



products. We have seen documents belonging to IP Signalling and IP Central that describe their approach to efficiencies, however we have not seen sufficient monitoring by the route of business change implementation required to enable Category B and D efficiencies.

The route monitors benefit realisation retrospectively and adjusts efficiency targets as part of the rolling forecast process. To validate efficiencies realised and claimed, the route reviews a sample of completed projects to identify how efficiencies have been achieved. Each source of efficiency identified is then categorised into a fishbone grouping category to monitor/assess whether the efficiency forecast at initiative level is still realistic or will require adjustment as part of the rolling forecast process. For signalling, efficiencies allocated to Works Delivery are accrued each reporting period and later confirmed via post completion reviews of schemes. Likewise, Civils and route finance teams retrospectively analyse IP Central's efficiency delivery with a future checkpoint to evidence their commercial efficiencies scheduled for Period 10 of year 1.

IP Signalling's Efficiency EPOP align efficiencies against the GRIP process. This enables progressive tracking of efficiency forecasts through the project lifecycle and we consider this to be good practice. IP Signalling's EPOP template captures efficiencies identified for a given scheme, categorises it within a fishbone reporting category and assigns a GRIP stage of when the efficiency should be realised. We have also seen a version of the template that provides tracking of actions, responsible owners and dates of when benefits should be realised. While we have only reviewed a small number of EPOPs (with varying quality of documentation) we are encouraged by the development of IP Signalling's planning approach to efficiencies. The EPOP is one of the best practices we have seen with respect to forward planning of efficiency enabling activities that allow active monitoring of efficiency delivery.

Opex initiatives are managed at an individual 'project level' rather than at a 'portfolio level'. Delivery of opex efficiencies are the responsibility of budget owners, with the route having assigned efficiencies to budget holders by a 'top down' process to drive accountability to achieve financial targets. However, the route has not established an overarching efficiency change programme or regular governance meetings at a route level to assure itself that activities required to enable change management are being progressed.

Of the efficiencies in our sample:

- Monitoring of Headcount Controls (Category D) is done through the cost control panels and is not reliant on enabling change management activities for year 1.
- Intelligent Infrastructure (Category D) has established governance meetings with the central Intelligent Infrastructure Programme.
- Monitoring of SCO efficiencies (Category C) is through regular contact with the SCO team.



While individually projects may be delivering to their plans, without having some basic programme level reporting to monitor implementation milestones and risks to delivery, the route has limited visibility to assure itself that opex efficiencies have been planned sufficiently throughout the whole Control Period to achieve targeted savings. Specifically, where enabling activities are required to be completed, for example, change management enabling deliverables.

Clear financial monitoring of opex efficiencies through variance reporting. With opex efficiencies assigned to cost centres, each period Management Accountants complete variance analysis trackers identifying the key drivers behind any variance to post efficient budgets for the period. The variance analysis tool allows the route to separate between efficiency, inefficiency, headwind and tailwind with more granularity as well as monitor the financial performance of opex initiatives.

d. Approach to risk identification and management

We looked for evidence of the route's approach to the identification and management of risks to its efficiencies plans, including its assessment of uncertainty in forecast savings.

Renewals has comprehensive risk controls to manage project delivery but not specifically for achieving efficiencies. The route provided detailed examples of project risk logs with treatment actions and residual risks scored. These focus on project delivery risks, including commercial or scope risks that may impact AFC, but they did not include any risks specifically related to the delivery of efficiencies. Likewise, the route provided extracts from Active Risk Management (ARM) that showed project cost impacts, which support managing to the post-efficient budget but not explicitly linked to individual efficiency initiatives.

Risk associated with renewals efficiencies is managed at a portfolio level with ongoing discussions between route and deliverers to achieve targets. When shortfalls occur, efficiencies are sought elsewhere, and appropriate adjustments are made as part of the rolling forecast process. Through our review of sample capex efficiencies, we noted the following risk:

- **Signalling's Improved Contracting Strategies.** The initiative's year 1 forecast has been achieved, however the Year 2 forecast of £5m is at risk due to extended negotiation of Birmingham New Street Phase 7. To recover this shortfall IP Signalling have started to identify other efficiencies and have found £340k at the time of writing. The route will not adjust the year 2 forecast at RF8 and will await IP Signalling's identification of other efficiencies over the next 18 months.



The newly developed IP Signalling's efficiency process includes risk checkpoints aligned with GRIP in which efficiencies are confirmed. The CP6 Signalling Process (May 2019) has incorporated stage gates into the GRIP process to monitor risks of non-delivery of efficiencies. The Stage Gates involve:

- GRIP 0-1. IP review and acceptance.
- GRIP 2. Agree SEU breakdown with client and remit to GRIP 3.
- GRIP 3. Go/no-go assessment – have we met the post-efficient rate?
- GRIP 4. Go/no-go assessment – have we included agreed efficiencies?
- GRIP 5. Go/no-go assessment – what further efficiencies are included? What are the implementation plans? Must have plans to be accepted.
- GRIP 6. Measure efficiency benefits, identify best practice, disseminate best practice.

While we have not seen evidence of this process in action, this systematised methodology appears to be a good approach to with the potential to provide benefit to other deliverers and asset groups.

