

Independent Reporter Framework

Review of Network Rail Contract
& Procurement



23 February 2021

Commercial in confidence
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Document control

This is the final report issued to ORR and Network Rail.

A record of all revisions is shown in the table below.

Revision	Amendments	Date
Draft 1.0	Draft for review by ORR and Network Rail	29 January 2021
2.0	Final version issued to ORR and Network Rail	23 February 2021

Glossary

Abbreviation	Meaning
BAC	Business assurance committee
C&P	Commercial and procurement
CAG	Commercial Assurance Group
CEMAR	A proprietary contract administration tool
CP7	Control Period 7
DNA	Development Needs Analysis tool
GRAI	Governance, Assurance and Reporting Improvement
GRIP	Governance for Railway Investment Projects
ICS	Integrated Category Strategy
IMS	Integrated Management System
IP	Infrastructure Projects
IPA	Infrastructure and Projects Authority
LoD	Line of Defence
MSP4NR	Managing successful projects for Network Rail
OJEU	Official Journal of the European Union (used as shorthand for European procurement regulations)
ORR	Office of Rail & Road

Abbreviation	Meaning
PACE	Project acceleration in a controlled environment
PBR	Periodic Business Review
PEP	Procurement Executive Panel
PMF	Procurement Management Framework
PPF	Putting Passengers First
PPN	Procurement Policy Note
PR23	2023 periodic review
RCBP	Rail Cluster Builder Project
RCG	Regional Commercial Group
RIA	Rail Industries Association
RIBS	Rail Industry Balanced Scorecard
RSG	Rail Supply Group
SBP	Strategic business plan
SFS	Short Form Strategy
SME	Small Medium Enterprise
SVA	Social Value Act 2012

1. Executive Summary

Introduction and main findings

This report sets out the findings and recommendations arising from a review of Network Rail's Procurement Management Framework (PMF) undertaken by the Nichols Group between December 2020 and January 2021. The review was jointly commissioned by Network Rail and the Office of Rail & Road (ORR) through the Independent Reporter framework under statement of works reference IR0007. The main findings set out in the report relate to:

- **The level of assurance provided by the PMF in connection with Network Rail's commercial and procurement (C&P) outcomes.** In the Independent Reporter's opinion, the PMF provides a comprehensive basis to underpin C&P operations undertaken in the regions and Route Services. It is designed to be flexible to cover all goods and services procured. Consequently it is non-prescriptive, which means that the quality of the outcomes from procurement relies significantly on its application by the regions and route services and specifically on the:
 - Quality and effectiveness of the associated assurance and governance activities. A key finding from this review is that assurance under the PMF is not yet mature. Network Rail is working to extend the application of Line of Defence (LoD) 2 assurance but we recommend that action is taken to mitigate the risks which arise pending completion of this.
 - Competence and leadership of the C&P practitioners.
- **The impact on PMF-related activities of the planning and delivery of the 2023 periodic review (PR23) for control period 7 (CP7).** ORR should expect to see that every regional strategic business plan (SBP) is underpinned by category strategies required by PMF. They should cover at least all the major asset groups and other areas of significant expenditure. The PMF provides tools to support the regions to develop category strategies. In the Reporter's opinion, Network Rail should review, replan and prioritise its existing category management activities in order to support this and other PR23 related work in the regions. Network Rail has advised us that it has commenced planning work associated with PR23 and this recommendation is intended to support that work.



The statement of works required the Independent Reporter to consider Network Rail’s management of C&P activities based on the PMF introduced by the C&P transformation programme in early 2020. The statement of works included reference to the effectiveness and maturity of the C&P processes and how they compare to best practice and required the review to consider seven specific questions. In summary these cover:

- How the PMF underpins the C&P lifecycle through category management, sourcing and supplier management.
- The role of governance and assurance.
- The interaction between the PMF and competence of practitioners.
- How the PMF supports government policy on delivering social value through procurement.
- Flexibility to support the wide range of C&P activity undertaken by Network Rail.
- Embedment of the PMF in the newly formed C&P teams.
- Communication of future workload to suppliers.

The statement of works also requested us to consider how Network Rail’s procurement activities compare to best practice and to assess their maturity.

Our method for the review encompassed:

- Desk review of a sample of PMF documents and related material provided by Network Rail.
- Interviews with senior C&P staff from Route Services.
- Interviews with three regional Commercial Directors from Eastern, Scotland’s Railway and Southern.
- Collecting views from suppliers through interviews with the Rail Industries Association (RIA) and four large suppliers nominated as of strategic importance by Network Rail.

The review team is grateful for the high level of support provided by Network Rail’s C&P team and the representatives of the supply chain interviewed. The review was undertaken remotely during the Covid-19 pandemic, however this has not unduly affected its scope or findings.

Below is a summary of our findings against each of the seven questions and the other areas of interest set out in the statement of works:



How the Procurement Management Framework underpins the C&P lifecycle through category management, sourcing and supplier management

In the Independent Reporter's view, the PMF provides a comprehensive procedural basis for managing Network Rail's procurement and contract management activities within an overall C&P operational model covering C&P activity in the regions and route services. The PMF sets the basis for planning and managing procurement and supplier management operations, however it is important to recognise that the quality of outcomes relies on other factors both within and outside of Network Rail's control. We highlight the following important factors that are managed at a regional level:

- How assurance is applied
- How governance is applied
- C&P Practitioner competence
- Effective leadership

They are important because the PMF is, generally speaking, a non-deterministic management system. It specifies what deliverables are required and the stages when assurance and governance are applied to those deliverables, but it does not prescribe how the deliverables should be prepared or what response may be appropriate in particular circumstances. This approach is inherently flexible but relies significantly on the competence of those leading and executing the processes and the quality of assurance and governance checks and balances.

Although comprehensive in its scope, the PMF requires ongoing development and maintenance, for example post-contract management. This is recognised and planned by Route Services under the umbrella of a long-term vision set out in the C&P short form strategy and delivered through annual plans and periodic business reviews.

The PMF is made available to practitioners through the C&P Hub on Network Rail's intranet but it will benefit from more formal configuration and document control when this is migrated to become part of the company's Integrated Management System (IMS).



The role of governance and assurance

Effective governance and assurance of regional and route services C&P activities is a vital component of the overall C&P operational model. PMF covers both governance and assurance requirements and the associated processes. The governance arrangements are also aligned with Network Rail's wider financial management rules, in particular, delegated powers. Following implementation of the PMF, Network Rail has increased the level of delegation to regions through their Procurement Executive Panels (PEPs) and each of these has been given flexibility to manage local sub-delegation within their region or other business units up to a maximum threshold set by the C&P Policy. This is reported to have streamlined the C&P process by reducing the need for reviews at local and corporate level. Flexibility in assurance and governance is managed using a cost and risk-based tool which guides practitioners in the level of documentation and assurance required for a transaction. We interviewed three regional commercial directors who felt that the new approach was improving focus in the decision-making process.

The PMF places significant emphasis on assurance and this is undertaken at four levels – referred to as “Lines of Defence” LoD1a and LoD1b for specific transactions, LoD2 for C&P functional teams and LoD3 for specific topics or areas of concern. In summary, our findings are:

- The assurance system defined by the PMF is comprehensive.
- We found evidence of examples of inconsistent application of LoD1a and LoD1b assurance.
- The LoD2 and LoD3 assurance programmes are being planned but have not yet been implemented.

The Reporter's view is that the current status of incomplete implementation of the assurance process is a risk to C&P decision making. We note that this risk may be mitigated by governance reviews, however we have recommended that Network Rail take steps to better understand and mitigate this risk as a priority.

The interaction between the PMF and competence of practitioners

The PMF relies upon competent and experienced practitioners to develop and implement category and sourcing strategies and to manage contracts and supplier performance at a regional level and within route services. The PMF defines the C&P operational model, governance and assurance provide controls for risk however practitioner competence is a primary factor in determining the quality of C&P outcomes. The templates and checklists within the PMF are important to provide consistency in outputs and to support assurance activities.

The PMF does not specify the level of competence required to apply its processes. Competence is managed through existing HR review processes such as job descriptions and, in particular, a development needs analysis tool adapted from that formerly used within Infrastructure Project's C&P function. Ongoing work in



this area provides an opportunity to improve alignment between job descriptions and the associated competencies identified in the development needs analysis tool. Development needs for staff practitioners are generally provided through externally sourced service providers, although it is planned to increasingly supplement this with an internal C&P Academy once its curriculum is confirmed and courses are developed.

Practitioners in post at the time were trained in the PMF as part of the C&P transformation programme launch. We understand that new joiners are provided with an overview of the PMF however, there is not a detailed induction pack to support this.

How the Procurement Management Framework supports government policy on delivering social value through procurement

Government policy seeks to lever social value from the delivery of publicly funded supplies, services and works contracts. Areas of focus include economic, environmental and social wellbeing improvements. Policy requirements are set out in the Social Value Act and a series of Procurement Policy Notes (PPNs).

Network Rail complies with these requirements through provisions in the PMF and supporting systems such as the Bravo e-sourcing tool. These use scorecards to set out social value requirements in the prequalification and tender stages of relevant contracts. Network Rail is taking this approach further through its involvement with other industry bodies to develop a Rail Industry Balanced Scorecard (RIBS) which is expected to be launched in early 2021. The Reporter considers that this will provide a common approach which could form the basis for more focused delivery of social benefits.

Although there is a compliant approach to specifying social benefits, we did not find evidence that these are consistently included into contracts as committed deliverables or that such delivery is tracked and reported in a consistent way which would facilitate company-wide compliance reporting. These areas provide an opportunity for Network Rail to improve its delivery of social value and to better communicate its successes.

Flexibility to support the wide range of C&P activity undertaken by Network Rail

The PMF is designed to apply to transactions of all types and sizes but recognises that not all sourcing transactions will require the same level of documentation or assurance. The PMF includes a risk assessment tool which considers scale, complexity and specific risk factors in order to determine the documentation, assurance and governance requirements which will apply to a transaction.

The flexibility inherent in the PMF means it has a non-prescriptive style, whereby it does not specify the outcomes which are required in particular circumstances. As noted above, this means that staff competence and assurance of PMF application is crucial to ensure that C&P products and recommendations have been developed appropriately and robustly challenged in advance of governance decision points.



Recognising that implementation of assurance processes is currently incomplete, the three commercial directors we interviewed reported that they were confident and comfortable with the level of flexibility provided by the PMF.

We interviewed four strategic suppliers who expressed a consensus view that Network Rail had shown a high degree of flexibility in how it responded to the outbreak of Covid-19.

Embedment of the Procurement Management Framework in the newly formed C&P teams

We interviewed commercial directors from three regions and senior commercial managers from route services who all spoke positively about the PMF and considered that it is being followed in their areas. We found evidence to support this view in a briefing programme and assessment of operational readiness that was part of the C&P transformation programme as regions were approved to start operating under the PMF. Hard evidence of PMF embedment and application should come from when LoD2 assurance is operational, which is planned to commence in period 3 of 2021/22.

Communication of future workload to suppliers

Clear visibility of future opportunities coupled with confidence that they will materialise is of great importance to suppliers. It provides confidence to invest and, in the case of multi-national suppliers, underpins their commitment to the GB rail market.

Network Rail publishes its procurement pipeline in the form of a spreadsheet on its website and supplements this with a programme of supplier briefing events. It undertakes work to promote opportunities for lower tier suppliers and is developing plans to increase the role of small and medium enterprises (SMEs).

We interviewed a sample of four suppliers who welcomed the visibility of the pipeline and found it useful. They felt that they needed to undertake further analysis of the data and to supplement it with intelligence about the work programmes associated with the specific opportunities in order to improve its usability. The interviewees represented large strategic suppliers and they considered that the relationship meeting undertaken with Network Rail allowed them to do this. There was a consensus view that suppliers could add further value if they were consulted more about strategic decisions, however this was not explored further under the scope of the review. Suppliers value long-term framework arrangements and the consensus view of our sample was that Network Rail is a 'client of choice' for them.

Good practice

To assess how Network rail's PMF compares to good practice we constructed a reference model with 16 characteristics derived from a combination of the Infrastructure Projects Authority (IPA) Project Initiation Routemap for procurement and governance and our experience of good practice for contract administration. We used the findings of this review to undertake our assessment against each of the characteristics in our reference model using a simple red/amber/green scale:

- Green – PMF covers the characteristic.
- Amber – PMF partially covers the characteristic, with competent practitioners expected to supplement the guidance with their experience.
- Red – PMF does not cover the characteristic, performance is dependent on competent practitioners identifying and addressing the subject.

Our assessment against the reference model is contained in Table 1.

Ref	Characteristic	RAG
Pre contract activities		
1	Understand and communicate requirements	Green
2	Maximise social value effectively and comprehensively	Green
3	Engage the market	Green
4	Package the works	Red
5	Choose the risk allocation model - Contracting model	Amber
6	Choose the route to market	Amber
7	Communicate the benefits	Amber
8	Provide visibility of pipeline of work	Green
Post contract activities		
9	Administer the contract	Green
10	Manage change and disputes	Amber



11	Conduct supplier performance management	
12	Conduct supplier risk management	
Assurance & Governance activities		
13	Define accountability for meeting the project’s objectives and allocate the risk to those objectives	
14	Provide for effective decision making and delegated authority	
15	Align corporate and project strategy and objectives	
16	Clearly define disclosure of reports and other relevant information	

Table 1 – Summary of assessment against the good practice model

Our assessment in Table 1 contains 11 green, 4 amber and one red rating. Overall, we consider that Network Rail has established a procurement management system in the PMF that compares well to our good practice benchmark. However, it is important to note that the PMF is a non-deterministic management system which relies to a significant degree on practitioner competence and effective assurance. As a result, high quality performance is not a given and regular review of assurance findings, outcomes and lessons learned will be important to the long-term outcomes from the PMF. We have made recommendations in regard to the red and amber items in Table 1.



2. Introduction

2.1 Background

Previous procurement arrangements

Prior to the recent restructuring, Network Rail's procurement was managed through four main channels:

- **Infrastructure Projects (IP)**, responsible for procuring capital works to support the enhancements and renewals programmes. IP maintained its own detailed procedures for managing the procurement and contract administration process and applied these to transactions at national and regional levels.
- **Supply Chain Operations**, responsible for procurement of national contracts supporting delivery of opex and capex work such as freight haulage, plant and infrastructure materials like rail and ballast.
- **Routes**, responsible for local opex and capex procurement not covered by IP or Supply Chain Operations.
- **Central functions**, responsible for corporate support services such as IT, power supplies and facilities.

Although these functions worked under common governance arrangements, activities were not closely coordinated and there was some degree of separation between those leading procurement and the end users.

These arrangements were reviewed in 2017 and opportunities to improve were identified in several areas such as: developing effective category strategies, reducing non-complaint spend, realising procurement savings through effective contract management, and deploying effective and efficient assurance, procedures and systems. These opportunities allied to wider organisational change in Network Rail led to development of a transformation programme for commercial and procurement activities.



Transformation programme

Between 2018 and 2020, Network Rail undertook a transformation programme to change its approach to managing its commercial and procurement (C&P) activities. This, in combination with restructuring under the separate Putting Passengers First (PPF) initiative, has resulted in a unified approach to C&P activity which applies to supplies, services and works related activities whether delivered centrally or locally by regional teams. The approach is defined in a Procurement Management Framework (PMF) and it applies to the central Route Services Team and to the five devolved regions. Route Services acts as the professional lead for C&P activity and maintains the PMF.

Network Rail has described the intention of the transformation programme as having been to: “move C&P from an administrative function to a strategic business partner able to provide innovative, customer driven solutions”. Linked to this has been a raising of locally delegated procurement authority levels in order to support an increased focus on 'value-adding strategic tenders'. This is supported by reduced layers of governance and an increased emphasis on assurance taking place in advance of governance events.

2.2 Purpose of this review

This Independent Reporter review has been jointly commissioned from Nichols by Network Rail and Office of Rail & Road (ORR) to address statement of works reference IR0007. In summary, this requests the Reporter to:

- Validate how effectively Network Rail, manages its C&P activities to deliver business objectives including value for money.
- Explain how Network Rail’s C&P approach compares to best practice, and in the event of any identified gaps, what is the potential scope for improvement.
- Assess maturity, whilst recognising the different stages Route Services and regions are at.



By considering the following seven specific areas of interest:

1. How the end-to-end lifecycle of Category Management, Sourcing, and Supplier Management at Network Rail is underpinned by a policy and management framework.
2. How governance and assurance is used to achieve a balance between risk and pace of delivery, and to support more efficient and effective procurement strategies and decisions, which deliver best value for money outcomes.
3. How procedures, tools and templates support the competence of practitioners and consistent application of professional C&P standards across Network Rail.
4. How the PMF integrates Government social value requirements to evaluate social value contribution (for example, wider social, economic and environmental benefits).
5. How does the PMF provide flexibility to accommodate simple through to complex procurement activity (for example, enhancements, especially under the new pipeline approach to funding).
6. How well is the PMF being embedded in Route Services and the regions and adopted by Commercial practitioners.
7. How the supply chain has clarity of Network Rail's future pipeline to support their own business planning, and how Network Rail engages more broadly to support supply chain readiness.

