

Improving Network Rail's renewals efficiency: a consultation

July 2017

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Summary

What has happened on renewals efficiency?

The efficiency with which Network Rail delivers work to renew the network has fallen. It has missed its own efficiency targets and those set by ORR as part of the 2013 periodic review (PR13). Other things being equal this inefficiency increases the funding that needs to be provided by passengers, freight users and taxpayers. Efficiency problems on renewals have been the biggest factor in Network Rail's overall performance on efficiency.

The record on renewals efficiency raises questions not just for Network Rail but also for ORR and the wider industry, including the governments. The purpose of this consultation is to seek views on what Network Rail, ORR and the wider industry needs to do differently to drive renewal efficiency improvement in control period 6 (CP6), drawing on an analysis of the experience of control period 5 (CP5) and wider planned changes in CP6¹. Network Rail is clear it must improve and it is important there is broad support for the changes that are needed. The submission to ORR of Network Rail's route based strategic business plans (SBPs) for CP6, including its plans to improve efficiency, is a key stage in the process for the current periodic review (PR18).

Why did renewals efficiency decline?

Although the significance of the possible drivers of renewals efficiency in CP5 will vary by geography and asset, the following have been material:

- Network Rail was poorly prepared to deliver renewals at the start of CP5;
- Network Rail's PR13 efficiency improvement plans were not well founded;
- Network Rail reacted slowly to the problems on efficiency;
- there has been increased pressure on access to the railway to carry out work;
- the reclassification of Network Rail into the public sector, with the introduction of fixed borrowing limits. Network Rail's inefficiency at the start of CP5 led to cost pressures. Network Rail then repeatedly re-planned its renewals projects, reducing the volume of work to keep spending within the borrowing limits. This re-planning created further cost pressures, leading to a downward spiral of deferred work and higher costs for the work done; and
- devolution to Network Rail's routes initially led to unaffordable increases in the scope of work in some areas (which, nonetheless, did deliver benefits, such as improvements in train performance).

¹ CP5 runs from 1 April 2014 to 31 March 2019, and we expect CP6 to run from 1 April 2019 to 31 March 2024.

Expected improvements in Network Rail's asset management

However, Network Rail's record on efficiency should not be seen in isolation. Improving renewals efficiency is one part of asset management. Hence, while this consultation is primarily about efficiency, it necessarily covers asset management in general and the wider context within which Network Rail must deliver. In PR13 we set out requirements for improved asset management, including:

- a change in the way that Network Rail plans, based on a bottom up rather than top down approach, to improve the realism of its plans;
- improving the capability of its staff and the quality of its processes; and
- changing the way that the company collects and analyses data, with a much greater focus on local inputs and knowledge.

Network Rail has improved the reliability of its assets by 16% in the last three years, partly reflecting the improvements in these areas. So it is not, as is sometimes portrayed, a company whose asset management capability is particularly weak. Instead, core improvements have been outweighed by the factors described on the previous page.

Moreover, some of the factors driving the poor performance on efficiency also reflect the impact of transition – to a public sector company and to a route based company. Over time, the route based structure will improve efficiency, while the impact of being a public sector company depends largely on the government framework within which Network Rail is able to operate.

How we will assess Network Rail's CP6 strategic business plans

Good planning is a prerequisite for improving efficiency. We currently expect Network Rail to publish its strategic business plans on 8 December 2017, although the periodic review timetable is being reviewed given the delay in finalising the governments' funding decisions (see page 4 below). These plans will set out what efficiency improvements the company thinks can be delivered in CP6. We are changing our approach to how we assess these plans in terms of both our methods and where we focus resources, to ensure a rigorous challenge to Network Rail's proposals. This will include:

- a much stronger focus on comparing the route based plans, taking advantage of Network Rail's devolution to its routes, to test the robustness of the plans against each other. These plans will be bottom up plans and we will be able to test the relative strength of their assumptions;
- increased engagement with route customers and other stakeholders;
- commissioning deep dive reviews to increase our level of assurance;

- focusing resources on areas which we know have led to problems in CP5 (as described on page 2 above);
- focusing resources on new areas of risk, e.g. the forecast lower level of renewal volumes in the last year of CP5 with the need for a step up in volumes in CP6, which could make it harder to improve efficiency;
- engaging with the governments and the wider industry on how their actions can affect the scope for efficiency improvements; and
- taking account of Network Rail's Transformation Plan, including changes to Network Rail's internal structure for planning, costing and delivering renewals.

How we will monitor and incentivise Network Rail differently in CP6

We are changing the way we monitor Network Rail's delivery of its planned efficiency improvements in CP6, to provide a more in depth challenge on progress. We will focus on ensuring Network Rail puts in place better:

- detailed diagnostic information – to increase the level of understanding and hence better identify where further changes may be needed, e.g. to improve the productivity of renewals worksites; and
- leading indicators of delivery and the quality of delivery – such as the stability of workbanks.

