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*Independent Reporter*

# Enhancement Project Spend Efficiency Assessment: Investment Schemes

*Report Version 6.0*

Prepared for  
**ORR and Network Rail**

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**CH2MHILL®**

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# Executive Summary

## Overview

The Independent Reporter is broadly satisfied that 20 of the 21 schemes reviewed in this mandate produce an efficient outcome. Tables 1 and 2 on the following pages provide a summary of findings against each scheme.

For the two SSWT Franchise schemes (106348 and 122211), which comprise 298 individual sub-projects, there was not sufficient evidence nor time available for the Independent Reporter to conclude the spend was efficient. Programme level spend remains within budget, but the ORR may wish to consider a further review to confirm that the expected efficient outcomes have been delivered.

## Approach

The sample of 21 schemes was selected and prioritised at the kick-off meeting from the original list of 24; eight of which are Network Rail self-funding and thirteen of which are 3rd Party sponsored. Each review was undertaken through an initial desktop study followed by interviews with Network Rail representatives; either face-to-face or by phone. 21 priority schemes have been reviewed by the Independent Reporter as agreed at the kick-off meeting.

## Determination of Efficient Outcomes

The Independent Reporter observed a general lack of evidence available to demonstrate that the Framework Guidance has been fully complied with on a consistent basis. The Independent Reporter was unable to gain access to supporting business cases, option selection criteria and procurement approaches for the 3rd Party schemes. However, the Independent Reporter takes the pragmatic view that an efficient outcome is delivered wherever a scheme has all of the following in place:

- ORR approval letters
- Asset Purchase Agreement, which recovers the capital costs
- An IRR that satisfies the hurdle rates set out in the Framework Guidance
- A robust business case

## Adherence to the Framework Guidance

Where Network Rail has agreed to provide finance backed by a RAB addition there are effectively three routes to seeking approval from the ORR. At Network Rail's discretion, for schemes below £50M, the approval may be sought in advance or post completion. Paragraph 62 of the Investment Framework Consolidated Policy & Guidelines (ORR, October 2010) states:

*If an 'in advance' approval is sought, that approval can be either:*

- **in-principle** (that is an approval that states the scheme costs would be eligible for RAB addition if they were demonstrated to be efficient); or
- **capped/fixed price** (an approval for a RAB addition of an efficient price determined in advance, or an efficient cap on cost).'

If no approval is sought in advance, Network Rail are required to seek approval for RAB addition post completion, demonstrating that the outturn cost was efficient. From this review, the Independent Reporter observed two out of the thirteen 3rd party schemes (15%) were unable to evidence an ORR letter of approval.

## Financial Discrepancies

The Independent Reporter initially observed several anomalies in financial information. These were all resolved in the latter stages of the review, with the final figures being provided on 26<sup>th</sup> June. A commercial summary is provided in Table 9 in Section 4.2.

### **Scheme Specific Comments**

Project Mountfield is the largest scheme in this review, comprising the portfolio acquisition of long leaseholds freight sites of which Network Rail already owns the freeholds. The GRIP process was not applied to this programme and the ORR has confirmed that the associated expenditure can be added to the RAB, on the basis that it is normal permitted business. Independent legal and valuation due diligence has been undertaken and the ORR has confirmed that the Independent Reporter is not required to review these associated reports as part of this commission.

The SSWT Franchise schemes (106348 and 122211) are part of an overall Programme of RAB Financed works comprising 298 individual schemes. Additional capital investment has been provided by third parties such as the Olympic Delivery Authority. Of the total programme budget has been submitted by Network Rail for addition to the RAB under Schemes 106348 and 122211 (which correspond to 289 individual projects within the overall programme). The remaining 7 schemes are financed through the RAB under different scheme numbers.

In the time available for this review the Independent Report was not provided sufficient evidence to conclude whether Schemes 106348 and 122211 represented efficient spend. The 2007 Programme Business Case does not clearly state what outcomes were to be delivered, so an objective assessment of whether the intended outcomes were delivered could not be made. Reference to subsequent 2009 Business Case was made, but the document not provided. The ORR may wish to undertake a review of the programme against the 2009 Business Case, to determine if the programme objectives have been delivered.

The Oxley power supply scheme was difficult initially to review without an assigned scheme manager from Network Rail. Subsequently, it was jointly agreed to undertake a desktop review only for this scheme, with no further input from Network Rail.