2.3 Our approach

As used successful in previous Independent Reporter reviews, we approached the review in a number of stages, including initial planning, interviews with key personnel nominated by Network Rail following the 'lines of enquiry' established by the statement of work and a review of documentation provided to us by Network Rail. We have provided informal feedback and shared our emerging findings. Key Activities were:

- Documentation review.
- Interviews with C&P directors and team leaders from Route Services and three regions nominated by Network Rail.
- Interviews with the Railway Industry Association (RIA) and four large, strategic suppliers nominated by Network Rail.
- Clarification calls to follow up on various issues.



- Presentation of emerging findings to Network Rail and ORR.
- Issue of a draft report; and following review of feedback on this.
- Final Report.

A summary of the range of interviews held is shown in

Route Services	Regions	Supply Chain & Industry Body
Head of C&P	Southern	RIA
Procurement Operations	Scotland	Siemens
C&P Programme	Eastern	Computacenter
Category Management		Capita
Sourcing		Balfour Beatty
Supplier Management		
Capex Procurement		

Figure 1.

Figure 1 – Interviews held

In providing our findings we have drawn out areas of good practice and areas where we consider improvements can be made. These are presented within the context of the C&P transformation programme and the Putting Passengers First (PPF) programme.

2.4 Acknowledgement

We would like to thank the Network Rail C&P team in Route Services together with the C&P directors and their colleagues in Eastern, Scotland and Southern regions for their assistance and time during our review. We would also like to thank RIA, Balfour Beatty, Capita, Computacenter and Siemens for participating in supplier interviews.



3. Findings on specific areas of interest

3.1 How the end-to-end lifecycle of Category Management, Sourcing, and Supplier Management at Network Rail is underpinned by a policy and management framework

The PMF comprises Network Rail’s C&P Policy and a suite of supporting documented procedures, guides, templates and tools. The main components are shown in

Table 2.

PMF Component	Description
Contracts & Procurement Policy	<p>The policy covers all goods, services and works procured and delivered by Network Rail. It does not apply to sales, property or non-procurement transactions such as fees, licences and insurance.</p> <p>The policy describes 10 principles to be applied with the aim of delivering:</p> <ul style="list-style-type: none"> • Value for money • Efficient control • Standard arrangements based on good practice and effective supplier relationships <p>The policy document mandates use of the PMF.</p>



PMF Component	Description
<p>Commercial & Procurement Governance Procedure</p>	<p>The procedure provides a governance framework for C&P activities based on four principles:</p> <ul style="list-style-type: none"> • Efficient and lean governance • Light documentation • Effective use of delegation of authority • Governance related to contract value and risk <p>The procedure describes delegation of authority to make decisions and details the role of the Procurement Executive Panels (PEPs) in managing the approval process.</p> <p>Approvals to proceed are based on defined templated papers submitted at the following points of the C&P lifecycle:</p> <ul style="list-style-type: none"> • Category strategy • Sourcing strategy • Award recommendation • Contract variation • Claims <p>Governance is considered in more detail in section 3.5 of this report.</p>
<p>Commercial Assurance</p>	<p>Under the PMF, assurance is intended to reduce commercial risk by verifying that outputs have received adequate oversight ahead of governance decisions.</p> <p>Assurance is described as having six objectives:</p> <ul style="list-style-type: none"> • Ensure alignment to Network Rail strategies, policies and procedures • Respect all applicable standards, regulations, and obligations • Increase confidence in procurement activity throughout the lifecycle • Identify and address risks and issues that may impact on value for money • “Best practice” and consistency across procurement activities • Aligning activities with category and sourcing strategies <p>Assurance is based on three lines of defence. These are:</p> <ul style="list-style-type: none"> • LoD1 (assurance of specific project transactions) • LoD2 (assurance of functional units (for example, regional C&P teams)) • LoD3 (specific reviews undertaken by Network Rail’s internal audit function) <p>Assurance is considered in more detail in section 3.5 of this report.</p>

PMF Component	Description
<p>Category Management process documentation</p>	<p>A Category is a set of supplies, services or works which are similar in nature and are treated as such for the purpose of procurement. Category management seeks to develop consistent and optimised approaches to delivering value for money for procurement categories. Network Rail’s category management process has been developed from existing proprietary tools customised through the transformation programme.</p> <p>Category management is based on five high level procedures. Each is accompanied by a more detailed procedural guide which describes the concepts behind the process in detail and all are supported by templates and similar material held on the C&P hub on Network Rail’s intranet.</p> <p>Network Rail has developed a pipeline of projects to develop category strategies through the following steps:</p> <ul style="list-style-type: none"> • Initiate category review • Research & analyse • Develop strategy • Plan implementation • Implement & deliver
<p>Sourcing Management process documentation</p>	<p>Sourcing is focused on the procurement of a specific contract (or group of contracts). Sourcing should be based on category strategies where these exist. Network Rail’s sourcing process has been developed from existing proprietary tools customised through the transformation programme.</p> <p>Like category management, sourcing is based on five high level procedures. Each is accompanied by a more detailed procedural guide which describes the concepts behind the process in detail and all are supported by templates and similar material held on the C&P hub on Network Rail’s intranet. The five procedures are:</p> <ul style="list-style-type: none"> • Sourcing kick-off • Analysis and strategy formulation • Prequalification • Tender and evaluation • Award



PMF Component	Description
Supplier Management process documentation	<p>Supplier management covers the administration of contracts, supplier performance management, supplier risk management and supplier relationship management.</p> <p>This aspect of the PMF is provided in two detailed handbooks:</p> <ul style="list-style-type: none"> • The Supplier Management Handbook which covers overarching supplier management requirements together with contract administration for goods and services • The Commercial Handbook which covers a wide range of detailed matters associated with the commercial management of works contracts <p>The supplier management handbook is a new document produced through the transformation programme whereas the commercial management handbook is based on an existing IP document which predates the transformation and PPF. Network Rail intends to further develop and rationalise these manuals and to better integrate them into the PMF concept.</p>
Tools	<p>Additional structure and guidance on the development of PMF products and the associated governance and assurance requirements are provided by:</p> <ul style="list-style-type: none"> • The RSCP Process Requirements and Risk Assessment Tool • Workflows embedded in the Bravo e-procurement tool • Standard templates

Table 2 – Components of the PMF

Figure 2 illustrates how PMF has been developed through the C&P transformation programme and has adapted existing elements as part of its scope.

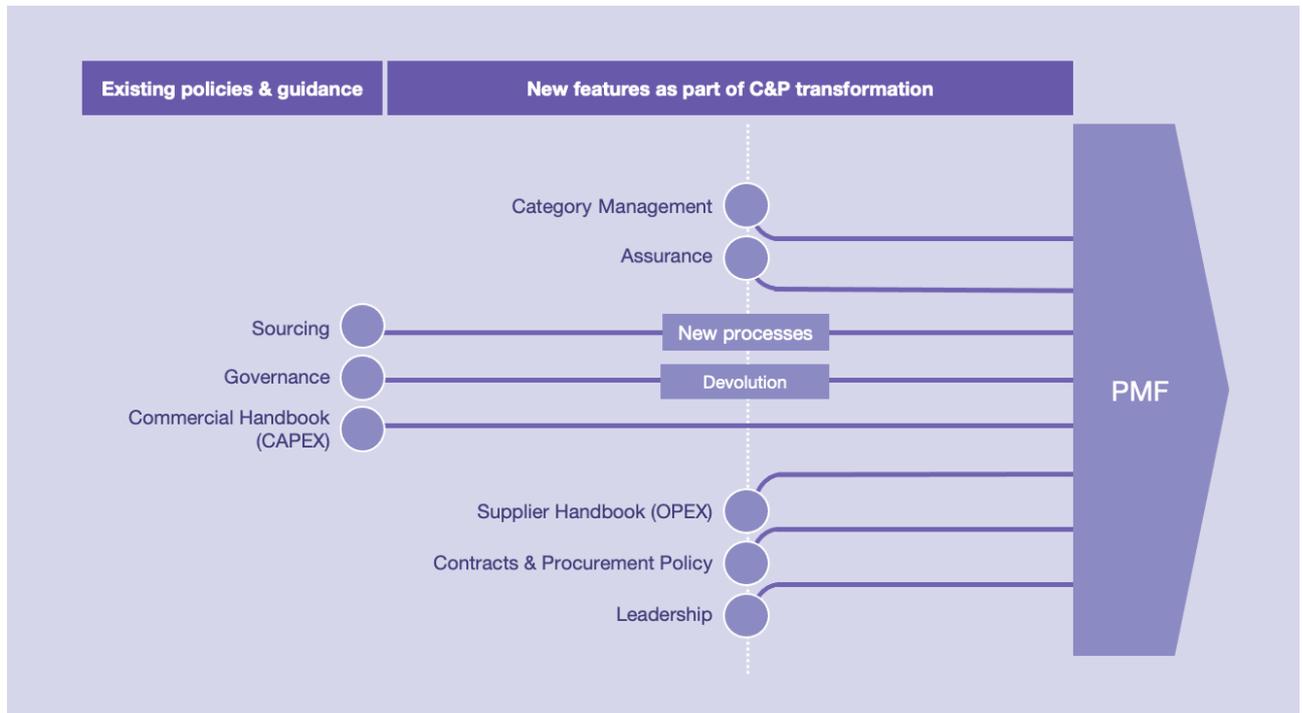


Figure 2 – Development of the PMF through the C&P Transformation Programme

We make the following comments and observations on the PMF documents:

1. The PMF has been designed as a universal system for Network Rail, it is intended to define the approach to be taken by Route Services and the five regional organisations across all types of C&P activity from goods and services to complex infrastructure enhancement works. The PMF covers the whole procurement lifecycle and defines the environment within which Network Rail's C&P processes are undertaken.
2. The category management and sourcing procedural documents are based on proprietary procurement models deployed by Future Purchasing and Efficio (the consultants who supported the transformation programme). We understand that these models have been tailored to suit Network Rail's operational environment.
3. Feedback to us from the three Regional Commercial Directors interviewed was supportive of the style and content of the PMF. It was felt that there was sufficient guidance within the documentation to support its operation by competent professionals backed up by consideration of risk and complexity and the assurance processes. They indicated that the PMF represented progress from the multiple procurement functions which previously operated in different ways. The PMF is seen as providing a clearer definition of mandatory and optional activities without being too prescriptive.

4. The wide range of transaction types, values and complexity of procurement undertaken by Network Rail makes it impractical for a single system of universal application to prescribe what should be done in all circumstances. As a result, the overall C&P system as defined by the PMF relies significantly on elements such as the competence of procurement practitioners using it, the effective application of governance and assurance and good leadership. C&P teams in the regions and Route Services are responsible for delivering these elements. The C&P team in Route Services also provides functional leadership through the Director of Commercial and Procurement as head of profession. The overall C&P operational model deploys these elements to deliver Network Rail’s business requirements against a backdrop of factors such as government policy and supply chain capability. The PMF and its relationship to the C&P operational model is illustrated in Figure 3. It is vital that all the Network Rail controlled elements work in harmony and to a high standard if the system is to deliver appropriate strategies and good procurement outcomes in an efficient way.

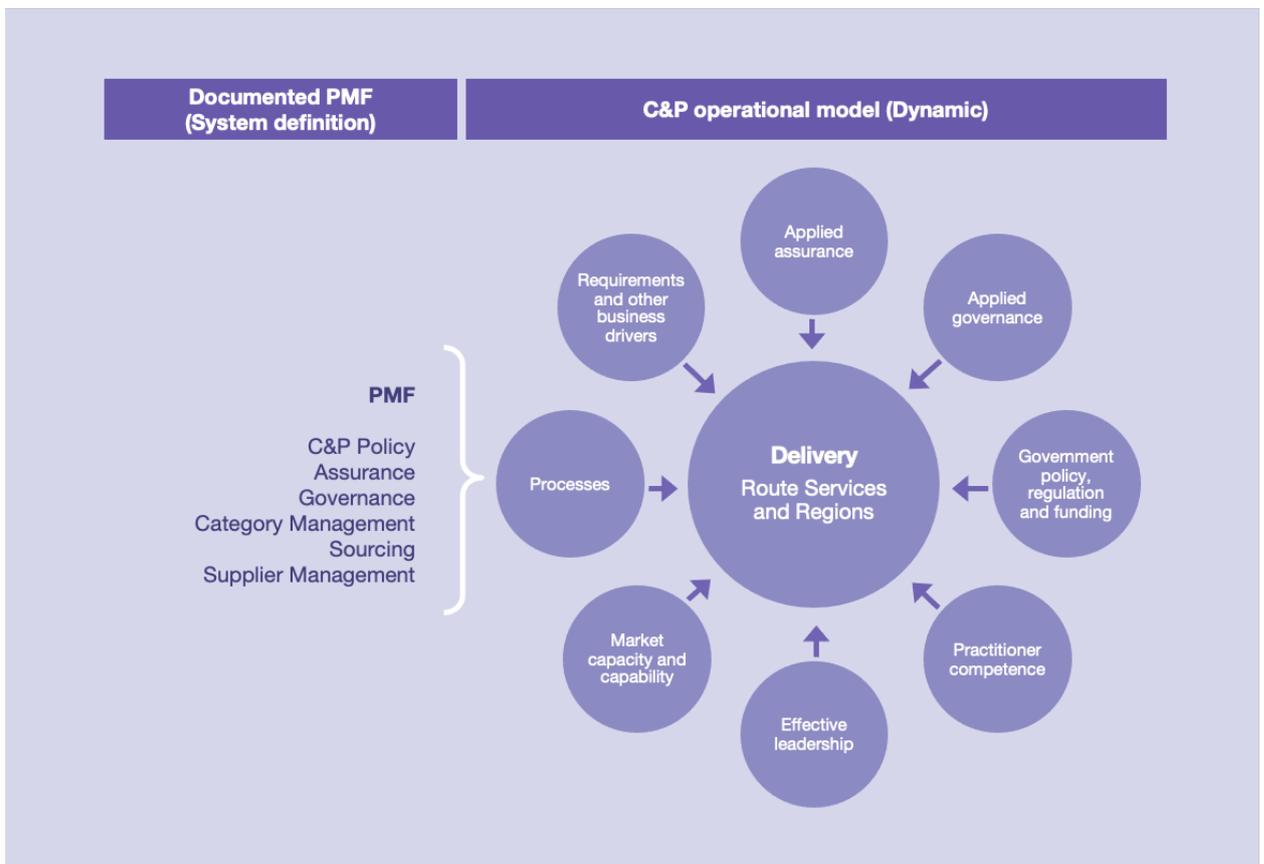


Figure 3 – PMF and the C&P Operational Model



5. The focus of the Statement of Works in the Reporter's mandate is on the PMF and not to examine the whole C&P system as it operates in Network Rail or the quality of specific deliverables generated by the system represented in the model in Figure 4.
6. We recognise the benefits of the universal approach to defining C&P processes, however we note that the output-based style of the category management and sourcing procedures contrasts with a much more detailed and prescriptive approach to managing works contracts in the Commercial Handbook. Works contracts in a railway environment cover a large range of asset types and complexity and we recommend that Network Rail should keep the universal output-based approach under review addressing feedback and lessons learnt from assurance and governance forums. It is possible that, over time, a more prescriptive approach to some aspects of works related transactions may be considered appropriate to reduce risk and improve efficiency.
7. Network Rail has selected a contract administration tool (CEMAR) and has introduced this across Route Services and the regions with over 200 contracts loaded to the system at period 9 of 2020-21. Network Rail expect CEMAR to assist its contract management and supplier relationship management by defining workflows based on the processes in the PMF and the requirements of its contract forms. It is not in our mandate to review the tool, plans for its continued development or how it will interact with the supplier and commercial handbooks. However, it is our view that this initiative is a positive step forward.
8. The C&P policy defines value for money in terms of 'minimal affordable cost'. We asked Network Rail to clarify this, and they have confirmed that in practice the principle followed is based on securing best value.
9. The PMF is less than a year old and several of the documents contain drafting notes or items in square brackets. Whilst we have generally been able to understand the requirements through enquiry or reference to other documents, good practice requires that these points should be resolved, and the documents updated at the earliest opportunity.

PMF documents are held on a C&P hub on Network Rail's intranet and access to this is not available outside the company. The Independent Reporter's review has been based on copies of the high-level documents and a selection of supporting tools and templates provided to us by Network Rail. Whilst we received copies of all documents that we requested; we consider that future reviews would benefit from direct access to the hub (or a copy of it). This would facilitate better assimilation of the PMF through interactive browsing and immediate access to documents of interest.

Figure 4 illustrates how a practitioner would use the components of the sourcing procedure in the PMF.

Sourcing

A Practitioner needs to refer to the following as they progress through a sourcing process:

- Risk tool to generate an outline of the procurement outputs and deliverables required (dependant on procurement risk, contract value and other factors) for assurance and governance).
- Procedural guide for general overview of process and required outputs which are listed (these also match the risk tool).
- Guides for general reference (comparable to a textbook).
- Templates for consistency in drafting the outputs required.
- Bravo e-sourcing tool.
- Assurance and governance checklists.

Figure 4 – Example of the use of PMF material in Sourcing

Noting our comments and observations above, we consider that Network Rail's overall approach to the end-to end C&P process is comprehensive and has the capability to underpin procurement operations.

Finding 1.1: The PMF is comprehensive and has the capability to underpin procurement operations across the end-to end lifecycle of Category Management, Sourcing and Supplier Management.