Alongside this work for CP6, we have introduced changes to the way we monitor Network Rail's efficiency in CP5, which we will report on in our November 2017 Network Rail Monitor.

We intend to improve the incentives on route managing directors (who are responsible for ensuring the route businesses deliver against agreed plans) by²:

- **refining the role of customer scorecards for CP6.** The new scorecards will be developed with customers and stakeholders who will have a role in monitoring them and agreeing any changes; and
- **publishing more direct comparisons between each route.** This will highlight good practice, focus attention on those routes that are not improving and provide a stimulus to explore differences and share best practice.

² Our consultation on the overall framework for regulating Network Rail (which will be published later in July 2017) sets out more detail on these issues.

Related issues

The Secretary of State and the Scottish Ministers have published their high-level output specifications (HLOSs) but more time is needed to finalise decisions on the available funding (which will be set out in the statements of funds available (SoFAs))³. We have extended the deadline for the submission of this information and explained the next steps in letters we have published⁴. We have also initiated a new independent reporter study to give increased assurance around the progress Network Rail is making on its efficiency plans for CP6.

Responding to this consultation

We welcome comments from stakeholders on this consultation, in particular, on whether we have correctly identified the main drivers of the recent trends in efficiency, and whether we are prioritising the right areas to give greater scrutiny to in PR18. Please see paragraphs 42-48 for details of how to respond and the questions on which we are particularly inviting views.

Please note that **this consultation will close on 13 September 2017**.

³ More information on the HLOS and SoFA process is available in the [Live timetable for PR18 and description of key milestones](#) document.

⁴ See [ORR letter to DfT - Next steps on the HLOS and SoFA process](#), July 2017, and [ORR letter to Transport Scotland - Next steps on the HLOS and SoFA process](#), July 2017.

Structure of this document

1. Our 2018 periodic review (PR18) is an important opportunity to improve the quality of Network Rail's business plans, how those plans are scrutinised and also the incentives on Network Rail to deliver efficiently against those plans. All of these elements can make an important contribution to raising efficiency levels and so reduce costs to those funding the railway.
2. This consultation covers the following key issues:
 - ORR's expectations at the start of CP5 for Network Rail's renewals efficiency in CP5;
 - what has happened to Network Rail's renewals efficiency during CP5, and the factors which we consider have driven those developments;
 - the improvements we expected Network Rail to make in its asset management planning, delivery planning and cost planning ahead of CP6, which address some of the above factors, and the extent to which Network Rail has made the progress we expected;
 - improving the quality of Network Rail's plans for CP6 and how we will assess them during PR18, giving additional scrutiny in areas that have not gone well during CP5, including how we will assess the efficiency assumptions for CP6 and decide what we think is deliverable; and
 - how we plan to monitor delivery in CP6, again building on lessons learned from CP5, and how we expect financial and reputational incentives to support efficiency.

Expectations at the start of CP5

3. In PR13, as part of our determination, we forecast the expenditure that Network Rail would incur to deliver its maintenance and renewals work by starting from a base level of spend. This base level was the 2013-14 level, as that was the last year of control period 4⁵ (CP4)⁶. We called this base level of expenditure the 'pre-efficient' level and we assessed in 2013 how much we thought this could be reduced by efficiency improvements, for example, through reducing unit costs, or better targeting of the work required by Network Rail.

⁵ Our analysis was based on a combination of actual expenditure in 2012-13 and forecast expenditure in 2013-14, which was the most recent data available when we took our decisions in October 2013.

⁶ CP4 ran from 1 April 2009 to 31 March 2014.

4. Network Rail set out its plans for CP5 in January 2013, which included its view that it could improve efficiency by 13.8% for maintenance and by 15.8% for renewals. After analysis of its plans, we considered that the company could deliver efficiency improvements of 16.4% and 20% respectively. These efficiency assumptions were widely supported by industry and the governments at the time.
5. We also concluded that improvements in Network Rail's asset management capability were needed during CP5 in time to improve planning for CP6. We set targets for Network Rail in key areas to help drive improvement in asset management planning – which is about understanding the work that needs to be done. These included requirements on Network Rail to: move to bottom-up analysis and planning; introduce better decision support tools; improve asset data quality; and, more generally, develop a more mature approach to asset management. We also challenged the company to improve its project and programme management capability, and following PR13, we sought improvements in its understanding of maintenance and renewals costs. We discuss progress in these areas in more detail below.