The AFC figures quoted in this report were provided by Network Rail in June 2014 and may be subject to future fluctuation (source file: Enhancement list for ORR FY1314.xls). A commercial summary is provided in Table 9 in Section 4.2

For clarity and consistency the findings within this report refer to the gross value to be added to the RAB for each scheme reviewed. The actual value to be added to the RAB at the start of CP5, should be this gross value less any facility charge payments received during CP4.

The below tables represent all spend in 13/14 prices.

Table 1: Network Rail Property Spend

Scheme	Findings (all figures in 13/14 prices)
<b>142572: Project Mountfield</b>	<p><b>The total eligible spend is for addition to the RAB in CP4</b></p> <ul style="list-style-type: none"> <li>• Expenditure in the last financial year (2013/14)</li> <li>• There was no expenditure in CP3.</li> </ul> <p>Independent legal and valuation due diligence has been undertaken and the ORR has confirmed that the Independent Reporter is not required to review these associated reports as part of this mandate.</p>
<b>P18812: Victoria Place Shopping Centre Asset Management</b>	<p><b>The total eligible spend is for addition to the RAB in CP4.</b></p> <ul style="list-style-type: none"> <li>• Expenditure in the last financial year (2013/14).</li> <li>• There was no expenditure in CP3</li> </ul> <p>Confirmation has been received from Network Rail that there was an error in the mandate showing increased AFC.</p>
<b>139754: Clink Str Arches, acquisition</b>	<p><b>The total eligible spend is for addition to the RAB in CP4.</b></p> <ul style="list-style-type: none"> <li>• Expenditure in the last financial year (2013/14)</li> <li>• There was no expenditure in CP3</li> </ul>
<b>136726: Doncaster: Roberts Road</b>	<p><b>The total eligible spend is for addition to the RAB in CP4.</b></p> <ul style="list-style-type: none"> <li>• Expenditure in the last financial year (2013/14).</li> <li>• There was no expenditure in CP3.</li> <li>• Work is complete</li> </ul>
<b>135151: Dover Priory MSCP</b>	<p><b>The total eligible spend is for addition to the RAB in CP4.</b></p> <ul style="list-style-type: none"> <li>• Expenditure in the last financial year (2013/14).</li> <li>• There was no expenditure in CP3</li> </ul> <p>AFC is within an acceptable tolerance of the three funding sources; split between Network Rail Property, Dover Council and DfT Station Commercial Project Facility, SCPF.</p>
<b>134676: London Bridge Arcade 2345</b>	<p><b>The total eligible spend is for addition to the RAB in CP4.</b></p> <ul style="list-style-type: none"> <li>• Expenditure in the last financial year (2013/14).</li> <li>• There was no expenditure in CP3.</li> </ul> <p>It appears that the AFC provided to the Independent Reporter at the time of review does not include the re-authority.</p> <p>We note that this finding is likely to be subject to further discussion and agreement between NR and the ORR.</p>
<b>124099: F513 LB Retail Outlets PrpFund</b>	<p><b>The total eligible spend is for addition to the RAB in CP4.</b></p> <ul style="list-style-type: none"> <li>• Expenditure in the last financial year (2013/14).</li> <li>• There was no expenditure in CP3</li> </ul>
<b>P18759: Euston station Mezzanine</b>	<p><b>The total eligible spend is for addition to the RAB in CP4.</b></p> <ul style="list-style-type: none"> <li>• Expenditure in the last financial year (2013/14).</li> <li>• Total COWD to the end of CP4.</li> <li>• There was no expenditure in CP3</li> </ul>