The PMF has been in place since March 2020 and its current status should be seen in the context of:

- Wider PPF organisational changes (in particular, the disposition of IP resources and experience to regions).
- The relatively small volume of high-value transactions carried out using the PMF so far (noting that the majority of Control Period 6 (CP6) procurement was undertaken prior to introduction of the PMF and a significant volume of low-value transactions has been completed).



Against this backdrop, the PMF provides a relatively new way of working and, until LoD2 assurance is available it is not yet possible to ascertain how effectively the C&P operational model delivers against the capabilities which the PMF underpins.

The PMF was developed as part of the C&P Transformation Programme with a completion in the first quarter of 2020 to support the go-live date for regional PEPs, a significant milestone in the PPF programme. This milestone was achieved although there were several non-critical outstanding actions within regions identified in close-out reports (these are discussed further in section 3.5 below). In addition, several components of the PMF and its supporting elements within the C&P operational model also require further development. We identified the following areas of PMF that either require further development or are likely to be subject to future changes:

1. Supplier management

- Network Rail intends to revise the Supplier Management Handbook and the Commercial Handbook in order to align these with the style of the Category Management and Sourcing modules. This presents an opportunity to improve delineation between common requirements (such as supplier relationship management and vulnerability assessments) and requirements which are specific to administration of either supplies & services or works contracts. We understand that this initiative is planned to commence in March 2021.
- At over 200 pages, the Commercial Handbook is a long document and the style with inclusion of supporting information may make it less accessible by busy professionals and expensive to keep up to date as requirements evolve. Work is needed to align it with the overall PMF and to include updates for the CEMAR tool and references to the C&P Academy. Network Rail may wish to consider the benefits of a more focused, modular approach providing clarity of the core processes and associated roles, responsibilities and interfaces but keeping background and training material separate.
- Network Rail has introduced the CEMAR contract administration tool. Such tools support good practice and compliant management of contracts and can be expected to generate improved data about performance of the C&P operational model. As well as amending the PMF to reflect the use of CEMAR, it is likely that analysis of additional data will lead to further improvements to the management system in the medium to long term.

Finding 1.2: The PMF requires further development notably in the area of post contract management where further work is needed to finalise the Supplier Handbook (supplies & services) and update and align the Commercial Handbook (works) with the remainder of the PMF. This is recognised by Network Rail and tracked for management action.



2. Governance and Assurance

- Within the PMF, governance and assurance activities are focused on major decision or commitment points and these are predominately aligned with delegated powers with the focus on Category Management and Sourcing. Network Rail has noted that Supplier Management governance and assurance could be further integrated into the PMF. This and other matters (such as category management planning) should be kept under review going forward to ensure that formal governance and assurance adequately covers all significant events in the procurement lifecycle, not just those within the scope of delegated powers.
- It is likely that specific points requiring further development will be identified as LoD2 and LoD3 assurance programmes commence and generate feedback. This is considered further in section 3.6 below.

Finding 1.3: Further updates to the PMF may be required as assurance feedback (particularly from LoD2 and LoD3) is received, in response to externally imposed changes to the C&P operational model or to reflect wider lessons learned as usage increases. A Commercial Assurance Group is responsible for identifying improvements needed.

3. Other Network Rail initiatives

Network Rail initiatives such as Governance, Reporting and Assurance Improvement (GRAI), implementation of an integrated management system (IMS) and Project Speed can all be expected to impact C&P operations and may require future updates to the PMF.

4. Government policy

Network Rail is a major public sector procurement authority and is therefore subject to procurement regulations and other policy requirements. In the future the PMF is likely to require amendment to support compliance with:

- Procurement Policy Notes (PPNs) issued by the Cabinet Office and associated bodies.
- Changes to public procurement regulations following Brexit.



5. General drafting points

- Several of the documents we reviewed are marked draft or otherwise contain square brackets or other drafting notes. Given that the documents are generally not version controlled and are published as soft versions via the C&P Hub, we suggest that these matters could be addressed relatively easily by the document owners.
- There is not an overall index of PMF documents and users have to identify and navigate to templates and tools either using hyperlinks in other documents or via the C&P Hub. There are several examples of guide documents (for example, sourcing guide 2.2) which refer to multiple templates and guides, but do not contain hyperlinks. Remedying this would significantly assist users to apply the PMF.
- The Sourcing procedures refer to topics such as whole life costing and definition of requirements, but it is not clear that these references are aligned with relevant GRIP (Governance for Railway Investment Projects) products. Network Rail should consider clarifying the interfaces between its various management systems (including any references to PACE (project acceleration in a controlled environment) products as these are introduced).
- Sourcing procedures also refer to project sponsors and it is not clear if this refers to the ‘investment sponsor’ or to a C&P specific role.
- The Route Services Procurement Operations team has a process for updating the PMF, whereby they review any proposals raised by practitioners in Route Services or the regions before proposing changes for review at the Commercial Assurance Group (CAG). Depending on the scale and complexity of the change it will be briefed out to practitioners via newsletters, workshops or training. Progress on identified changes is logged and tracked. Network Rail have advised us that no major issues have been identified to date. This process is not documented.

6. C&P Academy

- The C&P Academy has been under development since mid-2020. It is currently relatively immature but is expected to be developed from late-2021 following the planned completion of a training needs review. This is considered in more detail in section 3.2 below.

Network Rail have indicated that in the future they may wish to explore how to focus supplier relationships more on value adding activities and so move beyond traditional transactional approaches. Whilst such initiatives may be at a nascent stage, this aspiration underlines our expectation that the PMF will continue to develop and change in the future.



Network Rail has produced a Short Form Strategy (SFS) for C&P (July 2020). The SFS describes a vision based on 'strategic value management' which is described as being underpinned by three pillars: route business requirements, integrated category strategies and supplier segmentation. The SFS indicates that this approach will be supported by fit for purpose systems and processes and will respect relevant governance and assurance requirements. Performance will be indicated by route aligned metrics and delivered using a 'best people' approach to develop core skills. Although this review has not specifically examined these aspirations, we can confirm that the evidence we have seen is consistent with Network Rail working to fulfil this vision.

The SFS identifies two amber rated risks. These are:

- “Failure to deliver assurance of supply, highest quality and service standards or value for money”.
- “Ineffective contract, supplier & supply chain management, failing to drive out value for money or not meeting business needs or commercial obligations”.

The potential developments to the PMF described above are consistent with addressing these risks.

Finding 1.4: Network Rail will need to further develop and maintain the PMF as an integrated system to reflect all developments which affect the C&P operational model. This will keep the PMF relevant to practitioners and enable it to support Network Rail in developing the overall maturity of its management systems.

The PMF is made available to users through an on-line portal hosted on Network Rail's intranet (the C&P Hub) and is less formally defined than traditional, management systems such as GRIP which have been developed from paper-based documents. Within PMF, the document hierarchy is not reflected in naming and numbering conventions and there is not an overall index to the structure. The relative informality of the PMF's structure may also have implications for its future maintenance (for example, version control of hyperlinks). As the on-line version of the PMF is only available via the Network Rail intranet, it is difficult for external reviewers to access and understand the entirety of the system.

As noted above, control of minor changes to PMF documents rests with the document owner. Changes to processes require approval by CAG with more significant matters being referred to the Procurement Leadership Team. Whilst configuration is managed, it is not formally controlled, and documents do not exhibit version control or the other characteristics which provide status within a formal management system. We have been told that defined procedures will apply when the PMF is migrated from the C&P Hub to Network Rail's IMS.



Finding 1.5: The PMF is mandated but it is not yet a formal, controlled suite of procedures. Plans are in place to migrate it to Network Rail's IMS which is expected to address this point.

There is good visibility of initiatives being managed by the Route Services C&P team. These are managed through the Periodic Business Review (PBR) process using a prioritised schedule for tactical issues and an a more formal list of key priorities and milestones.

There are 34 key priorities and milestones for 2020/21 and these cover a mixture of development of the PMF and its detailed components (for example, contract forms) and the delivery of operational objectives (for example, greater use of dispute avoidance panels). At Period 9, 22 of the 34 items were marked as complete.

We have seen evidence that regional C&P teams maintain their own action trackers to assist in managing local development initiatives.

The key priorities and milestones schedule is refreshed annually rather than on a rolling basis. We think that a rolling programme would provide more flexibility to support prioritisation of emerging issues in the dynamic C&P operational environment.

There is not a medium to long term prioritised schedule to show how development of the PMF will continue in the intermediate years to the 8-year horizon described in the SFS. We think that longer term planning would assist with alignment of the PMF with external changes such as PACE and the Construction Playbook as well as supporting delivery of cyclical events such as business plans for PR23.

We note that various non-critical actions were outstanding at the end of the Transformation Programme and were transferred to Route Services or regional teams to manage. These actions do not appear to have been formally closed out, but we have been told that their status will be reviewed at the end of the current financial year.

Finding 1.6: There is tracking of actions relating to short- and medium-term priorities for developing the PMF however there is not a comprehensive, rolling plan to deliver the long-term vision for C&P set out in the SFS or other business objectives. C&P advised that they have commenced more detailed planning to build on the GRAI programme, but draft plans were not available at the time of the review.



Prior to the PPF restructuring of Network Rail, the procurement function within IP had a responsibility to optimise procurement strategies across routes by:

- Unlocking economies of scale by aggregating local workbanks.
- Levelling procurement activity to prevent market overheating.
- Levelling work delivery to avoid overloading supplier capacity.
- Managing the use of critical resources such as signalling testers and specialist plant.

In principle, these responsibilities are now held by Route Services but with the greater focus on regional decision making under PPF, a consensual approach will be necessary to deliver the benefits of cross-regional procurement. Network Rail has put the following arrangements in place to manage this issue.

- Procurements requiring cross-regional coordination should be progressed in accordance with a category strategy or a sourcing strategy.
- For category strategies, step 1 requires the identification of stakeholders across Network Rail and establishment of a sponsor and steering board to represent their interests. The procedure for subsequent stages makes it clear that regions / routes should be consulted as the strategy is developed. The category strategy should indicate if subsequent sourcing is to be led by either Route Services or regional teams.
- Sourcing strategies should either follow a category strategy or, in its absence, the associated governance and assurance process is expected to ensure that the necessary coordination has taken place. Network Rail has reviewed a list of approximately 170 detailed categories and is developing a consensus view on whether each should be led by either Route Services or regional teams.
- Coordination of these activities is a leadership function and is managed through the Commercial Leadership Forum (which is attended by Regional Commercial Directors and the Route Services C&P Leadership team. This forum also has oversight of Network Rail’s pipeline reports on future procurement activity and so is expected to be able to identify and resolve any emerging issues.
- Plans to establish regular supplier briefings to deliver consistent messaging across Route Services and the regions.



Finding 1.7: Devolution of decisions about category management and sourcing strategies could create a risk of clashes between priorities for Route Services and regions. Network Rail has implemented mechanisms to manage this risk.

3.2 How governance and assurance is used to achieve a balance between risk and pace of delivery, and to support more efficient and effective procurement strategies and decisions, which deliver best value for money outcomes

Governance and assurance procedures are central to the concept of the PMF and to effective delivery through the C&P operational model. The features of the Governance procedure are summarised in

Table 3 and those of the Assurance procedure are summarised in Table 4.

Feature	Description of PMF Governance procedure features
Scope	Applies to Category Management, Sourcing and Supplier Management.
Delegated authority	The procedure supplements Network Rail’s delegation of authority policy established under the company’s corporate governance rules.
Principles	The procedure adopts four principles: <ul style="list-style-type: none"> • Efficient and lean Governance • Light documentation to be reviewed by Governance • Effective use of Delegation of Authority • Contract value and risk-based Governance model
Supporting templates	The procedure lists templates for each key decision point where approval is required: <ul style="list-style-type: none"> • Category strategy approval • Sourcing strategy approval • Award recommendation • Variation and claims • Legal advice • Framework Report • Memorandum



Feature	Description of PMF Governance procedure features
Supporting documents	<p>The procedure refers to the following specific supporting documents:</p> <ul style="list-style-type: none"> • PEP terms of reference • PEP working instructions • Sourcing strategy guidance • Award recommendation guidance
Authority tiers	<p>Governance uses four tiers of authority:</p> <ul style="list-style-type: none"> • Delegated authority (associated with specific posts up to a maximum of £5m) • PEP (award up to £150m, variation up to £50m) • Executive Leadership team (award up to £750m, variation over £50m) • Board (award over £750m).
Role authority matrix	<p>Delegated authority levels are up to £5m for key decision points on contracts deemed to be of low risk. They reduce to the relevant threshold under procurement regulations for medium risk contracts and to £100k for high-risk contracts.</p> <p>Risk assessment is undertaken using a tool provided on the C&P Hub. Factors considered include:</p> <ul style="list-style-type: none"> • Health, safety and environment risk • Performance risk • Reputational risk • Data protection and security risk • Procurement risk (timescales, approach and benefits) • Financial risk <p>The risk assessment tool and regional variations to thresholds are discussed later in this section.</p>
Regional variations to management of delegated authority	<p>All PEPs hold the same delegated authority and manage further delegation within teams. Each region can set its own rules for the discharge of delegated powers and may (for example) vary these according to the type of procurement, findings from assurance or may introduce intermediate approvers such as a regional commercial group.</p> <p>Arrangements for each region were confirmed in the PEP go-live approval communications from the Director of Commercial & Procurement.</p>



Feature	Description of PMF Governance procedure features
Supervising exercise of delegated authority	Exercise of delegated authority is registered and reported to the PEP. This is referred to as ‘one-up reporting’.
PEP	Route Services and each region operate a PEP. The governance procedure mandates membership of a PEP and the functional responsibilities to be discharged by the PEP.

Table 3 – Features of the PMF Governance procedure

Feature	Description of PMF Assurance procedure features
Scope	Applies to all procurement activities covering supplies, works or services.
Principles & objectives	<p>The procedure adopts four principles:</p> <ul style="list-style-type: none"> • Enabling Lean Governance • Multiple Lines of Defence • Risk-based Assurance • Value Adding <p>The procedure aims to ensure that adequate oversight is provided throughout the procurement lifecycle and in advance of governance decision points. It describes the following objectives for assurance:</p> <ul style="list-style-type: none"> • Ensure the procurement is aligned to Network Rail strategies, policies, procedures • Respect all applicable standards, regulations, and obligations (both internal and external) • Increase confidence in procurement activity throughout the end-to-end lifecycle • Identify any risks or issues that may impact the achievement of value for money, scale their potential impact, and implement mitigations to address these risks • Consider ‘best practice’ and consistency across procurement activities • Align the activity with category and strategy

Feature	Description of PMF Assurance procedure features
Assurance points	The procedure provides a list of assurance points which correspond to the five stages defined in the sourcing module of the PMF. Equivalent points for category management and contract administration are not specified.
Supporting templates	<p>The procedure refers to assurance checklists but does not list these (they can be found on the C&P Hub).</p> <p>Templates are not specified for LoD1b, LoD2 or LoD3 reports.</p>
Supporting documents	The procedure provides a list of the documents which are subject to review at each assurance point. As noted above, only sourcing documents are currently identified.
Lines of defence	<p>The assurance procedure defines three levels of assurance which are referred to as lines of defence.</p> <p>LoD1 – assurance of defined products produced within stages of the procurement lifecycle. Two levels apply:</p> <ul style="list-style-type: none"> • LoD1a – is undertaken by a manager with appropriate expertise and accountability for the success of the project. • LoD1b – is a higher level of assurance undertaken by an independent reviewer. This is generally internal to the region / C&P unit. <p>LoD2 – Assurance of the C&P function within a region or other unit to ensure that that the process and procedures are robust, being followed and driving the correct outcomes. This should take place at least annually and may be supplemented by deep dives into specific problems. A two-stage process with self-assessment questionnaires followed by an inspection visit.</p> <p>LoD3 – Independent assurance to be carried out by Network Rail Internal Audit. The procedure does not specify details of this process.</p>
Assurance outcomes and ratings	<p>The procedure provides a four-point classification system for assurance findings. These are:</p> <ul style="list-style-type: none"> • Major concern • Concern • Minor concern • Best practice <p>An overall rating classification is provided to summarise the subject of the review. The ratings are:</p>

Feature	Description of PMF Assurance procedure features
	<ul style="list-style-type: none"> • Substantial assurance • Reasonable assurance • Limited assurance • No assurance
Follow-up to assurance	<p>The procedure requires assurance findings to be managed as follows:</p> <p>LoD1a – Mitigations agreed between the accountable manager and procurement project lead. Accountable manager to confirm completion of checks and resolution of issues.</p> <p>LoD1b – Commercial Action Tracker completed, and mitigations completed. commercial assurance report submitted to relevant governance panel.</p> <p>LoD2 – Assurance report provided, mitigating actions agreed and commercial action tracker completed.</p> <p>LoD3 – not specified.</p>
Assurance matrix	<p>All relevant transactions require LoD1a assurance. Route Services and each region use an assurance matrix to determine the requirement for LoD1b. The matrix is similar in form to the role authority matrix used to determine governance levels and is populated for each project using the same risk tool.</p>
Regional variations to assurance requirements	<p>Route Services and the regions specify local requirements for undertaking LoD1a and LoD1b assurance.</p> <p>Thresholds for LoD1b assurance range from the relevant procurement regulation threshold up to £15m for low-risk transactions and all high-risk transactions requiring LoD1b assurance. Limits for medium risk transactions vary between teams. These are described in more detail below.</p>
Supervision of the assurance process	<p>The procedure does not specify how the results of assurance are collected and reviewed to identify lessons and areas for improvement.</p>

Table 4 – Features of the Assurance procedure



We reviewed the Governance and Assurance process described in Tables 2 and 3 and make the following observations and comments on their contents:

1. The Governance procedure is a critical component of the PMF, and it is of concern that it does not appear to have been finalised, still contains drafting notes and does not cover category management or supplier management in sufficient detail. We have been by Network Rail that they will review matters which remain outstanding from the transformation programme in March 2021 and we would expect to see completion of this procedure as a high priority.
2. Similarly, the assurance procedure fulfils a critical role in defining the reviews to be undertaken. The document could be improved by extending its coverage to include category management and supplier management activities and by being more specific about which assurance checklists are available and setting more explicit minimum requirements for LoD1b.
3. Overall, we consider that the approach taken to governance and assurance within the PMF is reasonable and has the capability to deliver good quality outcomes in a timely and efficient way. Key enabling factors for this are the limited number of governance decision points, frequency of PEP meetings, increases in delegated authority limits to regions and a consistent basis for assurance activities. The effectiveness of these processes will depend on how well they are applied within the C&P operational model and we have not assessed that within our terms of reference. This is an area that justifies early follow-up given the criticality of the governance and assurance processes.
4. One of the features of the PMF is to separate assurance and governance activities and resolve any issues arising from assurance ahead of the relevant governance review point. For Sourcing activities, this is illustrated in a flowchart included as an appendix to the Governance procedure. Feedback from our interviews with regional commercial directors suggests that this approach is improving the focus on business decisions in the governance (PEP) meetings.
5. We have considered issues associated with LoD1 and LoD 2 assurance in more detail earlier in this report.
6. The Commercial Handbook and, to a lesser extent, the Supplier Management Handbook include references to assurance activities in terms which are not consistent with the assurance procedure. It is not clear if these references are obsolete or refer to additional assurance activities beyond the C&P function. This requires clarification as part of the updating of the PMF.
7. The Governance and Assurance procedures do not specify processes for collecting and analysing the results of governance or assurance reviews which would identify potential risks and improvements. This activity is the responsibility of CAG and is described in the Terms of Reference for that group.