What actually happened during CP5

Measuring and monitoring efficiency

6. We monitor Network Rail's financial delivery using measures of financial performance and efficiency. We have reported our findings twice a year in our [Network Rail Monitors](#) and in our yearly [annual efficiency and finance assessments](#).
7. When measuring Network Rail's financial performance it is important to make adjustments for renewals work that was planned to be carried out but which has not been delivered. This ensures that we can distinguish between lower spend driven by increased efficiency and lower spend driven by the deferral of work that still needs to be done.
8. When explaining recent efficiency trends, it is particularly important to make these adjustments, because over the course of CP5, deferred renewals are likely to amount to around £3.7bn in Great Britain (in 2016-17 prices) compared to a total forecast renewal spend in Great Britain in CP5 of c£14.0bn (in nominal prices). Most of this deferral is in England & Wales with Scotland much less affected.
9. Our Financial Performance Measure (FPM) makes a series of adjustments to account for the volume of work undertaken, to gain a better understanding of underlying changes in efficiency relative to our assumptions. In broad terms, if Network Rail delivers its planned work at the expected cost, FPM will be zero. If work is deferred but expenditure is not reduced to the same extent, or the work is

completed but expenditure is higher, FPM will be negative. Other increases in costs – such as higher overheads – would also, everything else being equal, make FPM negative.

Trends in efficiency

10. As we report in our Network Rail Monitors⁷, Network Rail's renewals efficiency has fallen over the first three years of CP5 (the current control period). In addition, efficiency in this control period will be below both our PR13 assumptions and Network Rail's own forecasts, especially for renewals. Indeed, efficiency started to reduce towards the end of CP4. We will report on its efficiency in the first years of CP5 in more detail in our annual efficiency and finance assessment that will be published in September 2017.
11. Overall, FPM shows that, for the first three years of CP5, for the work delivered in Great Britain, Network Rail spent approximately £4.2bn (in 2016-17 prices) more than we assumed in our PR13 determination. Renewals account for the biggest part of this underperformance at £2.6bn (in 2016-17 prices) for the three years in total. The maintenance underperformance for the three years in total was approximately £0.3bn (in 2016-17 prices).
12. Comparing FPM against Network Rail's own budget, for the first three years of CP5 in Great Britain, for the work delivered, Network Rail underperformed by approximately £1.2bn (in 2016-17 prices) on renewals and £0.3bn (in 2016-17 prices) on maintenance. These FPM figures are consistent with Network Rail's analysis that there has been a significant increase in renewals unit costs during CP5.
13. Although the [Hendy review](#) reset the baselines for CP5 enhancements in England & Wales, there has also been underperformance since then. For example, in 2016-17 Network Rail's underperformance in England & Wales compared to the Hendy baseline was £0.3bn (in 2016-17 prices). Compared to our PR13 determination, it was £1.2bn. We have provided these high-level comparisons for context only as this consultation does not cover enhancements.

Underlying causes of trends in renewals efficiency

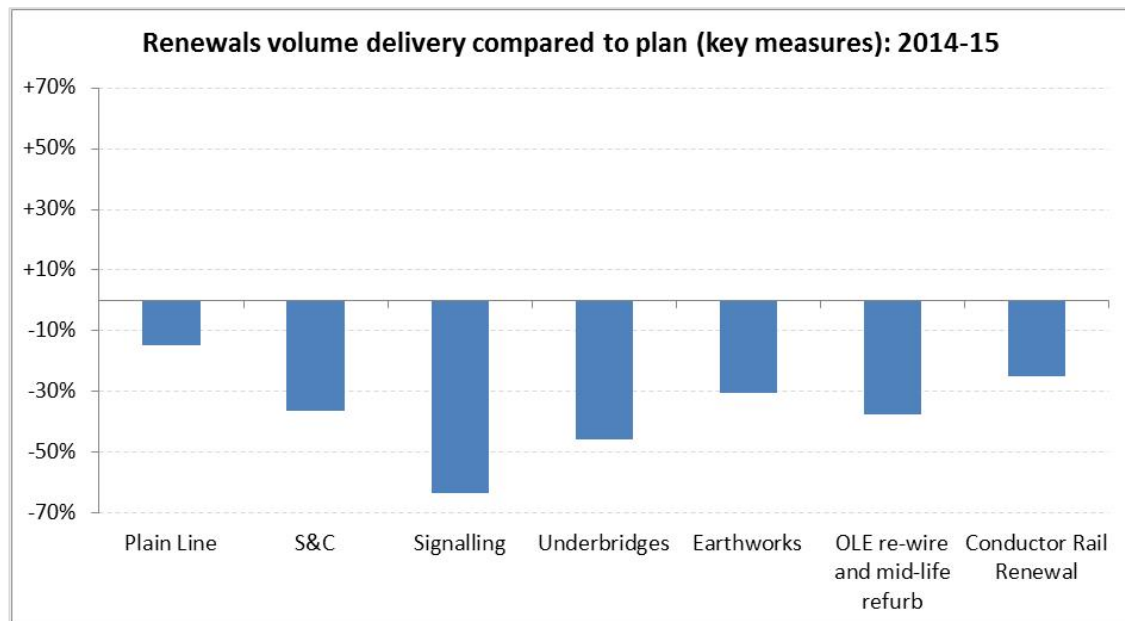
14. We have considered the underlying causes of the recent deterioration in renewals efficiency. This is inevitably difficult to analyse in a purely quantitative way: not least as the various causes are interlinked and it is difficult to separate changes in

⁷ Our latest Monitors for Great Britain and Scotland were published on 20 July 2017 and are available [here](#).

efficiency driven by Network Rail's actions and the consequences for efficiency of the decisions taken by Network Rail's customers and other stakeholders.

