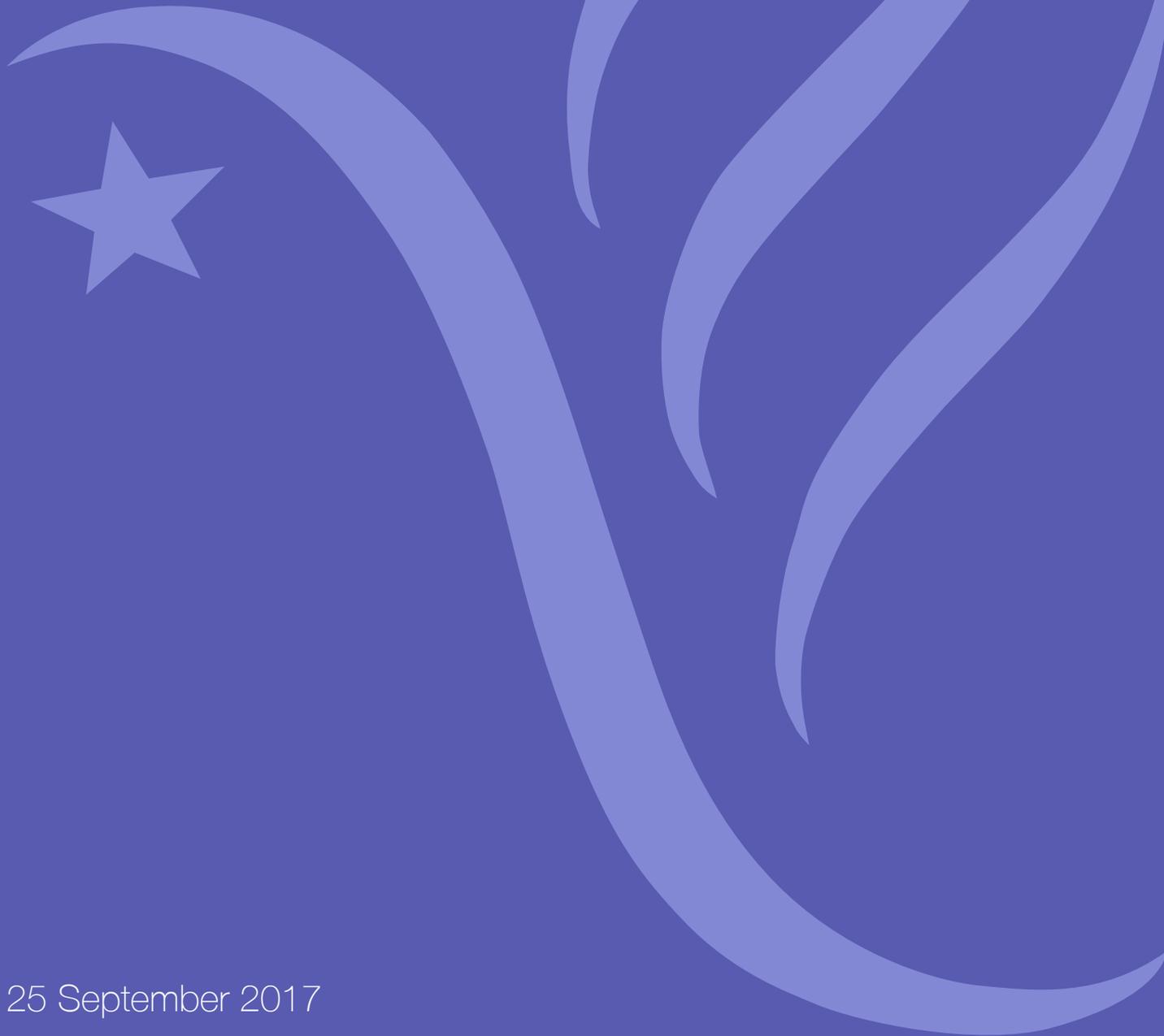


PR18 SBP Planning Assurance Review – Scotland Route

Reference: L2Ni007



25 September 2017
Final Summary Report



Background

This report presents the findings of a review of Network Rail’s strategic business planning process undertaken by the Nichols Group in August and early September 2017. The review was commissioned by Network Rail and ORR under the independent Reporter framework; the mandate reference is “L2Ni007: PR18 – SBP planning assurance review”.

The mandate responds to a request by the Secretary of State to seek further assurance on Network Rail’s progress in developing efficient plans for CP6 between publication of the High Level Output Statements (HLOS) for England & Wales and Scotland on 20 July 2017 and the planned issue of Statements of Funds Available (SoFA) for England & Wales and Scotland in October 2017.