8. Consideration of potential efficiencies does not appear to be mandated within the governance process beyond a general reference to value for money.
9. We have seen examples of regional commercial handbooks which describe the governance process and other aspects of the management of C&P. This is good practice to support local focus, however it is important that they are kept aligned with the formal C&P processes as and when they evolve.

Finding 2.1: Governance and assurance have been streamlined as a result of the C&P transformation programme, which is intended to reduce time, be more effective and ensure separation and appropriate sequencing of the governance and assurance processes. This has been viewed positively by the regions and Route Services.

The setting of regional thresholds for governance and assurance activities is a logical step to support the devolution of decision making under PPF. Such thresholds are set within the constraints of Network Rail's overall corporate governance framework, in particular, the delegation to regional PEPs of authority of contract award up to £150m and authority to vary up to £50m.

Route Services and each region have set their own limits for the further delegation of financial authority and for LoD1 assurance on transactions within these limits. The limits were defined in the go-live notification for each region issued by the Director of C&P in early 2020 at the end of the transformation programme. Assurance limits are also contained in an appendix to the Assurance procedure and this provides more detail about responsibilities for undertaking assurance. Examples of the initial delegation for the three regions (Eastern, Scotland's Railway and Southern) involved in our review are shown in Figure 5, Figure 6 and Figure 7.

The applicable level of governance and assurance is determined using the RSCP Process Requirements and Risk Assessment Tool. The operation of this is described in the next section.

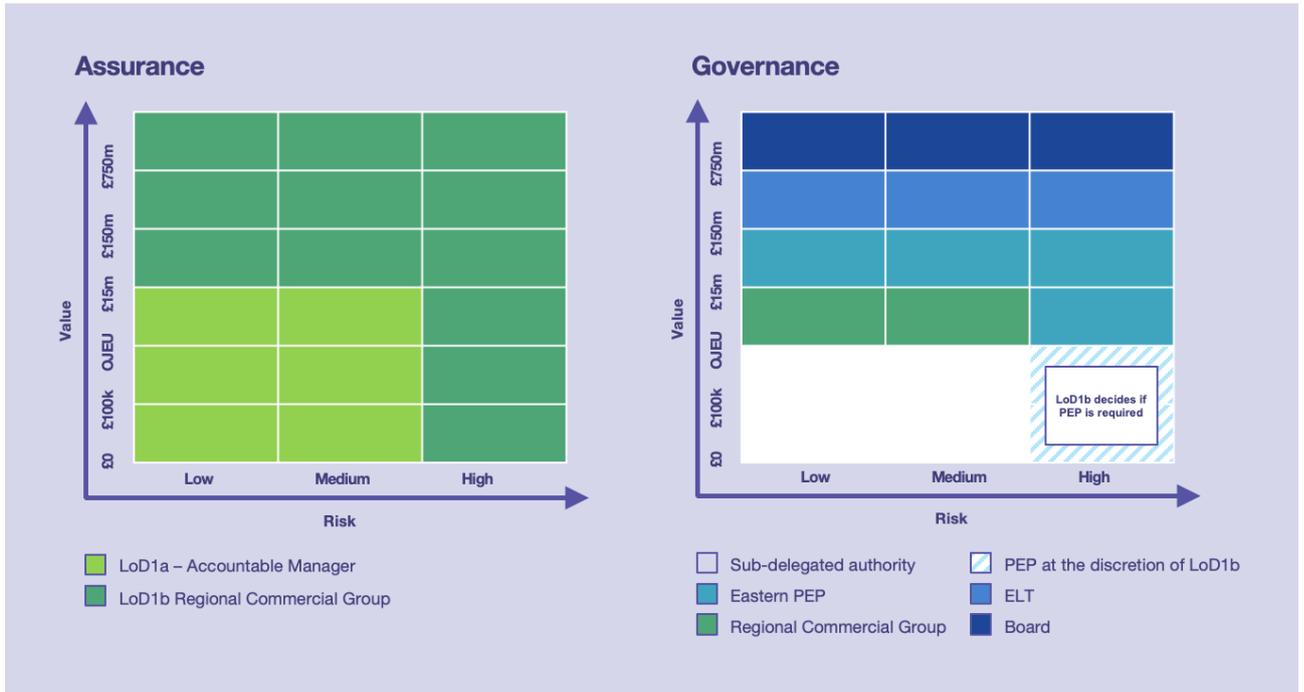


Figure 5 – Delegation levels on Eastern Region

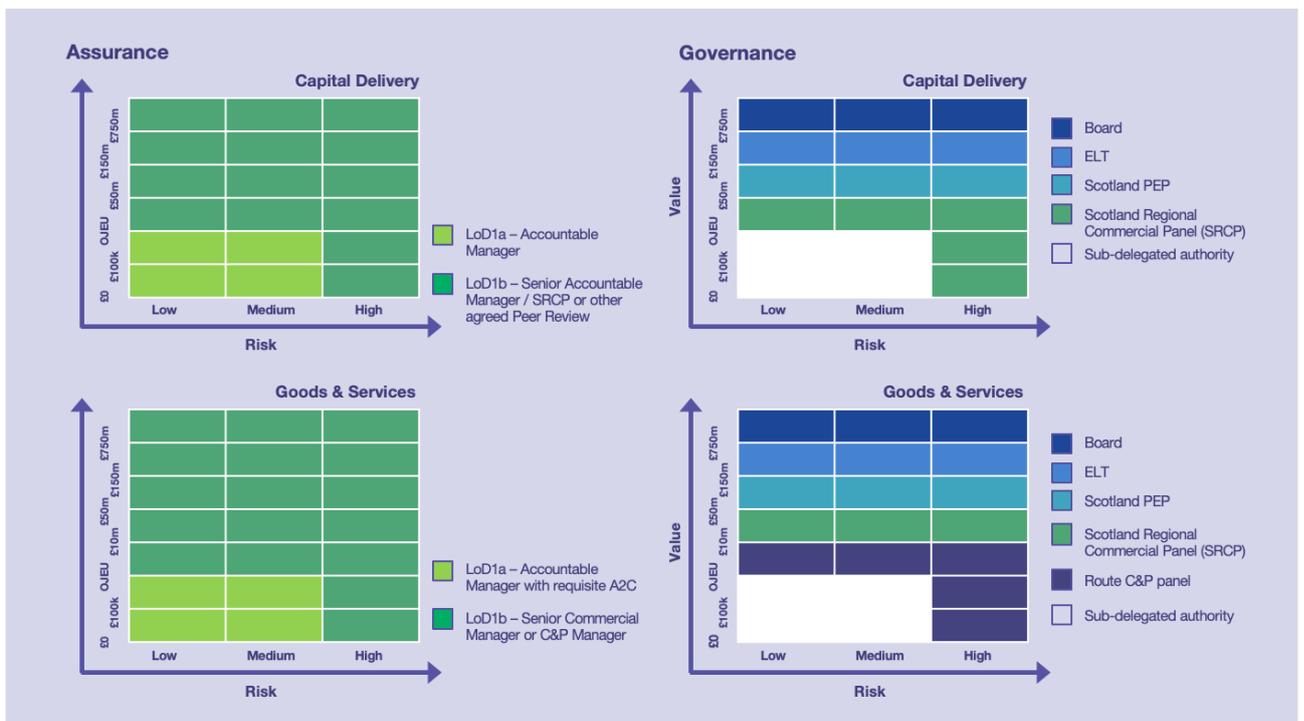


Figure 6 – Delegation levels in Scotland's Railway



Figure 7 – Delegation levels in Southern Region

Finding 2.2: Each region has set its own thresholds for governance and assurance within delegated limits. This flexibility allows the processes to reflect regional needs.

As illustrated in Figures 5 to 7, each region has slightly different thresholds for LoD1a and LoD1b assurance. The applicable thresholds are determined using regional versions of the RSCP Process Requirements and Risk Assessment Tool which is made available to users via the C&P Hub. Algorithms within the tool determine where the procurement event should be placed in the relevant matrix based on transaction details, a questionnaire to identify relevant risks and a more detailed assessment of the level of risk, see Figure 8.

As well as determining governance and assurance requirements, the tool also generates a risk profile and a schedule of PMF deliverables required at each stage of sourcing.

The tool is an important part of the PMF which sets expectations for how a sourcing activity should be managed through the C&P operational model. The schedule of deliverables provides a good starting point for assurance both of individual activities and of the overall management of sourcing.

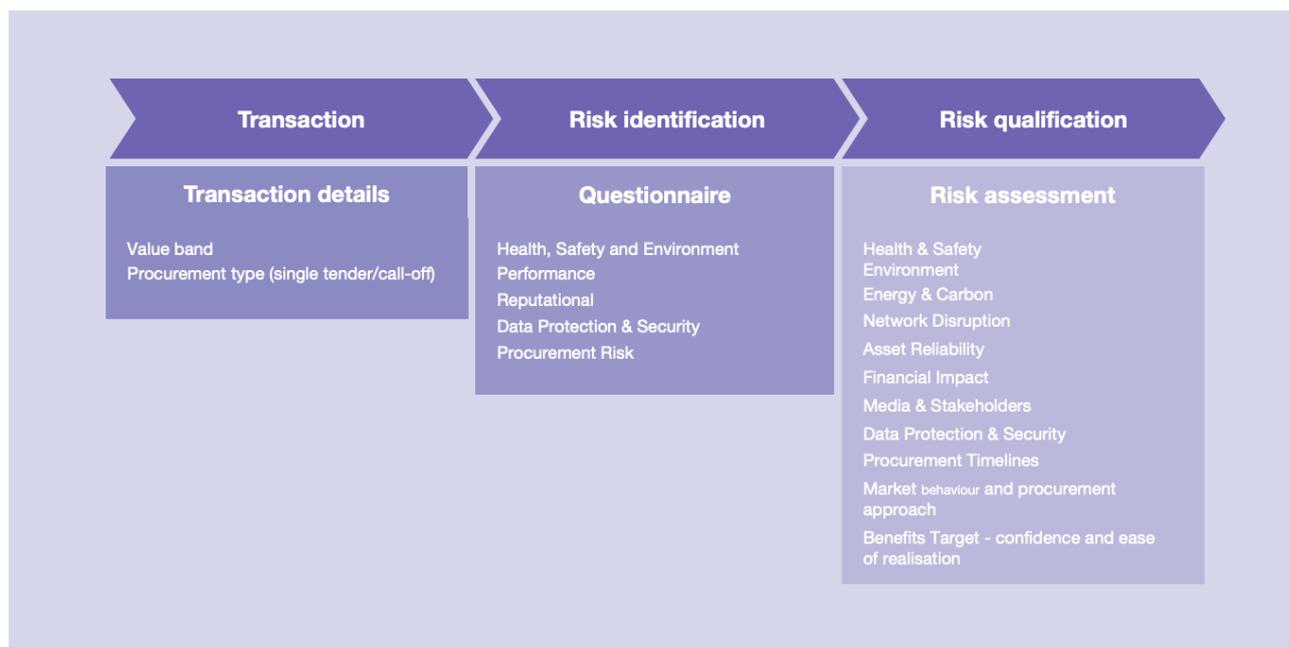


Figure 8 – RSCP Process Requirements and Risk Assessment Tool

Finding 2.3: Governance and Assurance levels for sourcing are flexed depending on the contract value and risk using the RSCP risk assessment tool. This determines the level of delegation for governance, whether LoD1b assurance is required and, for some regions, responsibility for providing assurance. The tool also identifies the level of documentation required to support the governance and assurance process.

We sought the views of the three regional commercial directors on changes to governance and assurance in our interviews with them. The overall impression given was that the changes to governance and assurance arrangements introduced by the PMF are viewed positively. In more detail, the following views were expressed in the interviews:

- Streamlined governance and consistent paper templates have assisted practitioners.
- PMF coupled with governance, assurance and practical constraints will lead to consistent outcomes for similar procurement events.
- Devolved authority arrangements help with reactive situations.
- Not all regions have taken full advantage of their ability to delegate further pending experience of using the system and developing confidence in the ability of people to manage responsibly.



- LoD1 assurance is good for Sourcing. Assurance for post-contract supplier management can be improved.
- The new assurance and governance arrangements have reduced effort. Governance is simpler with shorter papers however (for example) removal of the IP Gateway 2 approval for programmes has resulted in separate submissions being needed for sourcing strategies on each project within a programme.
- Assurance is making teams think more about strategies and why things need to be done. This is leading to improved consistency and better assurance over the integration of scope, technical considerations and cost of work.

Overall the feedback is positive and is encouraging for the future use and development of the PMF. It may be useful to obtain more structured feedback and supporting evidence from a wider selection of practitioners either as part of an assurance deep dive or in a future review by ORR.

Finding 2.4: The three regional commercial directors interviewed suggest that the new approach is improving focus and decision making in governance forums.

We reviewed in more detail the arrangements for the four types of assurance (LoD1a, LoD1b, LoD2 and LoD3) specified in PMF and our findings are presented below in turn.

LoD1a: templated assurance checklists are provided within the PMF to support LoD1a assurance and these are specific to each stage of the procurement process. We reviewed a sample of blank checklists and our view is that they cover a good range of topics relevant to the process stage and should prompt appropriate questioning by the person responsible for assurance. Templates for Governance papers generally require confirmation that LoD1a assurance has been completed.

We also reviewed a small sample of completed checklists provided by Route Services and the three regions involved in the review. This indicated a range of different approaches to LoD1a assurance. We found examples of checklists completed with details which gave confidence that an appropriate level of assurance had been completed. We also found other examples where questions were unanswered or just provided cross references to statements made in the associated governance paper. In one case, the checklist had not been used and emails were provided which referred to assurance but indicated an ad hoc approach, which was not completed due to time constraints. Our sample review therefore suggests that LoD1a assurance is not always thorough.

One specific example related to the instruction of significant additional work as a variation to an alliance contract for an enhancement project. The accompanying governance paper identified several potentially



complex commercial issues and risks, but the assurance records did not provide confidence that these had been reviewed or challenged. In particular, there was no sign that the underlying commercial logic, estimates, programme implications or impact on incentives had been robustly challenged.

The PMF requires the accountable manager to confirm that LoD1a has been conducted and concerns resolved but the small sample of projects which we reviewed suggests that this may not be thorough. Whilst LoD1b can be expected to provide a back-up to LoD1a for more complex schemes it would not be good practice (or compliant with the PMF) to rely on it where LoD1a was not sufficiently thorough. The RSCP Process Requirements and Risk Assessment Tool clearly identifies the level of assurance required for sourcing activity for contract award but there is no equivalent indicator for variations and claims.

Based on the limited sample seen in our review, we are concerned that LoD1a assurance may not yet be fully embedded in all regions and that there is some scope to improve the structure and use of checklists to encourage better planning and more searching questioning, particularly for unusual or higher risk transactions.

Finding 2.5: PMF contains Assurance checklists for each stage of LoD1a assurance required. The templates for governance papers require confirmation that LoD1a assurance has been completed. However, the checklists are not prescriptive and rely on user competence and LoD1b assurance to ensure that there is appropriate checking and challenge.

LoD1b: as mentioned above, devolution under PPF allows regions to vary local governance and assurance arrangements within their overall delegated authority limits. Local arrangements for assurance are given in the appendix to the assurance procedure and summarised in

Table 5 below.