15. Indeed, this complexity highlights the need to test these potential causes with stakeholders, with a view to building a shared understanding of the contributory factors. This should help identify improvements and ensure that future decision-making is informed by an understanding of the impacts on efficiency.
16. Although the significance of the possible causes will vary by geography and asset, in our view there is evidence that the following have been material factors in driving recent trends in efficiency.
 - (a) **Network Rail was poorly prepared to deliver renewals at the start of CP5:** In year 1 of CP5, the volumes of renewals delivered were considerably lower than those set out in Network Rail's 2014 delivery plan.

Chart 1: Renewals volume delivery compared to plan (key measures) in 2014-15

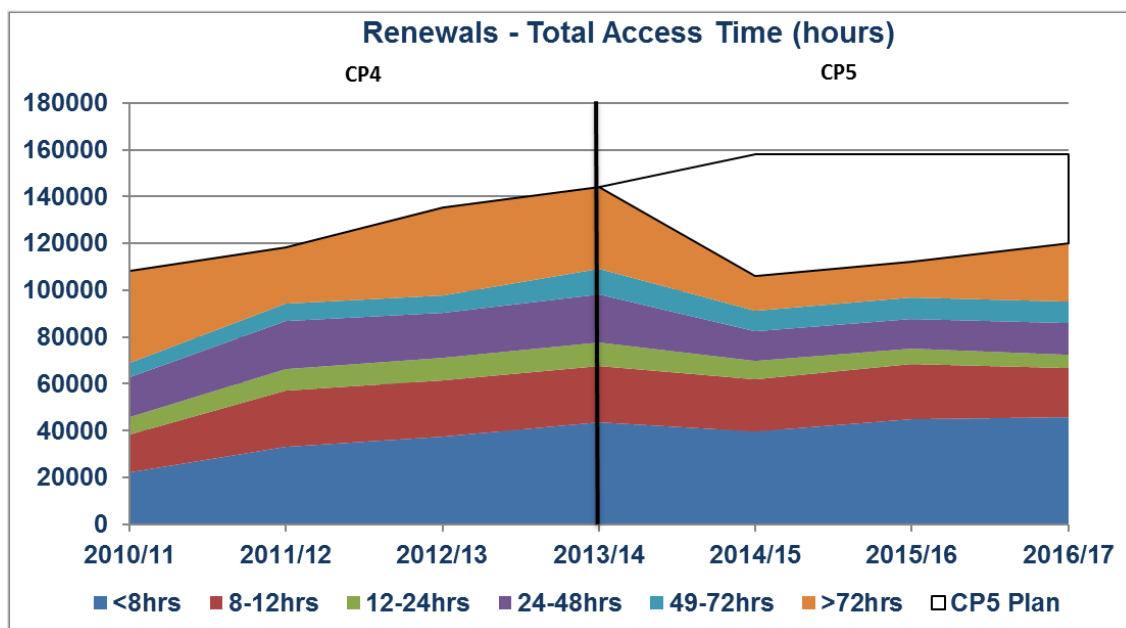


This scale of under-delivery reduces productivity, both within Network Rail and through its impact on the supply chain. The reasons behind the slow start include:

- (i) towards the end of CP4 Network Rail ramped up activity to complete planned renewals within the control period but, in some areas, including signalling, this was at the expense of early stage development work on renewals that were due to be completed in year 1 of CP5;
- (ii) CP5 framework contracts for civils were not finalised until midway through year 1;

- (iii) the CP5 track asset policy introduced more heavy refurbishment for switches and crossings (S&C), but Network Rail initially lacked the capability to deliver this type of work; and
 - (iv) track renewal volumes were not carried out in some areas as CP4 framework contracts wound down ahead of the CP5 framework commencing midway through year 1.
- (b) **Network Rail's PR13 efficiency improvement plans were not well founded:** This was mainly due to how the company prepared for PR13, with a centrally driven strategic business planning process that was to an extent disconnected from the business itself, with the result that the proposed efficiency initiatives were more overlays than real plans. PR13 initiatives that Network Rail has implemented during CP5 have so far tended to generate cash savings that are smaller and later in the control period than expected. Some maintenance initiatives have probably improved efficiency through greater effectiveness (reflected in the improved asset performance) rather than by reduced cost, albeit that attributing gains to particular initiatives is difficult because there are multiple overlapping initiatives in progress.
- (c) **Network Rail reacted slowly to the problems on efficiency:** Although the increasing cost of renewals has been evident for some time, and both ORR and Network Rail have stressed the importance of addressing this, Network Rail's renewals recovery programme only started in 2016. While this plan is providing new analysis for Network Rail's SBPs for CP6, it looks likely that it will deliver limited progress on efficiency over the remainder of CP5. This limited progress reflects the fact that Network Rail has been focused for much of CP5 on the related challenges of delivering the enhancements programme, its transition into public ownership and managing its cash position.
- (d) **Increased pressure on access to the railway to carry out work:** Network Rail assumed in PR13 that during CP5 access for renewals would increase by 25% compared to CP4, but it has actually fallen (even though renewals volumes are also below planned levels), particularly for longer periods of access, and the average length of access has decreased. The relationship between access duration and productivity is not straightforward, and there are other factors that affect on-site productivity. But, other factors being equal, reduced access will tend to reduce productivity, and hence efficiency.