There was no evidence of risk documentation provided for two of the sample opex efficiencies. We did not see any documented risks associated with the Headcount Controls or SCO initiatives. We understand the route monitors Headcount Controls using the opex variance tracker tool and other HR trackers retrospectively, however we did not see any forward-anticipated risks documented.

Likewise, there were no risk related documents provided for SCO. The route has advised that it maintains regular contact with SCO and would receive an early warning of any risks or issues that arise. We understand the route has reassured itself of the current forecasts provided by SCO for year 1 and will verify year 2's forecast at RF8 and at RF11 after SCO has undertaken a view on year 2 following a national assessment of rates.

The route has adopted a more conservative forecast for Intelligent Infrastructure by adjusting the centrally developed calculator, however risk to achieve targets from year 2 onwards remains. The route's Intelligent Infrastructure forecast is a 60% mid-point estimate between the best/worst case scenario analysis, which derived a £17.3m target for CP6. While maintaining this overall target, the route has re-phased the forecast generated by the central Intelligent Infrastructure Programme's forecasting model from a five-year profile, starting in year 1, to a four-year profile commencing in year 2. However, risk of year 2 delivery remains in the absence of detailed plans and validation of savings. The route needs to develop an implementation plan and then develop benefits profiles for the introduction of the new technology. This can be done once the central Intelligent Infrastructure Programme completes the route's proof of concept. This risk is known and documented as part of the joint route and central Intelligent Infrastructure Programme governance.



e. Identification and documentation of limitations in efficiency forecasts and lessons learnt in efficiency plans

Forecast limitations

During our discussions with the route, we noted the following examples of limitations to their approach to forecasting efficiencies:

- **Signalling's Improved Contracting Strategies.** IP Signalling commented that the estimates applied at the time of SBP/RF11 baseline was a result of insufficient time to do detailed planning. The Route FD has acknowledged engagement with deliverers should have been earlier and efficiency planning with deliverers is an area they are working to improve.
- **Track's S&C and PL Work Mix/Scope Efficiency.** The forecast calculation that has compared high CP5 exit rates against lower cost CP6 work has artificially produced a major 'efficiency' of £45m. We note that this is classified under the central finance reporting as an activity/scope efficiency, however it does raise consideration of whether a new/different reporting category could be used to adjust items where the baseline cost base used was unsuitable for the upcoming Control Period.

Lessons learnt incorporated into efficiency plans

The route has noted the following examples of lessons learnt that have been incorporated into their efficiency planning:

- **All opex efficiency owners are budget holders.** In CP5 not all efficiency owners were budget holders, which resulted in a reduced level of accountability and focus on efficiency delivery. In CP6 all efficiency owners are budget holders and all efficiencies have been embedding within Delivery Unit cost centres, including stretch targets. The route noted this approach has already improved opex efficiency delivery in CP6.
- **Headcount Controls.** The route has advised that the establishment of the Opex Change, People, Land and Accommodation Panels has driven cultural change with respect to recruitment. The route is learning to do more with less resources through better analysis, and managers expectations regarding recruitment have changed through the increased scrutiny of staff hiring.
- **IP Signalling's EPOP.** IP Signalling's EPOP template and approach has now been adopted by Scotland, LNE and LNW routes. We continue to see evidence of this process evolve and improve with increased usage. Going forward, the EPOP efficiency data gathered has the potential to provide valuable information to inform future efficiency action planning and improved forecasting.



3.5 Conclusions and recommendations

This section draws together our conclusions from our review of efficiencies at LNW route and provides recommendations for ORR and Network Rail to consider. We have structured this section under the headings in the Reporter's mandate:

- Quality of efficiency plans
- Reasonableness of savings forecasts based on efficiency plans
- Consistency of total efficiencies with final determination

Quality of efficiency plans

We defined our expectations of planning within the context of an overall Efficiencies Management System which is described in our assessment methodology at the start of this section. In answering this question, we have sought to consider proportionately and seek evidence of quality in efficiency planning where we believe it is most needed, for example, in our categorisation of efficiencies it is Categories B (capex) and D (opex).

Our conclusions from our review of a sample of initiatives are:

- There is some evidence of good quality plans to monitor and track efficiency delivery at a 'project level', notably IP's EPOPs, although not consistently applied across asset groups.
- We found little evidence of planning of change management or their enablers at 'initiative' and 'project' level for Categories B (capex) and D (opex).
- We note that IP Signalling and IP Central have efficiency strategies, however we found little evidence of proactive efficiency planning at the route 'portfolio level', for example, to plan and monitor the implementation of initiatives across the route for either opex or capex efficiencies. The route's approach is that deliverers are responsible for capex efficiencies, route budget owners are responsible for opex efficiencies and finance teams retrospectively monitor financial performance. Missing from this arrangement is a whole-of-route view to ensure forward planning of efficiency enabling actions and the active management of implementing business change. We understand the route is preparing a headwinds and efficiencies briefing document that will detail the roles/responsibilities and reporting arrangements of efficiencies to provide a more integrated approach particularly with deliverers. The route developing its own efficiency approach will be an important step to manage their efficiencies portfolio in a more structured and proactive manner.