Region	LoD1a / 1b threshold	Assurance provider
Route Services	Low risk: £5m Medium risk: £0JEU High risk: £0	LoD1a: Accountable Manager LoD1b: Procurement Risk & Assurance Manager / External service provider
Eastern	Low risk: £15m Medium risk: £15m High risk: £0	LoD1a: Accountable Manager LoD1b: Regional Commercial Group (RCG)

Region	LoD1a / 1b threshold	Assurance provider
North West & Central	Low risk: £0JEU Medium risk: £0JEU High risk: £0	LoD1a: Accountable Manager LoD1b: Programme / Procurement / Commercial manager (Band 2)
Scotland	Low risk: £0JEU Medium risk: £0JEU High risk: £0	LoD1a: Accountable Manager LoD1b: Nominated senior commercial practitioner
Southern	Low risk: £15m Medium risk: £15m High risk: £0	LoD1a: Accountable Manager LoD1b: Dedicated assurance resource
Wales & Western	Low risk: £0JEU Medium risk: £0JEU High risk: £0	LoD1a: Senior Procurement Manager (Band 3+) LoD1b: Head of Procurement or a C&P Manager (Note: Wales & Western also have an additional discretionary local LoD 2a mandated by the PEP)

Table 5 – Summary of local assurance arrangements

As can be seen, requirements for LoD1b assurance are:

- Always required for high-risk transactions.
- Commence at variable levels of between the procurement threshold (OJEU) and £15m for low and medium risk transactions. The procurement threshold is currently approximately £0.4m for supplies & services and £4.7m for works.
- Provided by staff of different levels of seniority ranging from unspecified up to Band 2. In Eastern region, LoD1b assurance is carried out by the Regional Commercial Group (RCG) and Route Services retain a specialist consultant for use on selected LoD1b assurance reviews.

As well as the variation in thresholds and responsibility for delivering LOD1b assurance, our review gave rise to the following observations:

1. We found best practice in a formal LoD1b report provided in Route Services. This was accompanied by a commercial action tracker as required by the PMF.
2. Route Services maintain a plan to identify upcoming assurance requirements and resources. This is also good practice.



3. We found examples of practice which did not appear to comply with the PMF or good practice in several regions:
 - a. Indications of incomplete assurance due to a lack of time.
 - b. Significant areas of risk not apparently challenged. Examples include proceeding with an innovative contracting model without certainty that the market will support its requirements; and proceeding with sourcing in advance of full funding to maintain programmes with risk of abortive costs.
 - c. LoD1b assurance results recorded in RCG minutes rather than in a commercial action tracker document as required by section 4.3.2 of the Commercial Assurance Procedure.
4. The results of LoD1b assurance are collated and reviewed by Route Services and summarised each period in a report entitled LoD1b Assurance – At A Glance. Collating the feedback is good practice. The LoD1b Assurance – At A Glance report for Period 8 of 2020/21 records that eight reviews were completed and these identified nine major concerns, 64 concerns and 68 minor concerns. The report identified six themes for key findings. This report is an important indicator of how well PMF is being applied and is likely to be relevant to any follow-up reviews.

Finding 2.6: Regions have flexibility in how they apply LoD1b assurance under the supervision of the Regional Commercial Director. There appear to be significantly different approaches across Route Services and the regions. We found evidence of good practice through detailed LoD1b assurance reports, whereas other regions deliver LoD1b through measures such as review and mark-up of documents or review at RCG meetings.

Finding 2.7: Based our review of a small sample of assurance papers, we have concerns about the consistency of the approach to LoD1b assurance.



LoD2: assurance is an important component of the C&P operational model as it reviews the effectiveness of Route Services and the five regional C&P teams. LoD2 is described in the Assurance procedure as being required to “ensure that process and procedures are robust, being followed and driving the correct outcomes” and thus it complements the transactional focus of LoD1. The Assurance procedure requires a minimum of one annual review for each C&P unit and also provides for additional ‘deep dive’ reviews if and when considered necessary. Reviews are carried out by the C&P Procurement Operations team for the professional head of C&P in Route Services.

Planning of LoD2 assurance has started but activities have not yet commenced. Whilst this is understandable given the Covid-19 pandemic and a desire to stabilise teams after the PPF restructuring, it does mean that there is no evidence available to allow an objective assessment of the effectiveness of the PMF and the wider C&P operational model. As we have seen with the findings under LoD1 assurance, consistent application of PMF cannot be taken for granted in a complex operational environment.

A CAG Working Group has been established to plan LoD2 assurance and to play a wider coordinating role in assurance and governance activities. This is good practice and should assist in creating a collaborative approach to these matters. The CAG has developed an action plan for implementing LoD2 assurance. This has the following key milestones:

Period 13 2020/21 – Complete LoD2 questionnaires and action plan for non-compliances

Period 1 2021/22 – Complete recruitment of LoD2 assurance resources

Period 2 2021/22 – Finalise assurance plan

Period 3 2021/22 – Commence 2021/22 LoD2 assurance

Assuming these milestones are achieved, then LoD2 assurance will commence approximately 15 months after the end of the C&P transformation programme and to complete the first round of LoD2 will take further time. This means there is potentially a long lag between introducing the PMF and receiving formal feedback on effectiveness. Network Rail C&P team considers that the risks associated with this are mitigated by (a) the relatively low volume of high value procurement currently being undertaken and (b) continuity of the accountability of commercial directors from their roles in the transformation programme, their regional responsibilities and their participation in CAG. Nevertheless, the Reporter considers that the lag in fully implementing the PMF assurance regime represents a risk that should be formally assessed with an associated mitigation plan based on a combination of enhanced LoD1 monitoring, LoD2 deep dives and LoD3 reviews implemented pending full routine assurance being in place.



Finding 2.8: LoD2 assurance is planned to commence in mid-2021. Whilst it is understandable that this was not progressed immediately after the PPF changes, objective assessment of the application and effectiveness of the PMF is reliant on LoD2 operating as business as usual.

We understand that LoD3 assurance has not yet been completed for any area of C&P.

3.3 How procedures, tools and templates support the competence of practitioners and consistent application of professional C&P standards across Network Rail

We have addressed this question in two parts:

- How procedures, tools and templates support the competence of practitioners; and
- How procedures, tools and templates support consistent application of professional C&P standards across Network Rail.

We expect:

- Practitioner competence requirements to be identified.
- Competence levels amongst staff to be robustly assessed.
- Development needs to be supported through training, experience and mentoring.
- In the context of new procedures, tools and templates we anticipate that all users have the prerequisite skills to effectively use them to deliver successful outcomes.

We consider that consistent application of professional C&P standards should be driven to some extent by the PMF, but also be supported by established HR competence management systems and the application of assurance and governance mechanisms. As previously noted, the PMF is a universal system that defines C&P processes in a way that covers the wide range of transaction types, values and complexity undertaken by Network Rail. Each of the PMF components is covered by extensive guidance, tools and templates to support practitioners (though we note that the Category Management and Sourcing components are less prescriptive than the Commercial Handbook which is a legacy document adopted into the PMF). For example, Category Management has 5 steps, 14 modules, 44 guides and 92 templates.

Practitioners are required to determine which tools and templates are appropriate for their commercial activity, except for those which are mandated for assurance and governance checkpoints. There is therefore an expectation that practitioners hold the requisite competences to use them successfully and efficiently.



As well as guidance on process requirements, many of the PMF procedures contain background material covering the theory behind the practice. Whilst this could help to increase the competence of practitioners through self-learning, it is not in itself a tool for managing competence.

Finding 3.1: The PMF relies on C&P practitioners holding adequate competence for the activities they undertake.

We have not investigated Network Rail's competence management processes in details as part of this review. Network Rail provided two sample job descriptions (a Commercial Director and a Regional Procurement Manager) and we noted the following points:

- Education to degree level and relevant professional qualifications are deemed essential for the commercial director post and desirable for the procurement manager.
- Other skills and experience requirements are more subjectively expressed and generally fall between those of general relevance to management roles and those which are directly relevant to commercial and procurement activities.

We interviewed three Regional Commercial Directors and they stated they have suitably competent practitioners who are well supported by the Regional teams and Route Services. Within the teams, we note that there is a mixture of full-time and interim resources and no disparity between competence levels was identified to us.

As the PMF is still in its infancy it is important that Route Services regularly check with Regions to identify any issues and assess how well it is being applied through assurance activities. Through the CAG, this will provide a platform for continuous improvement.

The PMF itself does not prescribe minimum levels of competence for practitioners to hold before carrying out specific activities. Competencies are managed through the HR process and via personal development plans which are overseen by line managers. Prior to the C&P Transformation, IP practitioners used a Development Needs Analysis tool (DNA) to rate their performance against various competency levels specified in their Job Description. Within the tool, each competence has five proficiency levels (ranging from 'requires development' to 'expert'). The competence framework includes examples of the knowledge associated with each level for each competence and so provides a detailed basis for setting requirements for each role and for assessing people against these requirements. The output of the DNA tool is transferred into personal development plans and development opportunities are discussed with Line Managers as part of the annual review process.



This tool has been carried over from IP into the new C&P structure and is used for practitioners who predominantly deliver procurement and supplier management for works contracts. The DNA provides a consistent approach to setting clear expectations of competence levels and subsequently provides a useful tool for Practitioners and Line Managers to measure and review performance and development needs. There are plans to extend this approach for practitioners who deliver supplies and services within C&P.

We have been advised by Route Services that the DNA approach is being developed to cover minimum competencies and proficiency levels for each role under the PMF including supplies and services. C&P plan to roll this out in Spring 2021. We believe that this will improve consistency across C&P as a whole and help to identify areas where any significant development needs may be addressed. Although not explicitly suggested by Network Rail, it would be beneficial if this work were to be developed to include reviewing and aligning job descriptions with the specified competencies and relevant levels of proficiency.

Finding 3.2: Competencies for practitioners involved with works C&P activities are specified and managed using a legacy IP DNA tool. Network Rail has developed an equivalent toolkit for supplies and services with an anticipated roll-out in spring 2021. This presents an opportunity to improve alignment between job descriptions and the competence framework.

Where development needs are identified, either through the DNA tool or through other reviews, Network Rail can offer the following training specific to C&P:

- Internal courses via the C&P Academy.
- External training courses, for example Government training on social value.
- External professional qualifications and training for example via Royal Institution of Chartered Surveyors or Chartered Institute of Procurement & Supply.
- General Network Rail training (for example, Delegated Authority) is also available via e-learning.

In our interviews Regional Commercial Directors were generally happy with the level of training and support provided to practitioners but commented that additional Academy courses would be helpful and have been suggested to Route Services for development.

The C&P Academy is a good innovation brought in under the transformation programme but as yet the curriculum only covers 14 courses, which are predominately concerned with works contract management topics. As with the DNA tool, there appears to be an historic gap in Network Rail's provision for practitioners who are predominantly involved with supplies and services.



Whilst practitioners are generally considered competent by management, there is an opportunity for the Academy to be developed to ensure that both knowledge and consistent application of PMF requirements across the end-to-end lifecycle of Category Management, Sourcing and Supplier Management.

Route Services have told us of plans to produce additional Academy modules in late 2021 based on feedback from the updated DNA tool being analysed to identify and prioritise training needs.

Finding 3.3: Training requirements are met through a combination of general training providers such as RICS and through the C&P Academy.

Regional Commercial Directors did not provide a compelling description of how new joiners are inducted into the PMF. Induction appears to rely on line managers making time to provide an overview briefing, new entrants assimilating the PMF through the C&P Hub together with their inherent competence. Additionally, where procurements for long-term contracts (such as frameworks) occur relatively infrequently, there is no refresher training provided.

We suggest that a PMF introductory module within the C&P Academy would provide a common and consistent briefing for both new and existing practitioners.

Finding 3.4: With the exception of the overview briefings provided as part of the C&P transformation, there is no specific training or induction into the PMF.

Consistent application of professional C&P standards across Network Rail is largely driven by the checklists and templates for different deliverables and decision points. Whilst these drive the look and feel of outputs, the quality and consistency of the underlying information used to populate the templates is the responsibility of practitioners. This is a risk to the consistency of the quality of the information being input to the templates.

Pending the implementation of LoD2 assurance, the only opportunity for the work of individual practitioners to be compared is through LoD1b assurance in each region. CAGs have been established in Route Services and each Region. CAGs are mandated to provide consistency, a common understanding and other improvements in application of the PMF. As there is no specific input data or documents required, there is a reliance on attendees to gather feedback from their teams and for the CAG to discern common themes where the quality and consistency of outputs may be at risk.



In our interviews with the regional commercial directors, no significant issues or concerns over consistency were reported to us. This view was echoed in Route Services who believe that consistency has increased since the launch of the PMF.

Through increased use of PMF and the Regional structures coupled with the introduction of LoD2 assurance later in 2021 should provide an opportunity to confirm the level of consistency across C&P and identify any areas where improvement would be beneficial.

Finding 3.5: The PMF contains checklists and templates which can be expected to drive consistency of presentation. As we have previously noted, the PMF is not deterministic and so the quality and consistency of the underlying information input to the templates may vary. Prior to LoD2 assurance, comparison of LoD1b results between regions and the role of the CAGs provides some mitigation.

3.4 How the Procurement Management Framework integrates Government social value requirements to evaluate social value contribution

To assess how the PMF integrates Government social value requirements to evaluate social value contribution we have considered:

- What are the Government social value requirements
- How these are applied within Network Rail's C&P environment

We have reviewed the process and not individual procurements for the purposes of answering this question.

We expect to see evidence that social value is considered through the end-to-end lifecycle of procurement where procurements are within the scope of the Social Value Act 2012 (SVA) and PPNs. We also expect that social value contributions are considered for all procurements where there is clear benefit in doing so, irrespective of whether this is a legal requirement.

In order to demonstrate adherence to the SVA and PPNs we expect Network Rail to have a clear social value policy and a structured process for recording the contributions made across its portfolio of contracts and feeding both positive and negative outcomes back into future sourcing activity.



Government social value requirements are set out in the SVA and a series of PPNs. These recognise that procurement can leverage value from how a contract is delivered as well as from the finished product. Examples of the benefits that add such value include economic, environmental and social wellbeing improvements. The SVA requires relevant contracting authorities (including Network Rail) to consider social value when they conduct procurement, specifically:

- How the economic, environmental and social well-being of the relevant area may be improved by what is being procured.
- How, in conducting the procurement, they might act with a view to securing that improvement.

Since the SVA was introduced, multiple PPNs have been issued which support the social value objectives.

Network Rail's approach is set out in the PMF Sourcing process as follows:

- For all procurements, the tender platform Bravo includes templated social value questions for PQQs and ITTs. Practitioners use their discretion to decide whether or not to include, adapt or exclude them from their sourcing activity.
- For Works over £10m, a Balanced Scorecard tool is mandated for use by practitioners. The tool is designed to assist practitioners in considering how cost and technical aspects of a procurement are balanced against social, economic and economic considerations. It takes users through a structured questionnaire and leads to the classification of a standard series of critical success factors. If the tool identifies these as 'High Impact' then they must be incorporated into the procurement. Medium impact factors should be considered for inclusion. The tool does not prescribe evaluation criteria and practitioners use their discretion over how to express social value requirements.

Additionally, at a high level, Network Rail's C&P Policy sets out social value as a Procurement Principle with a commitment to “ensure that opportunities to deliver Social Value are actively promoted through procurement activity”. To enact this principle, Network Rail procurement practitioners are required to “consider responsible outcomes that provide societal value and reduce impact to the environment”. Further, “Network Rail's suppliers providing goods and services, and contractors providing works, must meet the requirements of any relevant legislation and wherever possible the Procurement strategy and supporting process should demonstrate the social benefits (for example, economic, social and environmental benefits) which can be delivered through Procurement”.



We note that currently there is no overarching C&P social value policy which sets out Network Rail's measurable objectives or targets. We think that such a policy could act as a catalyst to standardise areas of interest and improve consistency in how these are specified and monitored. The newly developed Rail Industry Balanced Scorecard (RIBS) potentially fulfils this role (see below).

Finding 4.1: Government social value requirements are set out in the Social Value Act and a series of procurement practice notes. We consider that Network Rail currently complies with these.

In June 2020, PPN 06/20 Taking Account of Social Value in the Award of Central Government Contracts was released and further supporting guidance was provided by in December 2020. Whilst not mandated for Network Rail, C&P have endorsed the PPN and are progressing with the required changes to the PMF to define best practice and develop Network Rail's position on how social value requirements are reflected in the Sourcing process.

As part of the new changes, Network Rail has collaborated with other industry bodies to develop the RIBS. This aims to build on the existing Balanced Scorecard and develop a common set of strategic themes with guidance on how they can be considered in all Sourcing activity. The enhanced scorecard will provide more detailed guidance for practitioners, as well as extending the social value criteria to access wider economic benefits. A mandatory 10% weighting for social value related factors will be introduced on Works related sourcing activity with a value over £10m.

To ensure that the improved approach works effectively, Network Rail has identified a need for subject matter experts to assist practitioners in subjects such as sustainability and apprenticeships and have identified these experts within the company.

To support the new RIBS, the Rail Supply Group (RSG) has issued a comprehensive guidance document which serves as an overarching policy for social value, with guidance on how practitioners can integrate requirements into sourcing activity. This is expected to be adopted by Network Rail and integrated into the PMF via the Sourcing process.

Network Rail will be leading the rollout of the RIBS on behalf of the RSG and plans to pilot the scorecard from January 2021. C&P practitioners will be briefed in a newsletter and provided with the new tool, supporting guidance and training.