Chart 2: Actual access for renewals during CP4 and CP5, and comparison with the plan for CP5



There is debate in the industry about why access has declined. It is often said by operators that Network Rail does not justify the case for more possessions and that it has not been using the relevant processes in the Network Code effectively to secure more or longer access, if that is what is required to deliver efficiently. Linked to this is the question of whether its relationships with local stakeholders are sufficiently strong to balance the short-term interests of train operators and the longer-term effects on the network of not carrying out the work that is required.

What the data does show is that there are more trains running earlier and later on some routes, which is putting pressure on access times and requiring Network Rail to work harder to justify why these trains should not run at certain times.

Whatever the length of possession available, Network Rail needs to make maximum use of the time available. Although the drivers of productivity vary, there is no doubt Network Rail has become more risk averse when it plans work, so that it plans to do less work in the access that is available, to prevent overruns that impact network performance and its reputation.

- (e) **The reclassification of Network Rail into the public sector, with the introduction of fixed borrowing limits:** Network Rail's inefficiency at the start of the control period led to cost pressures. Network Rail then repeatedly re-planned its renewals projects, reducing the volume of work to keep spending within the borrowing limits. This re-planning created further cost pressures,

leading to a downward spiral of deferred work and higher costs for the work done.

- (f) **Devolution initially led to unaffordable increases in the scope of work in some areas:** Route managers have taken opportunities to add local improvements to the scope of some renewals work in order to secure additional local benefits (e.g. more reliable assets or local speed increases). The additional costs of doing so have put pressure on the borrowing limits and increased headline unit rates. Some of these decisions may have been made prior to reclassification, before the effect of such decisions on the affordability of the CP5 renewals portfolio following reclassification was foreseen.

Train operators have supported the inclusion of local improvements alongside renewals, and in the course of engaging with Network Rail's routes in preparation for PR18, they have said Network Rail should do more in this area during CP6. One of the aims of route devolution is to make Network Rail more responsive to stakeholder needs, and a renewal can provide the best opportunity to achieve such improvements (indeed they may be uneconomic at any other time). The question is whether Network Rail has had sufficiently robust governance arrangements in place to understand and manage the impact of individual decisions on the affordability and efficiency of the renewals portfolio as a whole.

17. Some of these factors reflect earlier weaknesses in asset management planning and the lack of a robust bottom-up plan during PR13, which are areas where we have required Network Rail to improve ahead of its plans for CP6. We summarise this background below, along with our assessment of Network Rail's improvement in these areas.

Improvements in Network Rail's planning

18. In this section we discuss improvements to the following areas of Network Rail's planning:
- asset management planning;
 - delivery planning; and
 - cost planning.

Improvements in asset management planning

19. Throughout CP4 and during PR13 we identified weaknesses in Network Rail's capability and approach to planning, costing and delivering its work. To encourage

long-term improvement in Network Rail's efficiency, we placed a number of requirements on Network Rail to improve its asset management planning capability prior to the submission of its CP6 business plans.

- **Asset management planning:** We required Network Rail to adopt a bottom-up business planning process instead of a top-down approach. To achieve this Network Rail has moved away from a centrally driven five-yearly planning cycle geared to the periodic review, and implemented an ongoing business-as-usual business planning process centred in the routes, informed by local knowledge of assets and their condition, and influenced by local stakeholder needs. The SBP submissions will be a snapshot from this process at the time of the periodic review. Network Rail's policy of devolution of authority to the routes has been a key enabler of this progress.
- **Decision-support tools (the 'ORBIS' programme):** We required Network Rail to deliver its own milestones for the roll-out of decision support tools during CP5, making available a richer dataset on asset condition in a more accessible form, to support asset managers in monitoring asset condition and planning work. Network Rail has delivered the ORBIS milestones we set, with two exceptions (which are now expected later in 2017).
- **Asset information:** Efficient decision-making is heavily reliant on maintaining a comprehensive and reliable dataset of information about network assets and their condition. In PR13, we assessed the quality of Network Rail's asset data and found it variable, so we set a requirement for Network Rail to achieve 'A2'⁸ data quality for the core asset data that it uses in its asset management decision-making. Network Rail has responded by establishing governance arrangements at the centre and in the routes based on ISO8000 (an established standard), with an approach that manages asset information as being itself an asset that requires maintenance and renewal. We expect this will enable Network Rail to demonstrate that it has achieved the 'A' (system reliability) score, but it may be later in CP5 before these arrangements bring the accuracy of its core asset data up to '2' in all asset areas.
- **Asset management maturity:** We assessed Network Rail's overall capability in asset management using AMCL's model of asset management maturity, known as the Asset Management Excellence Model (AMEM). We were dissatisfied with the pace of improvement during CP4, so in PR13 we required the company to meet the objective of achieving excellence in asset management during CP5,