Purpose of the review

The mandate set out the purpose of the review:

“The Independent Reporter is required to consider how Network Rail is developing the Strategic Business Plan (SBP) and if the planning approach is appropriate. This will include whether there is sufficient challenge on efficiency, recognising that Network Rail will continue to develop its approach both ahead of the Strategic Business Plan (SBP) submission and during CP6 through continuous business planning.

The Reporter is not required to recommend efficient volume or expenditure numbers for CP6, nor to form an opinion on the volume and expenditure numbers in the current iteration of the business plans. The reporter is required to give an opinion on how Network Rail is progressing with development of the SBP.”



Scope

The mandate required the Reporter to answer three high level questions:

1. Is Network Rail developing robust expenditure plans for each area of Operations, Maintenance and Renewals (OMR)?
2. Is progress with the development of these plans on track?
3. Is there sufficient challenge on efficiency?

The mandate specified more detailed areas of assessment underneath the three high level questions.

The Mandate specifically excludes any requirement to recommend efficient volume or expenditure numbers for CP6. Similarly, our mandate did not include reviewing deliverability planning as this was covered in a separate Reporter review 'L2Ni006 PR18 Deliverability Review'.



Structure of Scotland OMR plans

The overall planning approach is directed and coordinated by the central Business Review Team (BRT) to ensure consistency of presentation. Figure 1 illustrates the structure of the Scotland route OMR plans.

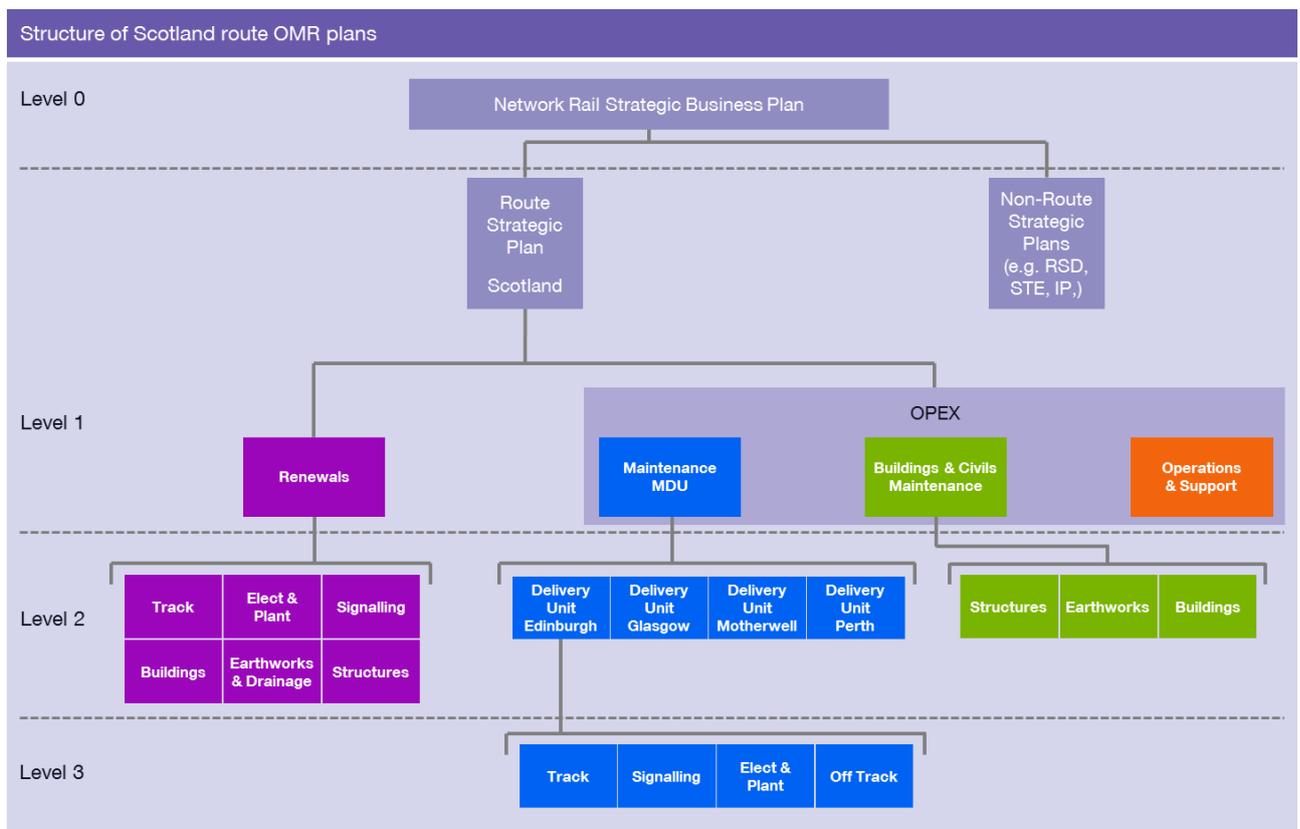


Figure 1: Structure of Scotland route OMR plans

Assessment approach

To answer the three questions for Scotland, we assessed a sample of OMR plans:

- Renewals plans for signalling, electrification and plant, structures and earthworks
- All maintenance delivery units plans
- The operations plan



Network Rail is implementing a rolling business planning process, with each iteration prefixed with ‘RF’ for rolling forecast and suffixed by the reporting period when it was produced. We used the plans completed for RF2, end of May 2017, as the basis of our assessment. RF6 plans, end of September 2017, were still work in progress at the time of the review.

Our assessment of robustness considers whether there is evidence that Network Rail has undertaken a planning process with the following quality criteria:

- There is a clear strategy at route level which feeds top-down into the asset interventions planning
- The route planning objectives are clear and have considered stakeholder inputs
- The plans are owned at route and Route Asset Manager (RAM) level
- The asset interventions planning has taken account of funding availability, safety, performance and asset life outcomes
- The asset interventions planning considers renewals and maintenance holistically for each asset type
- The basis of the work scope underpinning the plan is clear and transparent
- The delivery strategy has been considered and assumptions made are transparent
- The basis of the unit rates¹ is clear and transparent
- There has been appropriate assurance applied to the planning process inputs and outputs

The success criteria for a robust planning process are a realistic plan that can form the baseline for monitoring by the Regulator and Transport Scotland.

¹The “unit rates” are total project out-turn rates which for early cost planning is considered appropriate.



Is Network Rail developing robust expenditure plans for each area of OMR?

We consider that Network Rail is following a progressive planning process that should lead to robust expenditure plans for Operations, Maintenance and Renewals (OMR) for the Scotland route.

Overall process covering OMR

We consider that the principle of developing robust core plans prior to making adjustments for headwinds and efficiencies provides clarity between realism and ambition and provides a good focus for future challenge.

We observed a clear ownership of the basis of the plans by the Director of Route Asset Management (DRAM) and also by Route Asset Managers (RAMs).

Operations

Our conclusions are that Network Rail has developed operational targets in conjunction with its stakeholders, which are clearly and transparently set out in the Route Strategic Plan. Network Rail has a good understanding of the operational requirements to meet these targets and these requirements reside within the route organisation so providing accountability for the targets set.

Network Rail has identified and costed organisational requirements within the business plan albeit that consistency of presentation and improved linkage to operational strategies is not sufficiently transparent. These are required to understand the basis of the resource plan underpinning the costs and how it relates to operational strategies, for example, deployment of resources to reduce 'delays per incident' (DPI). We have been told that such improvements will be visible in the RF6 submissions.

Maintenance

Network Rail's Activity Based Planning (ABP) process and tool provides a consistent analysis and presentation of estimated maintenance costs across routes and delivery units.

Activity based planning means that maintenance activities are planned at a granular level using approximately 550 standard job types. Each standard job has an expected time allocated to complete the task and the volume of each job type is specified for all five years of the control period. This provides transparency both of the planned work volumes and also the associated planned work hours, enabling both verification and challenge of both. The move to activity based planned has occurred in the last 18 months and provides significant improvements to the transparency of planned work and hours.



The ABP tool provides data for each of the four maintenance delivery units in Scotland in a consistent form that promotes comparison and benchmarking both within the route and with other routes. This is an area which Network Rail, Transport Scotland and regulators may wish to develop in the future. We observed that the Maintenance Delivery Manager was using this information already to compare activity across the four delivery units. Scotland route are also using a fifth ABP model to plan the Off Track works undertaken by the internal works delivery organisation. This is a measure of the maturity and understanding of ABP within Scotland route. The improved transparency provided by ABP should assist both Network Rail and Transport Scotland in improving understanding of maintenance costs and their drivers both ahead of, and through RF6.

It is necessary to understand how the model is structured and the basis on which both direct maintenance costs and additional factors are estimated. We consider that more transparency of the cost drivers behind allowances for non-productive time (referred to as Non Time On Tools (NTOT)) and the other costs in the ABP model is needed. This would assist in understanding the final business plan figures. It is important to note that NTOT levels are not a good proxy for efficiency as they are significantly influenced by factors such as access, geography and the level of rapid response cover for assets that are critical to performance.