Whilst RIBS and associated guidance appears to be more robust, it is not prescriptive and will still rely on practitioners' competence to apply it appropriately to sourcing activity and on LoD1 assurance to review that application.



We consider that the RIBS and guidance documents will support a more consistent approach for use in the rail industry and that its launch with Network Rail will help the social value agenda become more embedded for practitioners.

Finding 4.2: Network Rail is taking the Government requirements further by working with other industry bodies to develop a common RIBS. This is due for launch in January 2021. This will provide a common approach to considering social value for all procurements, not just the major works over £10m mandated under PPNs.

Whilst there is not a government requirement to contractualise social value requirements, we consider that commitments made by suppliers during the sourcing process should be captured as firm commitments at contract award. Where there is a clear benefit in doing so, requirements can also be flowed down to lower tier suppliers. This process makes tender offers enforceable and enables benefits to be tracked and measured post-contract. Other arm's length bodies use a Tender Commitments Register as a mechanism to support monitoring of delivery of commitments made.

The PMF and Bravo do not provide standard templated terms & conditions or specification clauses to support the embedding of social value commitments. Mandatory flow down of such provisions to tier 2 suppliers is also not provided for. It is left to practitioners to draft the necessary wording.

During interviews with C&P practitioners we were told that social value commitments are not commonly included in contracts (with the exception of certain policies such as the Living Wage). The supply chain organisations interviewed advised that they were not aware of any social value obligations within their existing contracts.

Given this, we consider that the benefits of the current Balanced Scorecard approach may be sub-optimal. With the introduction and rollout of the RIBS we would expect to see that there is a renewed focus on social value across C&P and that, where appropriate, social value contributions are captured as contractual requirements. Network Rail has told us that there will be a review of contractual requirements as part of the introduction of the RIBS.

Finding 4.3: Social value requirements are not consistently included as requirements within contract terms or specifications which means that they are not always enforceable obligations post-award.

There is no identified process for monitoring the delivery of social value contributions during the contract delivery phase and therefore there is no aggregated reporting or visibility of the social value contributions



delivered. We note that some information such as Small Medium Enterprise (SME) spend can be obtained from financial reports, although this activity is not stipulated by the PMF.

Whilst both Route Services and the regions stated that in the future, they wish to be able to clearly demonstrate social value contributions, they advised us that there are no immediate plans to introduce consolidated reporting or to align C&P practice with existing reporting of related matters by Network Rail's Health Safety Environment & Quality function.

Outside of the PMF, the Supplier Management team uses some social value metrics to review the performance of strategic suppliers during periodic dashboard review meetings. Data which drives the dashboards is voluntarily supplied and is not contractualised. We note however that the four suppliers interviewed all reported that their dashboards did not include social value metrics and that it was instead covered in the commentary section as and when 'good news' stories arose. The suppliers also emphasised that social value is delivered within their own company Corporate Social Responsibility plans without the need for it to be contractualised, with one suggesting that they push social value rather than Network Rail pulling it.

Overall, we consider that with a robust framework soon to be introduced, more can be done to record, monitor and evidence the social value contributions that are being made by the supply chain in delivering supplies, services and works for Network Rail.

Finding 4.4: There is currently no standardised tracking and reporting of the delivery of social benefits and it is therefore not possible to determine the overall social value contribution being made.

3.5 How does the Procurement Management Framework provide flexibility to accommodate simple through to complex procurement activity (for example enhancements, especially under the new pipeline approach to funding)

Network Rail has an extensive supply chain network that delivers a very wide range of supplies, services and works. To put this into context, in 2018/19 Network Rail engaged with over 4,000 suppliers. In order to deliver each transaction efficiently to a high professional standard, competent practitioners should be supported by robust C&P processes, assurance and governance within an overall C&P operational model. These should together offer flexibility and be commensurate with the respective value, complexity and risk of procurement and commercial activity whatever its nature.

The PMF is intended to apply to all of Network Rail's procurement activities, with the exception of sales, property, or non-procurement transactions such as fees, licences, insurance premiums, charitable giving,



etc. These exceptions are the subject of separate policies and delegated authorities. It covers the entire procurement lifecycle from the initiation of category plans through to contract close out.

It is intended to apply equally to complex enhancement schemes funded under the new pipeline approach and also to simpler schemes funded through the periodic review process. In principle, schemes funded through either route should not require different procurement approaches. We have seen evidence of a reference to procurement risks associated with uncertainty over the timing of funding for an enhancement scheme. The PMF allows such risks to be identified and taken into account in decision making on procurement, however it is important that this is done transparently.

To achieve this flexibility and to ensure that activities are commensurate with the scale and complexity of the procurement transaction, the PMF provides tools and templates to scale deliverables. These include:

Category Management

- Flexibility is a key feature of the Category Management process. The PMF states that “Application of Category Management must be modulated to meet the specific needs of each category and ensure that effort is not wasted over analysing simple areas of spend – it is not a ‘one size fits all’ approach”. This sets the tone for users and recognises the range of tools within the process is not necessary for all spend categories.
- Flexibility within Category Management is largely driven by the Integrated Category Strategy (ICS) project types, which scale the level of documentation required and the number of assurance checkpoints. This approach has been designed to deliver the best value from each category against the effort involved. There are four ICS project types: ‘Super Quick’, ‘Quick’, ‘Standard’ and ‘Major’. The PMF uses eight different criteria to assess a category, including duration, business impact and spend, which are then used to determine the appropriate ICS project type. By way of example, a Super Quick ICS does not require any templates to be completed and there are no formal assurance checkpoints, whereas a Major ICS requires 51 templates to be completed and has three formal assurance checkpoints.

Sourcing

- At the start of the sourcing process practitioners are required to populate the RSCP Process Requirements and Risk Assessment Tool. This is a controlled multi-tab spreadsheet which takes the user through a series of questions to determine the deliverables, assurance levels and governance levels required based on the transaction type, estimated contract value and risk factors. The tool has been reproduced for each Region to align with the Regional assurance and governance thresholds and is owned and controlled by Route Services. We note that the tool contains locked cells and data entry validation to ensure it is used consistently and cannot be amended by users. This tool accommodates the full range of procurement



activity and provides a control on how the flexibility within the PMF is applied at the sourcing stage. The tool is described in more detail in section 3.2 of this report.

- Within the delegated authority limits devolved to it, each region has set its own authority thresholds to manage assurance and governance activities. This has offered the regions flexibility to determine the appropriate levels based on their needs and their view of risk. This is also discussed in greater detail in section 3.2 of this report.

Supplier Management

- Practitioners are guided to use the Supplier Management Handbook for post-contract management of supplies and services and the Commercial Handbook for post-contract management of works contracts. Each has been tailored to suit the respective transaction type.
- The Supplier Handbook addresses framework and non-framework agreements but otherwise does not differentiate between contracts beyond noting that handover and kick-off arrangements may be flexible to reflect the risk and value of a contract.
- The Commercial Handbook takes a more detailed and prescriptive approach to managing works contracts. The handbook does not differentiate between high or low value or risk contracts.

Finding 5.1: The PMF is designed to be flexible to accommodate simple through to complex projects, by allowing the scale of deliverables and assurance to be flexed based on scale, complexity and risk criteria.

To provide the flexibility, the framework is largely written in a non-deterministic style (i.e., it describes what is required but is not prescriptive about how it should be done in particular circumstances). The Commercial Handbook is a notable exception. Being non-deterministic means there is a risk of inconsistency and a lack of repeatability across the six operational areas. PMF relies on the assurance process and CAG to address these risks and to drive consistency. This is discussed in more detail in section 3.2 above.

The non-deterministic nature of the PMF may also make it harder to implement lessons learned and emerging best practice. Whilst the framework is very flexible, the non-prescriptive style may make it harder to specify particular responses and mandate specific ways of working.

Finding 5.2: The style of the PMF is non-prescriptive. The potential risk of inconsistency of application is reliant on the assurance process and CAG to mitigate.



The flexibility inherent in the PMF also makes it more reliant on practitioner competence to deliver appropriate outcomes. By way of example:

1. For all sourcing activities business requirements should be robust and comprehensive and a baseline estimate should be available to benchmark tenders against. For procurement of major works these are much more complex and technical deliverables than for a simple transactional purchase of supplies. Higher levels of competence within the C&P team will be required to confirm that the requirements are fit for their purpose within the procurement process and to properly include them in the tender documents.
2. The PMF covers these activities in Sourcing step 2.2 (Analysis and Strategy Formulation):
 - Gather detailed requirements – This section describes who should be involved and ways in which the Sourcing Lead can gather the detailed requirements. It notes that “collecting, clarifying and documenting detailed requirements is essential to procuring the right things, this is also important for where the procurement is high-value or involves a technically complex product”. Guidance on the validation of these documents is not provided.
 - Develop spend baseline – This section describes how the Sourcing Lead can analyse historical data, forecast demand and conduct a whole life cost analysis. Within Network Rail, this specialist activity has historically been done by Cost Planners rather than C&P staff.
3. The process descriptions are reasonably high-level and theoretical. There is no clear distinction between transaction types or how to scale these activities which guide a practitioner on the extent of work required or on how related GRIP products should be integrated with the process.
4. The assurance checklist only considers the scope and requirements in two general questions:
 - Have stakeholders and customers been involved in developing and signed off detailed requirements and the strategic approach?
 - Have clear and detailed requirements been finalised and agreed with the Technical Lead (and appropriate Stakeholders)?
5. There is a heavy reliance here that the Technical Lead has finalised and agreed the requirements with the Sourcing Lead and there does not appear to be guidance on quality checks to ensure that requirements are complete and consistent with the form of contract proposed and the procurement process.

The process of defining business requirements therefore relies heavily on practitioner competence to be able to deliver the output to a level commensurate with the sourcing activity. We consider that for high risk, high value complex works, this is an area where greater guidance may be appropriate. This might, for example,



include: the level of prescriptiveness in the specification that is appropriate for the contract type, checking of alignment between technical requirements and evaluation scorecards, checking for overlaps or conflicts between specifications and contract documents and alignment of pricing documents and baseline estimates.

In the future, flexibility could be retained with less reliance on competence by considering if the PMF could be mandated differently at the extremes of transaction types. For example, there may be some low value, low risk transactions for which full rigour to the level specified is not necessary and equally for major procurements, more specific provisions may be appropriate to manage interfaces between other business processes and the PMF. As the PMF matures and lessons learnt are captured there is an opportunity for the approaches described in this section to be refined further.

Finding 5.3: PMF relies heavily on practitioner competence to apply it to the specific circumstances of their projects, especially for procurement of major works.

We interviewed managers in Route Services and three of the Regions. Their consensus view was that they considered that the C&P operational model as defined by the PMF as flexible, allowing practitioners to challenge their own approach and strive for continuous improvement. The interviewees considered that because of its broad approach, the C&P operational model can flex to accommodate potential changes in external factors such as changes in funding or in the regional focus of government sponsored enhancement schemes.

Finding 5.4: C&P managers interviewed by the Reporter are confident and comfortable with the level of flexibility offered by the PMF.

Although Network Rail's response to the Covid-19 pandemic is not directly linked to the PMF, feedback from our interviews with suppliers suggested that Network Rail has demonstrated a flexible approach in its response to the risks arising from the pandemic. For example, changes to payment terms introduced to support suppliers' cashflow was commended to us by supplier representatives. We think that this is illustrative of both flexibility and resilience in the C&P operational model.

Finding 5.5: Suppliers interviewed by the Reporter commended C&P for a flexible and agile approach to supply chain activities during the pandemic.



3.6 How well is the Procurement Management Framework being embedded in Route Services and the Regions and adopted by Commercial practitioners

The review scope in the Independent Reporter mandate required a light-touch engagement with the regions and route services; we held interviews with three regional commercial management teams only and did not engage more widely with commercial practitioners. To supplement this we also looked at other sources of evidence. Our lines of enquiry to answer this question included:

1. Interviews with a sample of three regional C&P management teams
2. Interviews with a selection of functional and operational directors within Route Services
3. Review of assurance outputs from the Network Rail C&P transformation programme
4. High-level review of commercial practitioner competence management

We now summarise each of these lines of enquiry.

During our interviews with the three regional commercial directors they stated that the PMF briefing process had been good and that their teams felt confident in applying the PMF. An exception to this is the Supplier Management Handbook which was issued in November 2020 after completion of the transformation programme. It was suggested to us that further work is necessary to fully embed this process.

We heard that, in at least two regions, the C&P teams rely on a significant level of contract staffing. Whilst these staff are said to be familiar with the PMF, there may be a need for additional training if there is significant turnover of contract staff or when they are replaced by permanent employees.

Eastern region reported that they have a roadmap for planned C&P development work. This is embedded into the team's personal objectives. Key focuses are on ensuring that the governance and assurance is working effectively, that the teams are fully and effectively resourced, developing a Control Period 7 (CP7) contracting strategy and improving supplier relationship management. These initiatives are underpinned by the Eastern Region Operating Handbook and the Eastern Commercial Handbook. We have not reviewed these documents, but the initiative appears to represent good practice within a region. Southern region discussed a similar initiative.

For the C&P operational model to work effectively and deliver the desired outcomes, robust assurance processes must be applied. Given the scope of LoD1 assurance and that LoD2 assurance has not yet progressed beyond the planning stage, it is not currently possible to independently evidence the views expressed by the interviewees.



Finding 6.1: The three regional commercial directors interviewed all spoke positively about the PMF and consider that it is being followed. However, actual evidence of effective application of PMF requires LoD2 assurance to be in place and this is not due to commence before period 3 of 2021/22.

Similarly, we held interviews with a sample of functional and operational managers within Route Services. All considered that the PMF had been adequately briefed to staff and is being followed. Furthermore, we have been told that no major concerns or issues have been raised via the Route Services or Regional CAGs.

Finding 6.2: The Route Services managers interviewed all spoke positively about the PMF and consider that it is being followed. As with the regions, it is not possible to demonstrate how effective the application is yet as LoD2 assurance will not commence before period 3 of 2021/22.

The transformation programme along with the PPF initiative has resulted in significant changes to C&P personnel, management processes and the operational model. We sought evidence as to how the transformation programme assured embedment in the regions.

The transformation programme was based on the principles of managing successful projects for Network Rail (MSP4NR), which sets standards for change programme delivery. The programme included activities for people changes, recruitment and development of the C&P academy together with regional briefings.

The delegation of authority process which enabled each region to go-live with its new PEP and start working fully under the PMF involved a formal assessment by C&P of readiness against a range of factors. The results for the three regions in our sample are summarised in Table 6.

Topic	Outcome	Eastern	Scotland	Southern
Briefings	Delivered C&P Policy briefings to relevant stakeholders and customers	◐	◐	○
Training	Delivered C&P Policy and Process briefings to Commercial practitioners	◑	●	●
Category Management	Validated Category Management programme, including resource allocation and effort required	○	○	○



Topic	Outcome	Eastern	Scotland	Southern
Sourcing	Finalised Regional sourcing process for Above OJEU, below OJEU and below £100k	●	●	●
	Identified sourcing soft-launch plan	●	●	●
Contract Management	Initiated activity to develop commercial management capability for Works, Goods & Services	●	●	●
	Developed system implementation roadmap	○	○	○
Governance Model	Finalised Governance mechanisms	●	●	●
	Finalised Regional Governance Panel Threshold vs DoA	●	●	●
PEP	Approved ToR, including membership and Ways of Working and Behaviours	◐	●	●
Assurance – LoD 1	Defined Regional Ways of Working and resources requirements	●	●	●
Assurance – LoD 2	Defined L2 Assurance process and plan for Year 1	○	○	○
Regional	Finalised Regional benefits pipeline based on agreed Category split	◐	◐	○
Joint pipeline	Agreed joint pipeline Regional and Route Services with benefits attached	○	○	○
Finalise structure	Approved final Organisation structure (internally)	●	●	●
A2C / A2V	Approved A2C / A2V for new roles / org structure (and confirmation of capability)	●	●	●
	Created hierarchy and system configuration in Oracle	◐	◐	◐



Topic	Outcome	Eastern	Scotland	Southern
Alignment with PPF principles	Defined roadmap of regional initiatives to aligned Commercial function to PPF principles of customer centricity and business flexibility	●	●	○
KEY				
○ Initiating	◐ 0-25%	◑ 26-50%	◒ 51-75%	● 76-100%

Table 6 – Summary of regional status at completion of the transformation programme (Q1 2020)

Note: For the purposes of determining if a region could go live, the assessed topics were divided between ‘critical’ and ‘non-critical’. All critical topics were required to be substantially complete to support going live.

Finding 6.3: The C&P transformation programme delivered a comprehensive rollout and briefings to the regions. The level of operational readiness was formally assessed by the transformation team as being adequate to permit each region to go-live with its PEP.

We understand that outcomes in Table 6 which were not 100% complete at the handover were transferred to the regional teams to manage under ‘business as usual’ processes. Eastern region reported that there was a follow-up review and that all items are now closed but this was not reported by the other two regions. It therefore does not appear that there has been any formal close-out of these actions, but we have been told that a review is planned for March 2021.

Finding 6.4: Non-critical outstanding activities were transferred into ‘business as usual’ within Route Services and the regions. Route Services reported that a review of the status of these activities will be undertaken by March 2021.