⁸ A2 comprises two measures. The letter is a grading of system reliability and the number is a grading of data accuracy: an 'A' means it has sound textual records, procedures, investigations, or analysis properly documented and recognised as the best method of assessment; and a grading of '2' means the data has an accuracy/completeness of 95%.

as measured by AMEM. An interim assessment last year found that one of the six targets had already been achieved, but in general much more needed to be done to apply initiatives at route level. AMCL's view was that in some areas the process of devolution had resulted in a loss of clarity about systems and processes, and the new arrangements had not yet settled in and become robust. Network Rail has said that it understands where these shortfalls are, and has plans in place to achieve the regulated output in time for CP6.

20. There is some evidence that these improvements are improving outcomes, as measured by asset reliability and sustainability. During the first three years of CP5, asset reliability improved by 16% across the network as a whole, well ahead of the target Network Rail set itself in its CP5 delivery plan (6%)⁹. This has not yet resulted in a higher percentage of trains being on time because there have been increases in other causes of delay, and because each incident has been having a bigger impact on punctuality. But without these asset reliability improvements, train performance would have been worse.
21. On sustainability, asset remaining life during the first two years of CP5 was close to where Network Rail forecast it would be in its CP5 delivery plan. However, we are expecting some deterioration over the remainder of the control period, as renewals are deferred into CP6 due to affordability constraints.

Improvements in delivery planning

22. Delivery planning is the process that determines whether and how the workbank generated by asset management planning can be delivered. This typically considers issues such as availability of resources and engineering access to the railway to complete the works.
23. In October 2015, we identified the lack of a joined-up and integrated specification and plan covering all infrastructure, rolling stock and depot changes required for CP5, while an independent reporter review found that Network Rail did not have an overarching assurance process or uniform approach for complex programmes that lead to significant timetable changes. This was one of the contributory pieces of evidence that led us to find Network Rail in breach of its licence with regards to delivery and management of enhancement projects in October 2015.
24. Network Rail responded by setting up its Enhancements Improvement Programme (which is relevant here, since many of the changes under this programme benefit renewals) and using the cross-sector Portfolio, Programme and Project Management

⁹ The CP5 delivery plan was published on 31 March 2014.

Maturity Model (P3M3) to develop improved capability within its Investment Projects delivery function. Progress has been made, but we still have some concerns, so in preparing for PR18 we commissioned an independent reporter to look into Network Rail's overall process for assessing the deliverability of the total portfolio of works. This will identify any gaps in this process and review if Network Rail's improvement plans are addressing these areas. The independent reporter is providing its draft conclusions at the end of July 2017 with the report to be finalised later this summer.

Improvements in cost planning

25. Cost planning is how asset managers understand the cost of delivering each item of work they plan, and it ultimately informs how the maintenance and renewal part of the business plan is built up from the route asset management plans.
26. Cost planning has a direct effect on efficiency, because understanding what drives cost is important to the effective scoping of work and selection of the preferred option or technical solution.
27. During PR13 we were not satisfied that Network Rail had a robust understanding of maintenance and renewal costs and the drivers of cost. The maintenance part of its SBP was based on high-level resource planning, whereas optimising for efficiency requires understanding what individual maintenance activities actually cost. For renewals, we were not satisfied that Network Rail had a systematic and controlled cost planning process. In some areas the basis of cost estimates was unclear. We had raised similar concerns earlier in CP4, and were concerned at the lack of progress, so we challenged Network Rail to improve its capability in these areas during CP5.
28. On **maintenance**:
 - Network Rail responded by initiating a project called Activity Based Planning, which has developed and implemented a bottom-up maintenance planning process. The approach is based on: the activity required to maintain each network asset; the labour, plant and materials required to deliver that maintenance; and their costs. Each of these has been assessed individually for each maintenance delivery unit, using its own records of time taken to complete standard jobs, time spent travelling to site, material costs, etc. The large number of maintenance standard jobs has been rationalised and standardised across routes and delivery units, and restructured to differentiate between planned preventative activities, and fault finding and fixing; and
 - a planning tool implementing this approach has been rolled out to the routes and their maintenance delivery units, and is being used to build up their plans

for CP6. Some routes have found the tool so beneficial that they have also used it to validate their plans for the remainder of CP5. For the first time, managers can see how maintenance costs arise. The approach also generates a bottom-up requirement for the on-track machines used for maintenance, which will allow the supply of these resources to be managed more effectively to meet demand across the network as a whole.

