System Operator
Planning a better network for you

NetworkRail

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31st August 2018

System Operator processes and controls for capital expenditure

Dear John,

As part of the Office of Rail and Road's (ORR) assessment of the System Operator's (SO) strategic business plan, a jointly commissioned independent reporter study of our processes and controls supporting the capital expenditure programmes proposed in our Control Period 6 (CP6) plan was undertaken by Nichols.

In its draft SO settlement document, ORR required the SO to meet the recommendations identified by this study, and to provide a plan by the 31st August 2018 outlining how we propose to do so.

The review found that there is already a good foundation of processes and controls for the effective management of the SO capex programmes for CP6, which comply with Network Rail investment regulations (a framework for making investment decisions). To further strengthen these processes and controls, three key recommendations were made;

- the SO should clarify and strengthen the level of relevant industry representation in the development and delivery of the CP6 SO capital expenditure programmes;
- building on the good foundations already in place, the SO should further clarify and strengthen its processes and controls for capital expenditure programmes; and
- the SO should improve its resource management across its capital expenditure portfolio, including in relation to relevant financial contingency.

I welcome the positive findings of the review, and support the recommendations to strengthen these processes and controls in order to ensure that the SO is well equipped to deliver its capital expenditure programme in CP6.   I append to this letter our response to the ORR's requirement outlining our proposed approach to meet the recommendations.

This response sets out the actions that we will take to address the recommendations, the way in which we will capture the successful conclusion of our actions, and the timescales

by which we will achieve them. To develop this response, we have considered each of the key recommendations made by Nichols, and the more detailed findings which underpin them. For each of these detailed findings, an individual response has been prepared. The scope of these actions broadly align with the principles of the findings; for example, where greater industry representation is recommended, we have set out a plan to agree with industry representatives how this should be achieved.

Three key principles have been used to determine timescales; actions that we can achieve by the end of the calendar year, those we will as part of developing our CP6 Delivery plan, and those which apply to individual programmes. Where actions relate to individual programmes, we have demonstrated timescales which reflect delivery for 'in flight' programmes (our Whole System Modelling programme) and will update our plans to ensure sustained delivery in relation to the three programmes which will be initiated in CP6 as outlined within our Strategic Business Plan.

We look forward to continued engagement and dialogue with ORR as we deliver our plan. We will discuss the progress of our plan in January 2019, and also within the SO 2018/19 annual narrative report, as outlined within our response to the ORR's draft SO settlement document.

Yours sincerely,

Calvin Lloyd

Policy & Programmes Director, System Operator

System Operator Response to Nichols Recommendations

Source: Review of the Network Rail System Operator CP6 Processes and controls for investment decisions relating to capex spend

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Objective	Themes	Recommendations	NR Response	Where this will be captured	Timescale
To ensure that the SO is well equipped to deliver its capital expenditure programme in CP6	**Industry wide engagement**	R6: Define the roles of industry representatives through relevant engagement with the industry and ensure appropriate representation at the various governance levels within the CP6 SO capex programmes.	A6a: We will define and agree with OPSG the role of the industry representatives on the Programme Boards and their relationship with OPSG.	Paper submission and minutes of approval at OPSG	30/09/2018
			A6b: Industry representatives on the Programme Boards will approve and sign off acceptance of their role .	Commitment letters issued and accepted by individual members	28/08/2018 WSM (*)
		R7: Have a clear process for gaining buy-in from the industry representatives to the aims and objectives of the programmes.	A7: We will ensure that each CAPEX Programme will have aims and objectives endorsed at OPSG in the form of programme brief / vision statement or blueprint.	OPSG minutes confirming approval of documented aims and objectives	30/09/2018 WSM (*)
		R8: Continue to ensure that single source data is used for consistency of reporting to all meetings that have industry wide representation, including information supplied to the planned SO Advisory Board.	A8: We will maintain a consistent source of reporting to external bodies, including SO Advisory Board. A note of the proceedings at the SO Advisory Board will be published for transparency.	Examples of programme reports to external bodies	31/03/2019
		R9: Clarify the appropriate route for escalation of issues for the agreed industry representatives.	A9: We will produce an escalation process map demonstrating the relationship between existing industry fora, and the SO governance framework and include this within the role brief of the industry representative.	Approved escalation process map incorporated into role brief of the industry representative	31/03/2019
	Internal Network Rail Processes and Controls	R1: Define the critical success factors and metrics that will help demonstrate the effectiveness of the processes and controls and review regularly throughout CP6	A1: We will define and report on critical factors and metrics which measure success of our key processes and controls, such as the attendance of industry representatives at CAPEX Programme Boards. The report will be collated and analysed by the SO PMO.	Controls Success Metrics reporting	31/03/2019
		R3: Ensure stage gate reviews are supported by appropriate Network Rail assurance by those outside the SO direct management team.	A3: We will agree the principles of robust stage gate reviews at the Delivery Board. These will be implemented across the SO and will include an appropriate level of NR assurance.	Paper to Delivery Board and evidenced in programme stage gate minutes	31/03/2019
		R4: Consider whether and how the SO's investment authority would benefit from relevant expertise and capability to consider whole industry benefits, in order to provide more effective challenge. Options could include the creation of a new SO investment panel.	A4: We will develop an options paper for the SO Managing Director, working with NR Group Investment and subject matter experts, to support selection and implementation of the investment authority solution.	Options paper & meetings scheduled	31/03/2019
		R5: Ensure the roles of those attending the programme board are clearly defined and documented.	A5a: We will ensure all industry representatives who attend CAPEX Programme Boards will approve and sign off the remit of their role as a board member.	Signed commitment letters	28/08/2018 WSM (*)
			A5b: We will include within the Terms of Reference for each programme board clarity of the roles of programme board members	Terms of Reference for Programme Boards	24/10/2018 WSM (*)
		R10: Provide greater definition of the roles of key personnel associated with the delivery of the programmes, including the sponsor, client, business change manager and end user practitioner representative.	A10: We will ensure that each programme brief will be approved at Programme Boards and will include identification and accountabilities of key roles through the use of a Responsible, Accountable, Consulted and Informed (RACI) Matrix.	Programme briefs as approved at MSP4NR Stage 1	31/03/2019 WSM (*)
	Internal Network Rail Processes and Controls	R2: Investigate the practicality of developing a strategy that gives consideration to allocating some contingency at overall portfolio level as well as at an individual programme level.	A2: We will ensure that our reporting to the Delivery Board will include allocation and spend at a programme and project level so the Delivery Board can manage contingency across the portfolio.	Example reporting to Delivery Board	31/12/2018
		R11: Assess how programme resource and training needs change throughout the various lifecycles of the programme during CP6.	A11: We will refresh all resource plans to forecast the programme and business resource requirements at each stage gate and ensure this is reflected in the CP6 Delivery Plan.	Example portfolio resource reports and aligned to the Delivery Plan	31/03/2019
		R12: The two PMO's should ensure that resources are managed at an overall portfolio level to ensure their most efficient utilisation across the individual capex programmes.	A12: We will ensure that that our reporting to the Delivery Board will include programme resource information to enable Delivery Board to review and manage portfolio resources on a periodic basis.	Example reporting to Delivery Board	31/12/2018

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A number of opportunities for further improvement were identified by the review. The majority of these opportunities are incorporated within the outcomes of the SO's proposed response. We will further assess the remaining opportunities as we progress in the delivery of the response and at appropriate points in the development of our CP6 Delivery Plan

Note: (*) as programmes come online