Staff competence is managed through existing HR processes; principally job descriptions, development needs analysis and annual development plans held in Oracle. The DNA tool for commercial practitioners has been transferred from IP and extended to cover staff engaged with supplies and services work. We understand that a detailed review of development needs is planned for later in 2021 and that this will be used to prioritise development of modules for the C&P Academy.

Pending completion of the DNA, the academy hosts 14 e-learning courses. These are predominately in the field of post-contract management of works contracts. Further modules connected with competence development are being developed at present.



It is important that the assurance and DNA activities which Network Rail have planned are completed in a timely and comprehensive way to confirm that the C&P function is able to support increased throughput in the run up to CP7.

Finding 6.5: We note that much of the procurement needed for CP6 was completed prior to introduction of the PMF. The level of practitioner competence is therefore expected to increase as preparation for CP7 gathers pace.

3.7 How the supply chain has clarity of Network Rail's future pipeline to support their own business planning and how Network Rail engages more broadly to support supply chain readiness

Network Rail is engaged with over 4,000 suppliers across goods, works and services, with an annual spend of approximately £7bn. To assess how this extensive supply chain has clarity of Network Rail's future pipeline to support their business planning, and how Network Rail engages more broadly to support supply chain readiness, we sought evidence from:

- Interviews with four strategic suppliers, selected based on their spend value within their respective categories (Infrastructure, Corporate Services and Technology).
- An interview with RIA.
- Information publicly available on the Network Rail website.
- Interviews with Route Services and regional managers.

In order to support business planning we expect to see a comprehensive procurement pipeline providing a realistic lookahead presented on a rolling basis. We expect that data is accurate, timely, consistent and accessible. For best practice, we consider that this should be supported by information describing category strategies and, for significant packages, sourcing strategies plus a contact register to help suppliers to follow up opportunities. Further, where possible, we would expect to see that opportunities in lower tiers of the supply chain are identified.

Alongside the pipeline we expect that regular supply chain engagement events are held to provide opportunities to engage directly and provide explanations of the published material. In order to evidence the effectiveness of the supply chain engagement we expect regular and open lines of communication with the supply chain and industry organisations such as RIA. This could be demonstrated by way of formal feedback surveys.



During our interviews with four of Network Rail's largest strategic suppliers, they emphasised the importance that clear procurement pipelines have in supporting their business planning. Key feedback included:

- Visibility of Network Rail's procurement pipeline allows suppliers to invest in the necessary capabilities.
- Where specialist skills are required, a long-term pipeline is vital to support development and retention of the workforce.
- Many countries are planning to increase investment in rail as part of their post-Covid-19 economic stimulation. It is important that there is visibility and confidence in the GB pipeline to maintain the interest of suppliers who operate in multiple markets.
- Uncertainty in DfT funding for enhancements can be challenging and requires a certain amount of balancing between commitment and risk, which can lead to inefficient planning, for example short term office rentals and low utilisation of plant reserved for affected schemes.

RIA provided a broader view from the market, including an SME perspective. Key feedback included:

- Without reliable visibility and clarity of future opportunities there is a tendency for SMEs to bid on the tenders as they become available as opposed to focussing on the most optimal opportunities to develop their business.
- Visibility is very important where investment in capability is required, for example complex categories such as electrification and signalling.
- Visibility allows suppliers to optimise their effort and resource for bids, which is important when these are finite.
- Visibility of lead times can enable organisations to secure investment in improved capability.

Network Rail currently addresses these needs by providing information about forthcoming opportunities via its Procurement Pipeline, account meetings with strategic suppliers and wider supplier engagement events. There has been disruption to physical events during the Covid-19 pandemic, but we understand that the programme will continue as normality returns. We comment on each of these engagement channels below.



1. Procurement Pipeline

The Procurement Pipeline is published on Network Rail's website ([link](#)). It is a large multi-tab spreadsheet which lists opportunities within Route Services and each region. It is based on data entered in the Bravo e-procurement system by individual procurement practitioners and is updated every four weeks. Network Rail consider that this data is as comprehensive as it has ever been, and it currently includes over 1,800 opportunities. In January 2021 C&P plan to hold a supplier event to demonstrate the tools on the procurement page.

We note that some regions provide links to tier 2 and lower opportunities in the pipeline however this is not consistent across all regions. C&P have advised that they are investigating use of the CompeteFor portal as a potential means of providing greater visibility of opportunities to lower tier suppliers.

The strategic suppliers we interviewed were aware of the Procurement Pipeline and considered it important, however they typically indicated that this was not their main source of information. One also said that the pipeline dates are not always reliable and can change at short notice resulting in inefficient use of tendering resources.

RIA considered that the Procurement Pipeline has been well received by suppliers and that significant improvements had been made in the visibility of upcoming tendering opportunities. They suggested that to be of full value, the pipeline requires supplementing with more information about the context of procurements within programmes and categories which suppliers currently have to obtain from direct engagement with Network Rail which is inefficient for smaller suppliers. It was also suggested that initiatives to improve visibility of opportunities to lower tier suppliers (such as the CompeteFor initiative) would be welcomed.

Based what we have heard, we consider that:

- The Procurement Pipeline is a comprehensive data source, however it can be hard to interpret the data as it is not always consistently presented across regions.
- Network Rail does not provide a strategic overview or summary of the approach being taken across programmes or categories other than through supplier events. Suppliers therefore have to undertake research and analysis to be able to act on the pipeline data. Sources include the strategic business plans published by Network Rail.



2. Supplier account meetings

Subject to the limitation that we interviewed a small sample of large, strategic suppliers, feedback on the availability of information was very positive. This was influenced by the regular account meetings which were seen as a good primary source of information and two-way engagement. Whilst not necessarily aware of wider procurement activity, the suppliers generally felt well informed about their specialist areas.

In Scotland we also heard that the suppliers and consultants receive regular updates on the Scotland Integrated Pipeline that brings together transport Scotland's planned enhancements with Network Rail's committed programme. This appears to be an example of good practice in extending the scope of the pipeline concept.

Based on this, it is clear that larger, strategic suppliers have good access to Network Rail management which assists them in researching opportunities.

3. Supplier engagement events

Route Services and the regions hold regular supplier engagement events which cover a range of topical subjects including the pipeline. Feedback from those we interviewed was positive and all considered that these events provided a good level of visibility of work as well as interaction with Network Rail contacts. There was some reported disruption as a result of Covid-19, but this was mitigated as Network Rail were able to move events online. RIA said that they were seeing signs that Regions are focusing on more local needs as a result of PPF which was viewed positively. They did however note that in the absence of a published calendar it is not always easy to find out about these events. Some suppliers felt that engagement with five regions is more onerous than when work was aggregated by IP, but this did not appear to us to be a significant concern.

For future improvements, some interviewees said that it would be helpful to have more strategic updates on business direction and long term lookaheads.

Overall, we consider that Network Rail provides a good level of visibility to support business planning by suppliers. Continued effort is needed to ensure that the Procurement Pipeline data is remains accurate and timely with improved consistency and to minimise change. In addition, it would be beneficial for Network Rail to support the content by providing strategic summaries and links to supporting material such as strategic business plans for those who are less familiar with Network Rail.

Finding 7.1: Network Rail publishes its procurement pipeline in a spreadsheet on its website. It also runs regular supplier events both nationally and at a regional level.



To provide greater visibility below tier 1 engagement we were told about various ongoing workstreams which are actively being progressed in different Regions and across Network Rail, examples include:

- Route Services – Development of an action plan to improve SME access to Network Rail’s top 60 suppliers.
- Eastern – A dedicated SME lead for the region works closely with the local bodies to hold events and talks about specific project opportunities, often in conjunction with tier 1 suppliers.
- Eastern – To reduce barriers to entry, Network Rail has simplified prequalification questions on the Bravo E-procurement system. Where new suppliers reach out for help, practitioners guide them through the requirements needed to register and apply for prequalification.
- Southern – Biannual supplier events for tier 1, 2 and SMEs are held with active engagement and feedback.
- Scotland – Supporting the RSG on a pilot project as part of the Work Pipeline Visibility Initiative to improve Tier 2 and Tier 3 visibility. This is in response to the RSG ‘Act Now’ initiative to support recovery from the impact of Covid-19.
- Scotland – Support the Rail Cluster Builder Project (RCBP) identifying opportunities for existing and new SMEs. Ongoing discussions with RCBP who are targeting a potential ‘Showcase of the Scottish Rail Sector’ in April 2021.

We consider that the various workstreams across the Regions are good practice and will help in delivering improved levels of expenditure being spent via SMEs.

Finding 7.2: Specific events and activities are in place to engage lower tiers and SMEs.

The four strategic suppliers interviewed during this review believed that they could add more value to Network Rail by being engaged in strategic decisions prior to work coming to the market and this was echoed by RIA. None of the strategic suppliers we spoke to said that they had been engaged in the development of category strategies. We do note however that it may be too early for relevant category strategies to have been developed and consulted yet. The benefits of early engagement were seen to be two-fold:

- Suppliers could provide the latest market insight and examples of optimal solutions being delivered elsewhere.
- Early sight of strategic plans would help contractors to understand how their markets may develop and to meet emerging requirements for capacity and capabilities.



As Category Strategies are developed, we consider that this feedback could be addressed via the early market engagement activities set out in the PMF.

Finding 7.3: Strategic suppliers all said that they could add additional value by being involved in strategic thinking and decision making.

Long term frameworks with committed budgets and volumes are viewed positively by both the supply chain and Network Rail as a means of delivering flexible delivery while minimising procurement cost. These arrangements provide suppliers with long term visibility of workload and so underpin their development plans. Zero value frameworks provide flexibility but are generally undesirable to Network Rail and the supply chain as they can be costly to bid for and offer no certainty.

Finding 7.4: Suppliers also value long-term framework contracts as a means of underpinning investment in their businesses.

Each of the strategic suppliers we interviewed had a very positive view of Network Rail as a customer. Comments included:

- Good treatment of suppliers and a pleasure to work with. This supports investment by the supplier.
- Improved communication over the last year has improved visibility of future work.
- A mature relationship with good dialog; would like to have more clients like Network Rail.

This suggests that there has been an encouraging start to the improved focus on supplier relationship management under the PMF.

Finding 7.5: The sample of four strategic suppliers we interviewed generally regarded Network Rail as a client of choice.

4. Broader considerations

Role of the PMF in supporting the 2023 Periodic Review

The five-yearly periodic review process involves detailed scrutiny by ORR of Network Rail's strategic business plans (SBPs) for the next control period in order to ascertain that government objectives and regulatory requirements will be met in an efficient manner. At their core, the SBPs are developed from workbanks generated by the regions and priced using unit rates historically derived from delivery prices for the previous control period. Funding requirements for works programmes are based on the resulting estimates adjusted for assumed efficiencies and other factors. The SBPs also reflect wider aspects of Network Rail's maintenance and operating arrangements but the elements described are closely linked to C&P activity and hence to the PMF.

In this section we consider two aspects of PR23 which relate to matters discussed in this report.

1. C&P planning for PR23

C&P is expected to play an important role in the development of SBPs to support the 2023 periodic review (PR23) of the CP7 SBPs. Key inputs are likely to include confirming that supplier capacity can meet the projected workloads, reviewing the deliverability of unit rate assumptions and identifying how C&P activities may either generate the delivery of efficiencies or support the delivery of efficiencies identified in other areas of the business. The improvements to category management, sourcing strategies and supplier management under the PMF all provide a good basis for C&P to contribute to PR23.

Iterations of draft SBPs would be required by mid- to late-2022 to support timescales for PR23. We understand that C&P is beginning to plan its input to this process, and it is important that the significant effort likely to be required to deliver PR23 does not disrupt the ongoing development activities discussed in section 3.1 of this report.

Category Management provides an illustration of how the requirements of PR18 may interact with ongoing, business as usual work by bringing forward planned activities. Potential Category Management benefits are tracked through C&P PBR reports with the pipeline being based on when it may be possible to deliver these



benefits under existing contract renewal cycles. These often extend beyond the dates when SBPs will be needed. Work to confirm the value and deliverability of these benefits may therefore need to be accelerated. For example:

- Track Rail Systems Alliances forecasted potential opportunity of £295m, category strategy commencing in January 2026 based on the existing contracts running their full extended length.
- Signalling forecast potential opportunity £24m, category strategy 2021 but possibly deferred to 2023 based on extending contracts.

We understand that the PPF restructuring has dispersed IP teams, who previously supported the Periodic Review process with expertise, to new roles within the regions. Our view is there is a risk that preparation for PR23 will take longer than PR18 due to these changes.

2. Enhanced capability to track efficiency opportunities and communicate these to delivery teams

In CP6 improved contracting strategy, packaging and rates together account for £589m of planned efficiencies (approximately 15% of the overall target set in the periodic review). Network Rail is currently reporting that it expects to deliver this target. If Network Rail is to deliver similar levels of efficiency in CP7, it is likely that CP6 initiatives will need to be retained as contracts are renewed and new, more transformative initiatives developed, possibly in partnership with suppliers. Category management and improved use of systems within the PMF and wider C&P operational model have an important part to play in this.

It is important to bear in mind that C&P activity does not deliver efficiencies. Within Network Rail's financial reporting rules, efficiencies arise when work is executed and are claimed by the region (or other business unit) at that time. However, efficiencies often arise from or are supported by C&P activity and at this stage are referred to as 'efficiency contributions'.

C&P is working to establish longer term category plans and to use the Bravo e-sourcing tool to better track the delivery of efficiency contributions. This has the aim of being able to reconcile contributions with actual delivery through the regional delivery teams. This has potential to better integrate the flow of efficiencies from category and sourcing strategies through to delivery and to provide feedback on successful and less successful initiatives.



Good practice

The Statement of Work seeks a comparison between Network Rail's C&P approach and best practice. To assist with this, we have developed a concise good practice comparator model which has three-parts: Pre-contract activities; Post-contract activities, and Assurance & Governance activities. The model is based upon the characteristics of good practice identified in the Project Initiation Routemap published by the IPA and in particular those set out in the Procurement and Governance modules. We have supplemented these with characteristics of good practice for post-contract management and social value based on our experience of the rail industry, and across public sector procurement more generally. The characteristics are presented in headline terms, but we have considered the detailed components of the IPA model when making our assessments.

The comparator model is intended to provide a simple but comprehensive framework against which to compare the C&P processes in Network Rail and their potential to support successful delivery of projects and programmes. There are many different ways of defining best practice and a multitude of operational considerations within an organisation as large and complex as Network Rail against which to frame such a definition. The model should therefore be regarded as providing a basis for consistent comparison rather than an absolute, quantified definition of best practice and we have used it in that spirit.

In developing the model, we have noted that the IPA Project Initiation Routemap is oriented towards individual projects and less experienced clients, rather than ongoing programmes run by experienced clients such as Network Rail. Our findings are therefore based on applying our professional judgement to the good practice model and our observations of practice within Network Rail under the PMF and the wider C&P operational model.

Based on the findings within the report and other evidence seen during the review, for each characteristic of the model we have assessed the relevant Network Rail C&P approach against a red / amber / green (RAG) measure.

- Green – PMF covers the characteristic.
- Amber – PMF partially covers the characteristic, with competent practitioners expected to supplement the guidance with their experience.
- Red – PMF does not cover the characteristic, performance is dependent on competent practitioners identifying and addressing the subject.

Our assessment against the reference model is contained in Table 7.



Ref	Characteristic	RAG	Rationale
Pre contract activities			
1	Understand and communicate requirements	Green	This is detailed within section 2.2 of the Sourcing process.
2	Maximise social value effectively and comprehensively	Green	The current Balanced Scorecard is soon to be replaced with a more robust framework which is accompanied by comprehensive guidance and policy.
3	Engage the market	Green	This is extensively covered within Category Management and Sourcing processes.
4	Package the works	Red	We would expect to see consideration of how best to package the components of a project in the sourcing module. The only references to packaging are in the context of decisions having already been made,
5	Choose the risk allocation model - Contracting model	Amber	The sourcing module refers to contract analysis, but we have not found any reference to or guidance on Network Rail’s approach to risk in contracts or the other transaction specific variables. The amber rating is based the company having a standard suite of contracts which are understood and accepted by the industry.
6	Choose the route to market	Amber	The sourcing module refers to route to market and lotting strategies but does not provide guidance on options, use of frameworks or resources which may assist with these matters. It is clear that processes are in place to manage regulatory compliance and other aspects of the procurement process through Bravo.
7	Communicate the benefits	Amber	Network Rail has established relationship management processes and dashboard reports to consider the performance of strategic suppliers. Work is in hand to improve tracking of efficiencies, but we have not found any evidence of benchmarking supplier performance in the PMF.
8	Provide visibility of pipeline of work	Green	The Network Rail Procurement Pipeline is published externally and supported by regular supplier engagement events.
Post contract activities			
9	Administer the contract	Green	This is comprehensively covered within the Commercial Handbook for works contracts. Broad principles are established in the Supplier Management Handbook for supplies and services.