These changes are a step forward in capability, which should support further gains in maintenance effectiveness and efficiency, although the actual benefits will only become clearer later in the business planning process.

29. On **renewals**:

- Network Rail has implemented a common cost-breakdown structure across the business, so that the way work is planned and scoped is now aligned with how it is costed, and how actual project costs are reported. It has also worked to cleanse its historical costs dataset that drives the unit cost models;
- Network Rail has been addressing the wider issue of organisational capability in this area through the cost planning improvement workstream of its Enhancements Improvement Programme. The scope of the workstream included organisational arrangements, processes and tools for renewals cost planning; and
- a central team has been established to provide professional leadership, policy and independent assurance of the work done in the routes, analogous to the professional head arrangements in place for engineering and asset management. However, plans to increase local resources (so that cost plans can be developed and kept up to date through the project lifecycle) are behind schedule, and overall there is a risk that not all the improvements will be implemented in time to support the CP6 SBP submissions.

Improving the quality of Network Rail's plans and our assessment of them

30. Good planning is a critical aspect of improving efficiency and – more generally – of ensuring that plans deliver what funders, customers and end-users want from the network. Network Rail's SBPs are currently due to be submitted to us in December 2017 (although the periodic review timetable is under review following the delay in the publication of the governments' statements of funds available (SoFAs)). This is a key step in the periodic review process, and provides the main source of evidence for our scrutiny of the company's plans for CP6. With this in mind, we have taken steps

so that Network Rail improves the quality of its process for producing its plans, particularly its plans on efficiency and of our approach to assessing them.

31. On the process by which Network Rail produces its business plans we:

- placed a number of regulatory requirements on Network Rail in PR13, with a view to improving the company's capability to produce good quality plans for CP6 (as described in the previous section);
- set out our expectations for the content of the CP6 plans and the process that Network Rail should follow when preparing them – importantly, this increased the role of engagement with customers and other stakeholders (our published guidance to Network Rail is available [here](#)). Network Rail has been very positive in its response to this; and
- have been engaging with Network Rail routes and centre to ensure that the emerging plans are in line with our expectations, including by challenging any weaknesses that we identify in the earlier iterations of their plans. This will be reinforced by the independent reporter review we have initiated which will be carried out over the summer¹⁰.

32. We are also changing our approach to assessing Network Rail's plans, drawing on the lessons learnt in CP5, and these changes include both our methodology and where we focus resource. In addition to keeping the pressure on Network Rail to deliver its CP5 commitments on improved asset management and to make faster progress on its CP5 renewals recovery plan, we will be:

- **making greater use of comparison between individual route plans.** To test the realism of the planning inputs on areas where we expect improvements (e.g. on accuracy of costs) and the realism of specific efficiency improvement plans (e.g. which routes are clearer on how the cash savings are actually realised). We will also expect each route to demonstrate a systematic and thorough approach to efficiency planning, including which efficiency improvements options they have considered but are not taking forward and why;
- **encouraging Network Rail's increased engagement with route customers and other stakeholders.** Our assessment of this engagement will be part of our review. This will provide additional assurance on whether the route plans

¹⁰ This reporter study is intended to give increased assurance around the progress Network Rail is making on its efficiency plans for CP6. It is further described in our letters to the [Department for Transport](#) and [Transport Scotland](#) on the next steps in the HLOS and SoFA process.

have appropriately considered the priorities of end users and benefitted from stakeholder challenge;

- **conducting deep dive reviews.** This will increase the level of assurance. The independent reporter review that we have just initiated into Network Rail's progress in developing efficient expenditure plans will support this;
- **focusing resource on the drivers of renewals inefficiency in CP5.** For example, is Network Rail likely to make a running start to CP6 to avoid a hiatus in delivery during year 1, by maintaining the pipeline of renewals projects and having supply chain agreements in place before the commencement of CP6. Is the company strengthening governance around the control of scope during the renewals project lifecycle, consistent with a fixed funding envelope;
- **focusing on new areas of risk.** The substantial volume of renewals that have been deferred during this control period will put additional pressure on Network Rail's ability to deliver the volume of work required during CP6. The scale of this issue will also reflect the size of the difference between the renewals volumes in the last year of CP5 and the required volumes in the first year of CP6;
- **engaging with the governments and the wider industry on how their actions can affect the scope for efficiency improvements.** For example, through decisions on how Network Rail's funding settlement is structured; and
- **taking account of Network Rail's Transformation Plan.** This includes the changes Network Rail is making to its internal structure for planning, costing and delivering renewals.

Monitoring and improving incentives

Changing how we monitor the delivery of efficiencies

33. We are making changes to how we will monitor the delivery of Network Rail's efficiency plans in CP6, building on the changes Network Rail and ourselves are already implementing in CP5 (which will be reported on in our next Network Rail monitor, which we expect to publish in November 2017).
34. To underpin these changes, we need to ensure that there is sufficient information available about how routes are performing to increase the level of understanding and hence better identify where further changes may be needed. For example, it is clear that Network Rail needs to improve the data it collects to provide a better analysis of the availability of access; the productivity achieved during access; and the scope of work delivered. This will provide better diagnostics on what is driving efficiency levels.

