\_2015\\_update.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/469317/green_book_guidance_public_sector_business_cases_2015_update.pdf)

## Summary of joint governance arrangements



### Baseline and change control

For the current portfolio, in the light of the 2015 Hendy Review, a detailed baseline will be agreed and then be subject to change control. For new schemes, change control will apply from the SOBC/Commit to Develop joint decision point.

We acknowledge that change will be a regular feature within an enhancement portfolio of this size, and that our job is to control change pro-actively and transparently.

### Management information

To support our decision making the Department and Network Rail will work with a single version of the portfolio, programme and project management information. Network Rail will ensure this information is appropriate, timely and accurate.

## Assurance

Both the Department and Network Rail recognise the importance of a robust and credible assurance regime with our people being held to account for their work, either internally or through external, impartial assurance. Assurance in this context is not only audit – assurance can be provided by robust challenge of data in management and programme boards and this can apply to both costs and delivery.

The Department and Network Rail will work together to ensure that governance groups - at all levels - are provided with accurate data, which all parties can be confident in. Where audit takes place, to avoid duplication we are clear that audits by either party should be of sufficient integrity to be accepted by the other. This will include assurance from independent, competent, bodies engaged to validate project and programme performance, delivery and cost analysis for Tier 1 and 2 programmes as required. Nothing in this agreement impacts on the relationship of either party with wholly external bodies, such as the IPA and NAO.

We will each maintain our own current internal assurance functions. Network Rail will share with the Department the results of any internal assurance, including audit reports, of its scrutiny of costs and output delivery.

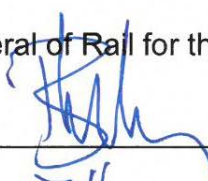
## Signatures

Name: Bernadette Kelly \_\_\_\_\_

Position: Director General of Rail for the Department for Transport \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

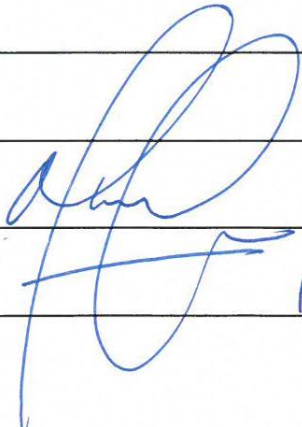
  
17<sup>th</sup> March 2016

Name: Mark Carne \_\_\_\_\_

Position: Chief Executive of Network Rail \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

  
17/3/2016