Ref	Characteristic	RAG	Rationale
10	Manage change and disputes		Change and dispute management are comprehensively covered within the Commercial Handbook, but the former is marked as requiring update for the CEMAR system. The Supplier Management Handbook for supplies & services also covers these points but to a lower level of detail. We would expect the discipline associated with a system such as CEMAR will fully deliver this characteristic once it has been fully implemented.
11	Conduct supplier performance management		This is comprehensively covered within the Supplier Handbook. This section applies to works in addition to supplies & services.
12	Conduct supplier risk management		This is covered within the Supplier Handbook for good and services and the Commercial Handbook for works.
Assurance & Governance activities			
13	Define accountability for meeting the project's objectives and allocate the risk to those objectives		We consider that the PMF Governance procedure and associated templates and delegated powers fully address these requirements in the wider context of GRIP and Network Rail's other management policies and procedures.
14	Provide for effective decision making and delegated authority		We consider that the PMF Governance procedure and associated templates and delegated powers fully address these requirements in the wider context of GRIP and Network Rail's other management policies and procedures.
15	Align corporate and project strategy and objectives		We consider that the Sourcing module together with the Governance and Assurance procedures can be expected to substantially deliver this characteristic.
16	Clearly define disclosure of reports and other relevant information		We consider that the Governance procedure taken in the context of Network Rail's wider corporate governance arrangements deliver this characteristic.

Table 7 – Assessment against the best practice model



Our assessment in Table 7 contains 11 green, 4 amber and one red rating. Overall, we consider that Network Rail has established a procurement management system in the PMF that compares well to our good practice benchmark. However, it is important to note that the PMF is a non-deterministic management system which relies to a significant degree on practitioner competence and effective assurance. As a result, high quality performance is not a given and regular review of assurance findings, outcomes and lessons learned will be important to the long-term outcomes from the PMF. We have made recommendations in regard to the red and amber items in Table 7 in section 6 of this report.

4.3 Maturity of the Procurement Management Framework

The Statement of Works requests an assessment of the maturity of Network Rail's C&P approach in the context of

- The PPF change programme proceeding in parallel with the C&P Transformation programme.
- Formal establishment of regional commercial teams in October 2020.

We have described our findings in the previous sections of this report, and these will provide the reader with a detailed description of how well-established procedures are within the C&P organisation. Figure 3 describes the C&P operational model and Table 8 summarises our view of the maturity of each of the components of this model which fall under C&P management control. This is a subjective view based on our findings and the wider evidence obtained in the review process. Components assessed as having lower levels of maturity do not necessarily indicate that they present a risk, rather they justify attention within Network Rail's ongoing development programme as it works to meet the objectives of its C&P SFS.

We have assessed maturity on a simple four-point scale.

- Level 0 – No evidence that documented procedures exist and are being followed.
- Level 1 – Documented procedures exist and appear to be being followed but further development or effort is required to achieve consistency.
- Level 2 – Documented procedures exist and appear to be being followed.
- Level 3 – The component appears to be fully defined and embedded and is working efficiently and consistently across the business.



Ref	Component	Maturity	Rationale
1	PMF processes	1-2	See section 3.1, further work is required to develop the PMF.
2	Applied assurance	1	See section 3.2, we have identified concerns over variability in LoD1 assurance and LoD2 & 3 assurance has not yet commenced.
3	Applied governance	2-3	See section 3.2, although we have not reviewed the governance process in detail, papers seen, and feedback provided in interviews suggest that this aspect of the PMF is becoming well embedded.
4	Practitioner competence	1-2	See section 3.3, this is based on ongoing development of the DNA tool. The relatively immature C&P Academy curriculum and the reported high level of use of contract staff in some regions.
5	Effective leadership	3	The senior managers that we interviewed demonstrated a strong commitment to the PMF and its successful implementation.

Table 8 – Maturity assessment

5. Table of findings

The findings from sections 3 are collected in Table 9 below.

No.	Finding reference	Finding
1.	1.1	The PMF is comprehensive and has the capability to underpin procurement operations across the end-to end lifecycle of Category Management, Sourcing and Supplier Management.
2.	1.2	The PMF requires further development notably in the area of post contract management where further work is needed to finalise the Supplier Handbook (supplies & services) and update and align the Commercial Handbook (works) with the remainder of the PMF. This is recognised by Network Rail and tracked for management action.
3.	1.3	Further updates to the PMF may be required as assurance feedback (particularly from LoD2 and LoD3) is received, in response to externally imposed changes to the C&P operational model or to reflect wider lessons learned as usage increases. A Commercial Assurance Group is responsible for identifying improvements needed.
4.	1.4	Network Rail will need to further develop and maintain the PMF as an integrated system to reflect all developments which affect the C&P operational model. This will keep the PMF relevant to practitioners and enable it to support Network Rail in developing the overall maturity of its management systems.
5.	1.5	The PMF is mandated but it is not yet a formal, controlled suite of procedures. Plans are in place to migrate it to Network Rail's IMS which is expected to address this point.

No.	Finding reference	Finding
6.	1.6	There is tracking of actions relating to short- and medium-term priorities for developing the PMF however there is not a comprehensive, rolling plan to deliver the long-term vision for C&P set out in the SFS or other business objectives. C&P advised that they have commenced more detailed planning to build on the GRAI programme, but draft plans were not available at the time of the review.
7.	1.7	Devolution of decisions about category management and sourcing strategies could create a risk of clashes between priorities for Route Services and regions. Network Rail has implemented mechanisms to manage this risk.
8.	2.1	Governance and assurance have been streamlined as a result of the C&P transformation programme, which is intended to reduce time, be more effective and ensure separation and appropriate sequencing of the governance and assurance processes. This has been viewed positively by the regions and Route Services.
9.	2.2	Each region has set its own thresholds for governance and assurance within delegated limits. This flexibility allows the processes to reflect regional needs.
10.	2.3	Governance and Assurance levels for sourcing are flexed depending on the contract value and risk using the RSCP risk assessment tool. This determines the level of delegation for governance, whether LoD1b assurance is required and, for some regions, responsibility for providing assurance. The tool also identifies the level of documentation required to support the governance and assurance process.
11.	2.4	The three regional commercial directors interviewed suggest that the new approach is improving focus and decision making in governance forums.
12.	2.5	PMF contains Assurance checklists for each stage of LoD1a assurance required. The templates for governance papers require confirmation that LoD1a assurance has been completed. However, the checklists are not prescriptive and rely on user competence and LoD1b assurance to ensure that there is appropriate checking and challenge.
13.	2.6	Regions have flexibility in how they apply LoD1b assurance under the supervision of the Regional Commercial Director. There appear to be significantly different approaches across Route Services and the regions. We found evidence of good practice through detailed LoD1b assurance reports, whereas some regions deliver LoD1b through measures such as review and mark-up of documents or review at RCG meetings.

No.	Finding reference	Finding
14.	2.7	Based our review of a small sample of assurance papers, we have concerns about the consistency of the approach to LoD1b assurance.
15.	2.8	LoD2 assurance is planned to commence in mid-2021. Whilst it is understandable that this was not progressed immediately after the PPF changes, objective assessment of the application and effectiveness of the PMF is reliant on LoD2 operating as business as usual.
16.	3.1	The PMF relies on C&P practitioners holding adequate competence for the activities they undertake.
17.	3.2	Competencies for practitioners involved with works C&P activities are specified and managed using a legacy IP DNA tool. Network Rail has developed an equivalent toolkit for supplies and services with an anticipated roll-out in spring 2021. This presents an opportunity to improve alignment between job descriptions and the competence framework.
18.	3.3	Training requirements are met through a combination of general training providers such as RICS and through the C&P Academy.
19.	3.4	With the exception of the overview briefings provided as part of the C&P transformation, there is no specific training or induction into the PMF.
20.	3.5	The PMF contains checklists and templates which can be expected to drive consistency of presentation. As we have previously noted, the PMF is not deterministic and so the quality and consistency of the underlying information input to the templates may vary. Prior to LoD2 assurance, comparison of LoD1b results between regions and the role of the CAGs provides some mitigation.
21.	4.1	Government social value requirements are set out in the Social Value Act and a series of procurement practice notes. We consider that Network Rail currently complies with these.
22.	4.2	Network Rail is taking the Government requirements further by working with other industry bodies to develop a common RIBS. This is due for launch in January 2021. This will provide a common approach to considering social value for all procurements, not just the major works over £10m mandated under PPNs.
23.	4.3	Social value requirements are not consistently included as requirements within contract terms or specifications which means that they are not always enforceable obligations post-award.

No.	Finding reference	Finding
24.	4.4	There is currently no standardised tracking and reporting of the delivery of social benefits and it is therefore not possible to determine the overall social value contribution being made.
25.	5.1	The PMF is designed to be flexible to accommodate simple through to complex projects, by allowing the scale of deliverables and assurance to be flexed based on scale, complexity and risk criteria.
26.	5.2	The style of the PMF is non-prescriptive. The potential risk of inconsistency of application is reliant on the assurance process and CAG to mitigate.
27.	5.3	PMF relies heavily on practitioner competence to apply it to the specific circumstances of their projects, especially for procurement of major works.
28.	5.4	C&P managers interviewed by the Reporter are confident and comfortable with the level of flexibility offered by the PMF.
29.	5.5	Suppliers interviewed by the Reporter commended C&P for a flexible and agile approach to supply chain activities during the pandemic.
30.	6.1	The three regional commercial directors interviewed all spoke positively about the PMF and consider that it is being followed. However, actual evidence of effective application of PMF requires LoD2 assurance to be in place and this is not due to commence before period 3 of 2021/22.
31.	6.2	The Route Services managers interviewed all spoke positively about the PMF and consider that it is being followed. As with the regions, it is not possible to demonstrate how effective the application is yet as LoD2 assurance will not commence before period 3 of 2021/22.
32.	6.3	The C&P transformation programme delivered a comprehensive rollout and briefings to the regions. The level of operational readiness was formally assessed by the transformation team as being adequate to permit each region to go-live with its PEP.
33.	6.4	Non-critical outstanding activities were transferred into 'business as usual' within Route Services and the regions. Route Services reported that a review of the status of these activities will be undertaken by March 2021.



No.	Finding reference	Finding
34.	6.5	We note that much of the procurement needed for CP6 was completed prior to introduction of the PMF. The level of practitioner competence is therefore expected to increase as preparation for CP7 gathers pace.
35.	7.1	Network Rail publishes its procurement pipeline in a spreadsheet on its website. It also runs regular supplier events both nationally and at a regional level.
36.	7.2	Specific events and activities are in place to engage lower tiers and SMEs.
37.	7.3	Strategic suppliers all said that they could add additional value by being involved in strategic thinking and decision making.
38.	7.4	Suppliers also value long-term framework contracts as a means of underpinning investment in their businesses.
39.	7.5	The sample of four strategic suppliers we interviewed generally regarded Network Rail as a client of choice.

Table 9 – Findings

6. Recommendations

We make the following recommendations to Network Rail and ORR.

Recommendations

No.	Finding reference	Recommendation	Who
1.	2.8	Undertake a formal risk assessment based on available information and, if so indicated, implement a mitigation programme based on LoD1 monitoring, LoD2 deep dives and LoD3 reviews.	Route Services / CAG
2.	PR23	Complete planning to support PR23 and confirm that the impact of additional work and other factors does not disrupt C&P development activities and ongoing operations.	Route Services

Table 10 – Priority recommendations

Suggested improvements

Table 11 contains our suggested improvements to the PMF and the C&P operating model and are not associated with any significant defects or perceived risks.

No.	Finding reference	Recommendation	Who
3.	General	Facilitate future reviews of the PMF (and other similar material held in the IMS) by establishing the capability to provide interactive copies of relevant content.	Route Services
4.	1.2	Amend the definition of value for money in the C&P Policy to a more broadly based definition than 'minimal and affordable cost' to reflect actual practice.	Route Services

No.	Finding reference	Recommendation	Who
5.	1.2	Resolve drafting assumptions and similar notes in PMF documents and update as necessary. (In hand – see Table 11).	Route Services
6.	1.5	Improve document control and configuration management for the PMF by completing its migration from the C&P Hub to a formal IMS system in line with its existing plan. (In hand – see Table 11).	Route Services
7.	1.6	Enhance the existing annual plan of key priorities and milestones for PMF development by making this a rolling programme and providing a line of sight to the long-term vision set out in the SFS. (In hand – see Table 11).	Route Services
8.	1.6	In connection with recommendation 1, continue regular reviews of feedback from assurance and governance through CAG and business assurance committees to confirm that the universal approach to sourcing processes is effective and remains valid. (In hand – see Table 11).	Route Services
9.	2.1	Add assurance arrangements for category management and supplier management to the assurance procedure. (In hand – see Table 11).	Route Services
10.	2.1	Amend the PMF sourcing module to clarify that a global sourcing strategy can be approved for contracts within a programme (similar to the former Gateway 2 process).	Route Services
11.	2.5	Revise the structure and use of assurance checklists to encourage better planning and more searching questioning – particularly for unusual or higher risk transactions.	Route Services
12.	2.6	Improve the quality and consistency of LoD1b assurance. Consider making external assurance mandatory for high value / high risk transactions in line with Route Services' current practice.	Route Services Regions
13.	2.6	Develop an action plan to improve compliance for the themes emerging from the apparently high number of significant issues identified in LoD1b assurance.	Route Services Regions
14.	3.4	Develop a PMF introduction module within the Academy to provide consistent induction and refresher training for new and existing practitioners.	Route Services

No.	Finding reference	Recommendation	Who
15.	4.2	Review how well the RIBS has been embedded in a LoD2 or LoD3 review to be undertaken once it has been used in a reasonable volume of procurements.	Route Services
16.	4.3	Develop model clauses for including social value requirements in contract specifications or T&Cs to improve consistency and effectiveness.	Route Services
17.	4.4	Establish consistent monitoring and reporting of social value contributions during contract delivery to provide visibility of the benefits realised at regional and corporate levels. (In hand – see Table 11).	Route Services
18.	5.1	Provide a more prescriptive approach to the level of detail required when applying the PMF to transactions which are high value, complex or innovative. This could, for example, include a requirement for more explicit consideration of commercial, procurement and delivery risks at key points in the procurement lifecycle. (In hand – see Table 11).	Route Services
19.	6.4	The review of outstanding outcomes from the transformation programme which is planned for March 2021 should be formally reported with any remaining activities planned and tracked. (In hand – see Table 11).	Route Services
20.	7.1	Publish a supplier engagement events calendar on the website to provide a higher level of visibility.	Route Services and Regions
21.	7.1	Enhance quality check on the Procurement Pipeline to ensure that data is consistent and sufficiently detailed. (In hand – see Table 11).	Route Services
22.	7.1	Provide signposts to SBPs and other background documents which support the Procurement Pipeline. (In hand – see Table 11).	Route Services
23.	Good practice items 4, 5 & 6	Amend the PMF sourcing module to explicitly require assessment of factors which may affect packaging (such as economies of scale, shared site facilities, shared access and the like). Develop the sourcing module to address the issues raised in connection with risk allocation and route to market.	Route Services
24.	Good practice item 7	Develop the PMF to include requirements for benchmarking of supplier performance.	Route Services

No.	Finding reference	Recommendation	Who
25.	Good practice item 7	Confirm that the implementation of CEMAR and planned updates to the Commercial and Supplier Management Handbooks provide a comprehensive and integrated approach to managing change and disputes in contracts.	Route Services

Table 11 – Suggested improvements

Network Rail's ongoing work

Throughout the review, Network Rail have advised us of activities related to the subject matter which are either planned or underway. We have summarised these activities in Table 12.

No.	Report reference	Activity	Responsible
1.	First key finding	Network Rail is working to extend the application of Line of Defence (LoD) 2 assurance, but we recommend that action is taken to mitigate the risks which arise pending completion of this.	Procurement Operations
2.	Rec. 5	Drafting assumptions or similar notes in PMF documents should be reviewed and resolved.	Procurement Operations
3.	Rec. 6	Network Rail should seek improved document control and configuration of the PMF by progressing its migration from the present C&P Hub to a more formal IMS system	Procurement Operations
4.	Rec 7	Network Rail should enhance the existing annual plan of key priorities and milestones for PMF development (and wider operational priorities) by making this a rolling programme and providing a line of sight to the long-term vision set out in the SFS	Procurement Operations
5.	Rec 8	Network Rail should continue to undertake regular reviews of feedback from assurance and governance through CAG and business assurance committees (BACs) to confirm that the universal approach to sourcing processes is effective and remains valid.	Procurement Operations
6.	Rec 9	Add assurance arrangements for category management and supplier management to the assurance procedure.	Procurement Operations

No.	Report reference	Activity	Responsible
7.	Rec 17	C&P considers how social value contributions can be monitored and tracked post contract to provide visibility of the contract level and overall level of social value contributions delivered.	Procurement Operations
8.	Rec 18	C&P should consider providing a more prescriptive approach to the way that application of the PMF is mandated for transactions which are high value, complex or innovative. This could, for example, include a requirement for more explicit consideration of commercial, procurement and delivery risks at key points in the procurement lifecycle.	Procurement Operations
9.	Rec 19	The review of outstanding outcomes from the transformation programme which is planned for March 2021 should be formally reported with any remaining activities planned and tracked.	Procurement Operations
10.	Rec 21	A regular quality check should be carried out on the Procurement Pipeline to ensure that data is accurate, consistent and sufficiently detailed.	Procurement Operations
11.	Rec 22	Ensure that there are sufficient signposts to strategic business documents which can support the information on the Procurement Pipeline.	Procurement Operations
12.	Finding 4.2	Changes to PMF associated with PPN 06/20 Taking Account of Social Value in the Award of Central Government Contracts.	Procurement Operations
13.	Finding 7.2	Development of an action plan to improve SME access to Network Rail's top 60 suppliers.	Procurement Operations

Table 12 – Network Rail initiatives identified during the review