Renewals

The Director of Route Asset Management (DRAM) for Scotland route is guided by the route objectives and funding available to set priorities between assets types in discussion with the Route Asset Managers (RAMs). The renewals workbanks are found to be well developed based on knowledge of asset conditions, safety and standards requirements and known performance requirements. The workbanks are targeting the safe operation of the railway using smaller-scale like for like modern equivalent form replacements prioritised over larger-scale full scheme renewals.

The RAMs are at the centre of planning and deciding activity volumes for renewals and maintenance based on funding available and route objectives. Decisions are reviewed and challenged by the asset professional heads in Safety, Technical and Safety (STE). Final review of the RF6 plans should check that any significant divergences between volumes proposed by the routes and volumes indicated by STE's models and policies have been reconciled.

The cost plans are set at a level that is considered to be achievable as they have been built up using outturn data providing realistic delivery budgets for the core plan, with efficiency commitments separately identified. Recognising that each asset type has specific cost characteristics, RAMs had both national and their own local unit rate information available to feed into the development of cost plans. Network Rail centre has developed the national unit rates by collating national outturn data for each asset type. For example this has been presented through the Integrated Cost Model for national signalling rates. These unit rates provide a benchmark relating to the known cost of previous delivery. The decision on which unit



rate to use in an asset renewal cost plan is the responsibility of the RAM, although this is then subject to subsequent assurance by the central estimating teams. However, we consider that the plan would benefit from more transparency of the decision process for the selection and approval of appropriate unit rates used in the asset renewals cost plans.

Is development of these plans on track?

We consider that Network Rail is on track in their development of expenditure plans for Operations, Maintenance and Renewals (OMR) for CP6. At the time of our review, Network Rail was in the process of reconciling the Scotland High Level Output Statement (HLOS) from July 2017 against the scope of the RF2 plans.

Overall process covering all OMR

Network Rail's Business Review Team (BRT) have set an overall time line for production of the SBP. We consider that the processes described coupled with the high degree of ownership of the process demonstrated by the BRT during our review provides a good basis for Network Rail to control production of the business plan.

A caveat to being on track is the timing and detail of the Scotland Statements of Funds Available (SOFA). If this introduces significant changes compared to Network Rail's planning assumptions then it will need to be duly considered and the plans updated accordingly. However, we consider that the planning process is sufficiently robust to manage reasonable levels of change in a controlled manner.

Maintenance plans

Scotland route was an early adopter of the ABP process and tool and therefore their ABP plans were well developed at RF2; central assurance by BRT of the RF2 ABP submissions rated the Scotland route as 'green' and with the highest ranking assessed quality score of 3.3 out of 5. This places the route in a good position to complete a robust ABP Maintenance plan for inclusion in the RF6 business plan.

Renewals plans

The plans are on track and are shown to be maturing between RF2 and RF6. The plans can also be expected to continue to be developed further for CP6 delivery. The alignment of the plans with the Scotland HLOS in July 2017 requires more development before the SBP.



Operations plan

The operations plans should be maturing between RF2 and RF6. The plans can also be expected to continue to be developed further for CP6 delivery. We have been assured that greater transparency over the basis of the plans will be provided in the RF6 submission.

Is there sufficient challenge on efficiency?

We consider that Network Rail is applying a coordinated approach to identifying and developing potential efficiencies for CP6 and there is a good level of management visibility and challenge.

There is a clear process by which efficiencies are developed by cross-route forums for each of the main asset types. These forums are led by a nominated DRAM and are supported by the central Safety, Technical and Engineering Directorate (STE) providing technology based efficiency opportunities e.g. Intelligent Infrastructure. Scotland route provide the leadership for the forum looking at civils assets.

Overall efficiency proposals were generally less developed at RF2 than the core plan and we heard from the RAMs that they are working on firming up their proposals for RF6. The BRT expect significant improvements in the next round of submissions. Identification and delivery of efficiencies is a rolling process and we expect further progress up to and during CP6 to confirm the feasibility and scale of the efficiencies identified.

Given that work on Headwinds and Efficiencies is still progressing in the approach to RF6 submissions, BRT and ORR may wish to validate the level of maturity and deliverability of these items once they have been finally collated and documented.

The development process includes challenge of the route level efficiency plans from the route executive, Chief Financial Officer (CFO) and then the NR executive. This approach provides a good level of management visibility and local accountability for delivering the benefits and is an improvement on the previous CP5 'top down' application of efficiency overlays.