Table 2: Third Party Spend Schemes

**Note:** For all third party RAB additions in the below table the facility charge is to be removed by Network Rail.

Scheme	Findings (all figures in 13/14 prices)
<b>108429: Edge Hill Depot: New Shed</b>	<p><b>The total eligible spend is for addition to the RAB in CP4.</b></p> <ul style="list-style-type: none"> <li>• Expenditure in the last financial year (2013/14)</li> <li>• There was expenditure of in CP3</li> <li>• ORR approval of via ORR email approval</li> </ul>
<b>117707: Southern RAB addition</b>	<p><b>The total eligible spend is for addition to the RAB in CP4.</b></p> <ul style="list-style-type: none"> <li>• There was no expenditure in the last financial year (2013/14)</li> <li>• There was no expenditure in CP3</li> <li>• No spend forecast in CP5</li> </ul> <p>The uplifted authority from the three ORR approval in principle letters which is less the uplifted expenditure. This equates to overspend, which ORR confirms acceptable.</p>
<b>106348: SWT franchise (RAB)</b>	<p>There was not sufficient evidence nor time available for the Independent Reporter to conclude spend was efficient. Programme level spend remains within budget, but the ORR may wish to consider a further review to confirm that the expected outcomes have been delivered.</p> <ul style="list-style-type: none"> <li>• There was no expenditure in the last financial year (2013/14)</li> <li>• There was expenditure of in CP3</li> <li>• Programmatic approval (investment paper)</li> </ul>
<b>122211: SWT franchise (RAB 2)</b>	<p>There was not sufficient evidence nor time available for the Independent Reporter to conclude spend was efficient. Programme level spend remains within budget, but the ORR may wish to consider a further review to confirm that the expected outcomes have been delivered.</p> <ul style="list-style-type: none"> <li>• There was no expenditure in the last financial year (2013/14)</li> <li>• There was no spend in CP3</li> <li>• Programmatic approval (investment paper)</li> </ul>
<b>103177: 11 car Pendolino; platforms</b>	<p><b>The total eligible spend for is addition to the RAB in CP4.</b></p> <ul style="list-style-type: none"> <li>• There was no expenditure in the last financial year (2013/14)</li> <li>• There was no spend in CP3</li> <li>• No spend forecast in CP5</li> </ul>
<b>105245: WCCP Preston Station car park</b>	<p><b>The total eligible spend is for addition to the RAB in CP4.</b></p> <ul style="list-style-type: none"> <li>• There was no expenditure in the last financial year (2013/14)</li> <li>• There was also spend in CP3</li> <li>• No AFC as project complete</li> </ul>

	<ul style="list-style-type: none"> <li>No spend forecast in CP5 as the project is complete.</li> </ul>
<b>104838: FCC GN line 3 cap park extensions</b>	<p><b>The total eligible spend for is addition to the RAB in CP4.</b></p> <ul style="list-style-type: none"> <li>There was expenditure in the last financial year (2013/14)</li> <li>There was also spent in CP3</li> <li>Project approved</li> <li>No spend forecast in CP5</li> </ul>
<b>101925: Oxley power supply</b>	<p><b>The total eligible spend is for addition to the RAB in CP4.</b></p> <ul style="list-style-type: none"> <li>There was no expenditure in the last financial year (2013/14)</li> <li>There was spend in CP3</li> <li>No AFC available at time of report</li> <li>ORR approval</li> <li>No spend forecast in CP5</li> </ul>
<b>114836: Harlow Town Car Park</b>	<p><b>The total eligible spend is for addition to the RAB in CP4.</b></p> <ul style="list-style-type: none"> <li>There was no expenditure in the last financial year (2013/14)</li> <li>There was no spend in CP3</li> <li>No spend forecast in CP5</li> </ul> <p>The 2009 ORR letter states they are content in principle to add the efficient cost of the enhancements described.</p>
<b>114834: Audley End car park</b>	<p><b>The total eligible spend is for addition to the RAB in CP4.</b></p> <ul style="list-style-type: none"> <li>There was no expenditure in the last financial year (2013/14)</li> <li>There was no spend in CP3</li> <li>No spend forecast in CP5</li> </ul> <p>The 2009 ORR letter states they are content in principle to add the efficient cost of the enhancements described. The figures are uplifted to 2013/14 for the findings above.</p>
<b>128333: Guildford North Box sidings</b>	<p><b>The total eligible spend is for addition to the RAB in CP4.</b></p> <ul style="list-style-type: none"> <li>There was expenditure in the last financial year (2013/14)</li> <li>There was no spend in CP3</li> <li>Spend forecast in CP5</li> </ul>
<b>105257: WCCP Runcorn Station car park</b>	<p><b>The total eligible spend is for addition to the RAB in CP4.</b></p> <ul style="list-style-type: none"> <li>There was no expenditure in the last financial year (2013/14)</li> <li>There was also spend in CP3</li> <li>ORR approval</li> <li>No spend forecast in CP5</li> </ul>
<b>105247: WCCP Oxenholme Station car park</b>	<p><b>The total eligible spend for is addition to the RAB in CP4.</b></p>

	<ul style="list-style-type: none"><li>• There was no expenditure in the last financial year (2013/14)</li><li>• There was spend in CP3</li><li>• ORR approval</li><li>• No spend forecast in CP5</li></ul>
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