

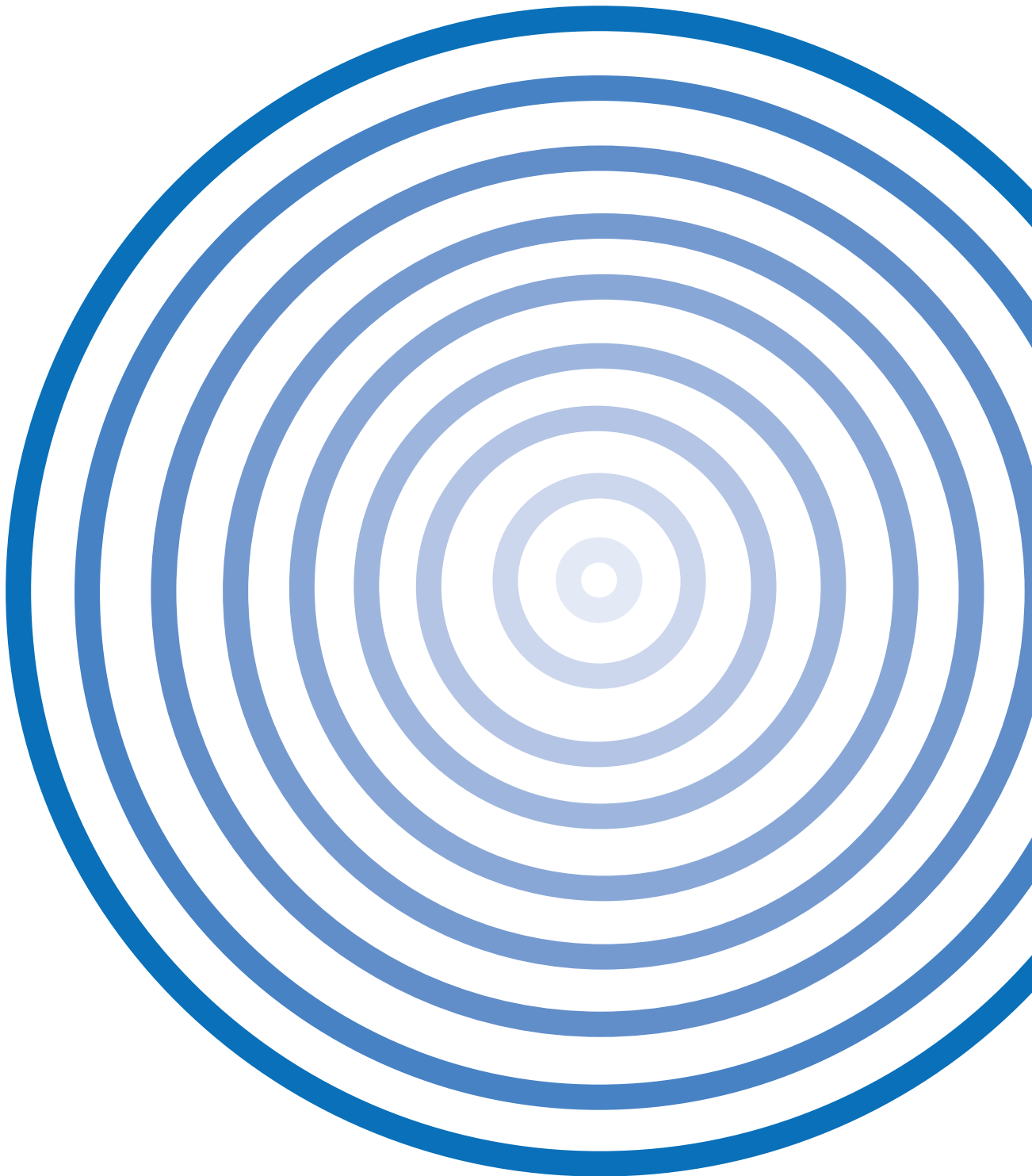


Office of Rail Regulation

Independent Reporter (Part C)

Efficiency reviews:
Network Rail Discretionary Fund

Executive Summary



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Part C Reporter Mandate CN/009

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27 July 2010

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Introduction

Between May and July 2010, the Independent Reporter (Part C) (Nichols) (the Reporter) carried out an efficiency review on the operation of the Network Rail Discretionary Fund (NRDF) (the Fund) at Fund-level and on a selected sample of four schemes within the Fund. The Reporter was asked to review management arrangements, undertake a trending analysis, identify major expenditure segments, obtain comparable efficiency units and report on the adoption of the recommendations made in the 2007/2008 project monitoring report by the previous Reporter (Halcrow).