35. Building on the process Network Rail is already developing, we will make greater use of leading indicators about the likely delivery of efficiencies including: the stability of workbanks, quality of delivery ('right first time'), that plans for future renewals are being progressed and the extent to which unit rates are achieved before financial authority is given.

Strengthening the incentives on Network Rail to deliver efficiencies

36. We will strengthen the incentives on Network Rail to deliver, and here the focus will be on the route managing directors who are responsible for delivering against agreed plans. Two key parts of this will be developing the role of customer scorecards (building on recent experience) and using these scorecards to increase the reputational impact of publishing transparent comparisons between routes.
37. The performance of Network Rail's routes is already measured against scorecards, which are being refined for CP6. The new plans will be developed with customers and stakeholders, providing a way to support agreement over the delivery of future outcomes and ongoing engagement with customers and stakeholders to resolve issues as they arise (backed by ORR's monitoring and oversight). This will sharpen the incentives on route managing directors to work with their customers to improve what is delivered and also to control costs better. Network Rail's management incentive plan – with its links to outturn performance against the scorecards – will also play a role in providing a financial incentive on these management teams.
38. To complement these changes, comparisons between routes can also improve incentives. Our routine monitoring of Network Rail – including in the Network Rail Monitor – is already focusing more on the performance of each route, and we will build on this and publish more direct comparisons between each route, based on the scorecards. This will highlight good practice, focus attention on those routes that are not improving and provide a stimulus to explore differences and share best practice. We expect this to have a strong reputational impact.
39. Later in July 2017, we will be publishing our consultation on the overall framework for regulating Network Rail. This will include our proposals on how the incentives on route teams can be improved through scorecards and monitoring. As, ultimately, Network Rail must meet the requirements of its network licence, we will investigate if Network Rail is not performing and take enforcement action where appropriate.
40. We are also continuing our work to identify ways of improving the alignment of incentives between Network Rail and train operators, which includes considering improvements on and alternatives to the current route-level efficiency benefit sharing

(REBS) mechanism. We are engaging with stakeholders on this, ahead of a consultation in November 2017.

Related issues

41. The Secretary of State and the Scottish Ministers have published their HLOSs but more time is needed to finalise decisions on the available funding (the SoFAs). We have extended the deadline for the submission of this information and explained the next steps in letters we have published¹¹. We have also initiated a new independent reporter study to give increased assurance around the progress Network Rail is making on its efficiency plans for CP6.

Views sought

42. As Network Rail is publicly owned, it is all the more important to understand the root causes of the current efficiency problems and to challenge the company's plans for improving its performance. Simply setting Network Rail a tough efficiency target will not in itself protect passengers, freight users and taxpayers, as there are no private shareholders to take the pain if efficiency targets are not met.

43. This highlights the importance of seeking views from stakeholders on whether we have correctly identified the main drivers of the recent trends in efficiency, and whether we are prioritising the right areas to give greater scrutiny during PR18. Reflecting this, we are inviting views on the following questions:

Q1 Have we identified the main causal factors explaining recent trends in efficiency? Do you have any views on their relative importance?

Q2 Are there any factors that we have not identified? If so, could you explain their significance, ideally illustrated with evidence and/or practical examples.

Q3 Do you have any views on Network Rail's planning capability?

Q4 Do you think we have identified the right priority areas for our scrutiny of Network Rail's plans during PR18?

44. This **consultation closes on 13 September 2017**. Please submit your responses, in electronic form, to our PR18 inbox (pr18@orr.gsi.gov.uk). You may find it useful to use this [pro forma](#).

¹¹ See [ORR letter to DfT - Next steps on the HLOS and SoFA process](#), July 2017, and [ORR letter to Transport Scotland - Next steps on the HLOS and SoFA process](#), July 2017.

45. We plan to publish all responses to this consultation on our website. Accordingly, when sending documents to us, we would prefer that you send your correspondence to us in Microsoft Word format or Open Document Format. This allows us to apply web standards to content on our website. If you do email us a PDF document, where possible please:
- create it from an electronic word processed file rather than sending us a scanned copy of your response; and
 - ensure that the PDF's security method is set to "no security" in the document properties.
46. Should you wish any information that you provide, including personal data, to be treated as confidential, please be aware that this may be subject to publication, or release to other parties or to disclosure, in accordance with the access to information regimes. These regimes are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004). Under the FOIA, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.
47. In view of this, if you are seeking confidentiality for information you are providing, please explain why. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on ORR.
48. If you are seeking to make a response in confidence, we would also be grateful if you would annex any confidential information, or provide a non-confidential summary, so that we can publish the non-confidential aspects of your response.



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