The four sample schemes selected after discussion with Network Rail are:

- Tunbridge Wells 12-car turnback
- Methley Junction doubling
- Wembley Central platform extensions
- Peterborough to Nuneaton W10 gauge clearance.

Approach

The Reporter's team conducted interviews with Network Rail's staff responsible for the management of the Fund and the management and delivery of the sample schemes. In addition to the interviews, documents relating to the Fund and the sample schemes were made available by Network Rail for review by the Reporter's team. We followed up the interviews and sought clarification of detailed points by direct contact with individuals.

Following this, we analysed our findings in workshops and developed recommendations, which we shared with Network Rail and the ORR on 23 June 2010, and in a draft report. We have incorporated their comments in this final report.

The Network Rail Discretionary Fund

The NRDF provides a mechanism for funding minor schemes identified by Network Rail, which are either linked to major renewals or other schemes that have a positive whole-industry business case.

The Fund was first established during Control Period 3 (CP3) in August 2005 and covered schemes in England, Wales and Scotland. In October 2008, it was included in the ORR's

Determination of Network Rail's outputs and funding for CP4 (2009 – 2014) with a value of £234m (2006/2007 prices) for schemes in England and Wales.

Key findings

The Fund-holder rigorously applies the eligibility and governance criteria relating to drawdown from the Fund and actively participates in the selection and prioritisation of candidate schemes and in the monitoring of progress of authorised schemes.

Network Rail records both candidate and authorised schemes in a variety of different documents and databases. However, Network Rail has been unable to produce a single definitive register of NRDF authorised and candidate schemes at Fund-level. This means that the list of schemes reported in the CP4 Delivery Plan¹ updates published on the Network Rail website does not provide a complete picture of all schemes which are drawing down funds from NRDF. Network Rail has now made a recent appointment to a role within the Finance Directorate to act as a focal point for reporting on the Fund. This is expected to resolve this situation.

Operation of the Fund is described in a number of documents produced variously by the Department for Transport (DfT), the ORR and Network Rail. There are some discrepancies, conflicting information and disagreement between the ORR and Network Rail as to which documents apply, particularly in respect of reporting requirements and agreement to the use of the Fund by the ORR in certain cases.

In the absence of guidance from DfT as to the continued availability of the Fund in CP5, Network Rail is restricted in its ability to plan for efficient use of the Fund in the later years of CP4.

The process for identifying candidate schemes works well and stakeholders are fully engaged.

At present, candidate schemes are prioritised on the basis of their benefit to cost ratio and a 'fair' allocation of schemes across the network by the Director of Network Planning. Key performance indicators (KPIs) have been proposed to define and then demonstrate the optimum use of the Fund.

The sample schemes meet the criteria for eligibility and governance of the Fund. Network Rail's Investment Regulations and Investment Guidelines have been followed in all cases. Authorised schemes are delivered in accordance with Network Rail delivery processes and procedures irrespective of funding source.

¹ Network Rail CP4 Delivery Plan 2010 Enhancements programme: Statement of scope, outputs and milestones, March 2010 update.

Analysis of the sample schemes suggests that the schemes linked to a renewal are more efficient in the use of Network Rail resources than stand-alone schemes. However, the sample size is too small to make any definitive conclusions in this area.

We consider that the five Halcrow recommendations are still valid and note that Network Rail has only partially complied with two of these and not complied with the remainder.

We identified issues in the sample schemes that could occur in any enhancement project, irrespective of funding source. These include cost increases due to inadequate ground investigations, failure to select feasibility options which include derogations to standards, and lack of robust peer review and challenge during the early stages of the scheme. We have identified these issues to the project teams of the sample schemes.

Key recommendations

- Network Rail should produce a centrally available register of schemes containing sufficient detail to allow accurate and reliable management information to be provided to external and internal stakeholders.
- In order to give Network Rail the opportunity to manage the Fund in the most efficient manner, the ORR/DfT should consider providing early guidance as to the continuation and likely size of the NRDF in CP5, perhaps by the end of Year 3 in CP4.
- In view of discrepancies between the current operating documents, the ORR and Network Rail should agree the detail and frequency of reporting necessary to demonstrate efficient operation of the Fund, promulgate this and then manage reporting accordingly.
- The ORR and Network Rail should consider and agree possible areas for trending/KPIs and associated targets to demonstrate efficient management of the Fund. Suggestions are included in the report. Determination of appropriate quantitative targets or ranges will require analysis of more than four schemes.



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